

FERGUS COUNTY
LEWISTOWN, MONTANA

FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

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FERGUS COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Our discussion and analysis of the financial performance provides an overview of the government's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with our financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- Net assets remained virtually unchanged as a result of this year's operations. Net assets of our business-type activities increased by \$34,262, or nearly 2.5 percent. Net assets of our governmental activities increased by \$57,304, or nearly 1 percent.
- During the year, governmental activities had expenses that were \$2,508,784 more than the \$7,520,583 generated in tax and other revenues for governmental programs. Governmental activities expenses were up 8 percent from fiscal year and revenues were down \$1,149,257 or 15.2 percent.
- In the business-type activities, revenues increased to \$445,892, or 26.2 percent while expenses decreased by 42.7 percent.
- The General fund reported a positive net change in fund balance this year of \$23,367. In fiscal year 2009, fund balance decreased \$151,872. Revenues increased approximately 6.7 percent over fiscal year 2009 and expenditures decreased 5 percent.
- In fiscal year, 59.97% of the budgeted spending authority for all funds within the County was used and revenues were at 80.72%. This is a variance of 20.75%, which is less of a variance than with previous years for Fergus County.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the government 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 also report the government'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 the government acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities (pages 8 and 9) report information about 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 year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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 the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.

Business-type activities—Fees charged to customers to help it cover all or most of the cost of certain services it provides. The Hospital and Airport funds are reported here.

Fund financial statements The fund financial statements (pages 10 through 18) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law and by bond covenants. Also, the governing body 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. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations (pages 11 and 13, respectively).

FERGUS COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Road Fund – The overall fund balance for the road fund increased \$449,306 in 2010. In 2009, it decreased \$123,742, or approximately 21 percent. Revenues were \$256,234 in excess of expenditures in 2010 and in 2009 expenditures were \$213,132 in excess of revenues. In 2010, the road department received \$87,076 more dollars in intergovernmental revenues than in 2009 and capital expenditures were \$221,186 less in 2010 than 2009. These two items alone make a significant part of the increase in the overall fund balance for the road department.

Roundhouse Road Fund – 2010 is the first year this was considered a major fund. It was established so that individuals buying properties in a subdivision within Fergus County could hook up to City of Lewistown water and/or sewer and be able to finance it over the years. The fund currently has a fund deficit of \$68,088 with deferred revenue of \$16,498.

PILT – The overall fund balance for the PILT fund decreased by \$138,010, or 8.8 percent in 2010. In 2009, the overall fund balance for the PILT fund increased by \$774,557, or 97 percent. Additional PILT funds were distributed in 2009. Fergus County received \$835,051 more in PILT in 2009 than in 2008. In 2010, we received approximately \$20,000 less than in 2009. More PILT money was distributed to the road department to help with paying of equipment and working on the Penta cleanup.

Airport Fund – There was an overall increase in cash and cash equivalents for the airport fund of \$34,063. Being an enterprise fund, the airport is not supported by taxes so must rely more on the state of the economy. When averaged together over the years, the airport is "healthy" but not "wealthy".

Hospital Fund – This fund accounts for the activities of the government's hospital capital lease and debt service activities.

GENERAL FUND ANALYSIS OF SIGNIFICANT BUDGETARY VARIATIONS

There was a General fund resolution done for approximately \$140,000 that lowered the budget authority in the payroll employer contribution object code. This was because of the decision by the Commissioners to cover 100% of employee insurance through the self-insurance fund rather than transferring levied monies to levied funds to cover it.

CAPITAL ASSET AND DEBT ADMINISTRATION

Major purchases and/or obligations undertaken in 2010 included two new 160M graders, weed building (partial), county attorney building, new and/or repaired bridges and pavilion upgrades and a perimeter fence at the fairgrounds.

THE GOVERNMENT'S FUTURE

In 2009, there was a reappraisal completed by the Montana Department of Revenue. In 2010, we continued to have tax appeals come through our office due to this, and numerous tax abatements have been processed. There was some concern that there have been so many problems with the reappraisal that it will need to be redone, but this doesn't appear to be the case. While the County's taxable valuation didn't significantly increase in 2010, we did see an increase.

Fergus County Community Council continues to actively pursuing ideas from the County residents for improvements, needs, and requests. The jail continues to need updates and improvements.

There continues to be interest in developing subdivisions within the County, but there is a decrease in people moving in to purchase the lots.

The availability of trained and qualified employees continues to be limited. Employee turnover has decreased, but finding individuals to fill openings is difficult.

The Penta cleanup at the road department has had and will continue to have a huge negative financial impact on the County. This will prove to be a very expensive project.

There continues to be a lot of dissention between the fair board, the fair manager, and various groups of individuals within the County. While this may not have an immediate visible financial impact on the County, it most definitely has had and continues to have a negative impact on the morale of the groups and individuals involved. One area that is currently very obvious is that the Winter Fair has moved all events/activities not involving livestock away from the fairgrounds. Because of this, the fair is losing the revenue associated with this activity. The fair manager and office manager have both expressed concern over the continued dissention and losing both employees would be a blow to the continuity and management of the fairgrounds. The mill levy that was approved by Fergus County voters for improvements to the fairgrounds is a strong source of contention in regard to what it was intended to cover and what it wasn't. Areas that need improvements that cannot be done with mill levy dollars may need to be put on hold. This is currently being studied by various groups with the assistance of the Commissioners and the County Attorney, and very minimal activity took place with these monies in 2010.

The Road and Bridge departments went union again in 2010. While it is too early to see any real impacts, it is something that will need to be watched. The Sheriff's Department is in the process of changing to a different union, while still working under their current contract. Negotiations continue with little if any progress seen at this point for either side.

FERGUS COUNTY
STATEMENT OF NET ASSETS
June 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 3,639,967	\$ 118,454	\$ 3,758,421
Investments	4,413,289	-	4,413,289
Receivables:			
Taxes and assessments	251,920	-	251,920
Governments	42,943	-	42,943
Roundhouse road	16,498	-	16,498
Stop loss reimbursement	152,922	-	152,922
Weed	6,644	-	6,644
Other	13,506	-	13,506
Inventories	266,583	-	266,583
Restricted assets:			
Cash and equivalents	-	52,473	52,473
Investments	-	207,241	207,241
Net investment in capital lease	-	818,319	818,319
Capital assets:			
Land and construction in progress	108,503	215,201	323,704
Depreciable capital assets, net	5,461,266	1,132,838	6,594,104
Total assets	14,374,041	2,544,526	16,918,567
LIABILITIES			
Accounts payable:			
Vendors	216,373	12,677	228,050
IBNR	45,669	-	45,669
Due to Central Montana Medical Center	-	259,714	259,714
Deferred revenue	14,671	-	14,671
Long-term liabilities:			
Due within one year:			
Notes	23,554	195,293	218,847
Compensated absences	35,915	1,191	37,106
Pollution remediation obligation	800,000	-	800,000
Due in more than one year:			
Notes	136,368	641,491	777,859
Compensated absences	323,234	10,718	333,952
Pollution remediation obligation	435,120	-	435,120
Total liabilities	2,029,904	1,121,084	3,150,988
NET ASSETS			
Invested in capital assets, net of related debt	5,409,847	1,329,574	6,739,421
Restricted for:			
Hard rock mine	50,901	-	50,901
Metal mines tax	122,985	-	122,985
Road and street services	212,691	-	212,691
Unrestricted	6,547,713	93,868	6,641,581
Total net assets	\$ 12,344,137	\$ 1,423,442	\$ 13,767,579

See notes to basic financial statements.

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

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,889,549	\$ 233,358	\$ 8,345	\$ -	\$ (1,647,846)	\$ -	\$ (1,647,846)
Public safety	1,592,255	113,961	261,539	-	(1,216,755)	-	(1,216,755)
Public works	2,271,975	396,288	322,386	199,889	(1,353,412)	-	(1,353,412)
Public health	953,259	279,723	390,694	-	(282,842)	-	(282,842)
Social and economic services	189,075	-	-	-	(189,075)	-	(189,075)
Culture and recreation	613,296	312,113	38,092	9,700	(253,391)	-	(253,391)
Housing and community development	7,600	-	-	-	(7,600)	-	(7,600)
Interest on long-term debt	3,574	-	-	-	(3,574)	-	(3,574)
Total governmental activities	7,520,583	1,335,443	1,021,056	209,589	(4,954,495)	-	(4,954,495)
Business-type activities:							
Hospital	38,116	-	-	-	-	(38,116)	(38,116)
Airport	343,514	201,341	-	204,997	-	62,824	62,824
Total business-type activities	381,630	201,341	-	204,997	-	24,708	24,708
Total	\$ 7,902,213	\$ 1,536,784	\$ 1,021,056	\$ 414,586	(4,954,495)	24,708	(4,929,787)
General revenues:							
Property taxes					3,465,085	-	3,465,085
Licenses and permits					820	-	820
Intergovernmental					1,346,447	-	1,346,447
Unrestricted investment earnings					111,733	39,554	151,287
Miscellaneous					57,714	-	57,714
Transfers					30,000	(30,000)	-
Total general revenues and transfers					5,011,799	9,554	5,021,353
Change in net assets					57,304	34,262	91,566
Net assets - beginning					12,286,833	1,389,180	13,676,013
Net assets - ending					\$ 12,344,137	\$ 1,423,442	\$ 13,767,579

See notes to basic financial statements.

FERGUS COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General	Road	PILT	Roundhouse Road	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 552,198	\$ 401,167	\$ 647,421	\$ -	\$ 1,462,733	\$ 3,063,519
Investments	669,515	486,213	784,670	-	1,773,975	3,714,373
Receivables:						
Taxes and assessments	107,679	35,306	-	-	108,935	251,920
Governments	13,169	-	-	-	29,774	42,943
Roundhouse road	-	-	-	16,498	-	16,498
Weed	-	-	-	-	6,644	6,644
Other	-	11,582	-	-	1,924	13,506
Due from other funds	-	-	-	-	68,088	68,088
Inventories	-	53,816	-	-	212,767	266,583
Total assets	\$ 1,342,561	\$ 988,084	\$ 1,432,091	\$ 16,498	\$ 3,664,840	\$ 7,444,074
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable-vendors	\$ 94,288	\$ 34,332	\$ -	\$ -	\$ 86,753	\$ 215,373
Due to other funds	-	-	-	68,088	-	68,088
Deferred revenue	107,679	35,306	-	16,498	123,606	283,089
Total liabilities	201,967	69,638	-	84,586	210,359	586,550
Fund balances:						
Unreserved	1,140,594	918,446	1,432,091	(68,088)	-	3,423,043
Unreserved, reported in non-major:						
Special revenue funds	-	-	-	-	2,727,618	2,727,618
Capital projects funds	-	-	-	-	726,863	726,863
Total fund balances	1,140,594	918,446	1,432,091	(68,088)	3,454,481	6,877,524
Total liabilities and fund balances	\$ 1,342,561	\$ 988,084	\$ 1,432,091	\$ 16,498	\$ 3,664,840	\$ 7,444,074

See notes to basic financial statements.

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

Total fund balance, governmental funds	\$ 6,877,524
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.	5,569,769
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.	268,418
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.	1,382,617
Some liabilities (such as notes payable, pollution remediation obligations 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.	(1,754,191)
Net assets of governmental activities	\$ 12,344,137

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	General	Road	PILT	Roundhouse Road	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 1,674,091	\$ 551,268	\$ -	\$ -	\$ 1,320,822	\$ 3,546,181
Fines and forfeitures	80,487	-	-	-	17,853	98,340
Licenses and permits	820	-	-	-	45,040	45,860
Intergovernmental	364,190	743,048	-	-	1,376,369	2,483,607
Charges for services	380,864	80,068	-	-	731,948	1,192,880
Investment earnings	72,269	60	-	-	19,263	91,592
Miscellaneous	6,217	55	-	1,585	117,127	124,984
Total revenues	2,578,938	1,374,499	-	1,585	3,628,422	7,583,444
EXPENDITURES						
Current:						
General government	1,292,648	-	3,075	-	424,731	1,720,454
Public safety	1,320,583	-	-	-	68,115	1,388,698
Public works	-	995,665	-	-	935,314	1,930,979
Public health	172,889	-	-	-	709,851	882,740
Social and economic services	6,190	-	-	-	164,404	170,594
Culture and recreation	-	-	-	-	483,594	483,594
Housing and community development	-	-	-	-	7,600	7,600
Debt service:						
Principal	-	-	-	-	28,815	28,815
Interest and other charges	-	-	-	-	3,574	3,574
Capital outlay	-	122,600	-	-	806,360	928,960
Total expenditures	2,792,310	1,118,265	3,075	-	3,632,358	7,546,008
Excess (deficiency) of revenues over (under) expenditures	(213,372)	256,234	(3,075)	1,585	(3,936)	37,436
OTHER FINANCING SOURCES (USES)						
Insurance recoveries	14,192	4,645	-	-	130	18,967
Transfers in	255,826	188,427	-	-	400,961	845,214
Transfers out	(33,009)	-	(134,935)	-	(647,270)	(815,214)
Total other financing sources (uses)	237,009	193,072	(134,935)	-	(246,179)	48,967
Net change in fund balances	23,637	449,306	(138,010)	-	(250,115)	86,403
Fund balances - beginning	1,116,957	469,140	1,570,101	(69,673)	3,704,596	6,791,121
Fund balances - ending	\$ 1,140,594	\$ 918,446	\$ 1,432,091	\$ (68,088)	\$ 3,454,481	\$ 6,877,524

See notes to basic financial statements.

FERGUS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Net change in fund balances - total governmental funds	\$ 86,403
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlay for capital assets as expenditures because such outlay uses current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	
This is the amount by which capital outlay (\$928,960) exceeded depreciation (\$603,069) in the current period.	325,891
Governmental funds report the entire net sales price from the sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the asset. Thus, the change in net assets differs from the change in fund balance by the book value of the asset disposed of.	(12,575)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.	(79,446)
Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure, in contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount of debt repayments.	28,815
Pollution remediation costs are recognized as expenditures in the government funds only to the extent they are expected to be liquidated with expendable available resources. In contrast, the entire pollution remediation obligation is recorded in the statement of net assets and the liability reduced as the costs are paid.	29,181
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:	
Compensated absences	(24,347)
Internal service funds are used by management to charge the costs of certain activities, such as self insurance, to individual funds. The change in net assets of the self insurance internal service fund is reported with governmental activities.	(296,618)
Change in net assets of governmental activities	\$ 57,304

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	Enterprise Funds			Governmental
	Hospital Nursing Home	Airport	Total	Activities Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 118,454	\$ 118,454	\$ 576,448
Investments	-	-	-	698,916
Stop loss receivable	-	-	-	152,922
Total current assets	-	118,454	118,454	1,428,286
Non-current assets:				
Restricted assets:				
Cash and cash equivalents	52,473	-	52,473	-
Investments	207,241	-	207,241	-
	259,714	-	259,714	-
Net investment in capital lease	818,319	-	818,319	-
Capital assets:				
Land	-	13,261	13,261	-
Construction in progress	-	201,940	201,940	-
Buildings and improvements	-	5,092,645	5,092,645	-
Machinery and equipment	-	174,446	174,446	-
Less: accumulated depreciation	-	(4,134,253)	(4,134,253)	-
	-	1,348,039	1,348,039	-
Total non-current assets	1,078,033	1,348,039	2,426,072	-
Total assets	1,078,033	1,466,493	2,544,526	1,428,286
LIABILITIES				
Current liabilities:				
Accounts payable	-	12,677	12,677	45,669
Due to Central Montana Medical Center	259,714	-	259,714	-
Compensated absences	-	1,191	1,191	-
Notes payable	192,650	2,643	195,293	-
Total current liabilities	452,364	16,511	468,875	45,669
Non-current liabilities:				
Compensated absences	-	10,718	10,718	-
Notes payable	625,669	15,822	641,491	-
Total non-current liabilities	625,669	26,540	652,209	-
Total liabilities	1,078,033	43,051	1,121,084	45,669
NET ASSETS				
Invested in capital assets, net of related debt	-	1,329,574	1,329,574	-
Unrestricted	-	93,868	93,868	1,382,617
Total net assets	\$ -	\$ 1,423,442	\$ 1,423,442	\$ 1,382,617

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Enterprise Funds			Governmental
	Hospital Nursing Home	Airport	Total	Activities Internal Service Fund
REVENUES				
Charges for services	\$ -	\$ 201,341	\$ 201,341	\$ 342,640
Total operating revenues	-	201,341	201,341	342,640
OPERATING EXPENSES				
Personal services	-	76,289	76,289	-
Supplies	-	10,406	10,406	-
Purchased services	-	64,992	64,992	-
Fixed charges	-	4,246	4,246	-
Administration and insurance	-	-	-	142,902
Claims	-	-	-	516,497
Depreciation	-	187,002	187,002	-
Total operating expenses	-	342,935	342,935	659,399
Operating loss	-	(141,594)	(141,594)	(316,759)
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	38,116	1,438	39,554	20,141
Interest expense	(38,116)	(579)	(38,695)	-
Total non-operating revenue (expenses)	-	859	859	20,141
Loss before contributions and transfers	-	(140,735)	(140,735)	(296,618)
Capital contributions				
Transfers out	-	204,997	204,997	-
	-	(30,000)	(30,000)	-
Change in net assets	-	34,262	34,262	(296,618)
Total net assets - beginning	-	1,389,180	1,389,180	1,679,235
Total net assets - ending	\$ -	\$ 1,423,442	\$ 1,423,442	\$ 1,382,617

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Enterprise Funds			Governmental Activities
	Nursing Home	Airport	Total	Internal Service Fund
CASH FLOWS FROM OPERATIONS:				
Cash received for health insurance premiums	\$ -	\$ -	\$ -	\$ 342,640
Cash received from customers	-	201,341	201,341	-
Medical claims paid	-	-	-	(625,006)
Cash paid to employees	-	(75,531)	(75,531)	-
Cash paid to suppliers for goods and services	-	(74,917)	(74,917)	(142,902)
Net cash provided (used) by operating activities	-	50,893	50,893	(425,268)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash transferred out	-	(30,000)	(30,000)	-
Net decrease in amount due to CMMC	(3,392)	-	(3,392)	-
Net cash used by noncapital financing activities	(3,392)	(30,000)	(33,392)	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Cash paid for purchase of capital assets	-	(193,990)	(193,990)	-
Capital contribution	-	204,997	204,997	-
Cash received from notes	-	3,947	3,947	-
Principal payments on debt	(185,205)	(2,643)	(187,848)	-
Interest paid	(38,116)	(579)	(38,695)	-
Net cash provided (used) by capital financing activities	(223,321)	11,732	(211,589)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net change in investments	(9,939)	-	(9,939)	255,234
Payments received on capital lease	185,205	-	185,205	-
Interest received	38,116	1,438	39,554	20,141
Net cash provided by investing activities	213,382	1,438	214,820	275,375
Change in cash and cash equivalents	(13,331)	34,063	20,732	(149,893)
Cash and cash equivalents - beginning	65,804	84,391	150,195	726,341
Cash and cash equivalents - ending	\$ 52,473	\$ 118,454	\$ 170,927	\$ 576,448
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating loss	\$ -	\$ (141,594)	\$ (141,594)	\$ (316,759)
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation	-	187,002	187,002	-
Increase in accounts receivable	-	-	-	(126,843)
Increase in accounts payable	-	4,727	4,727	18,334
Increase in compensated absences	-	758	758	-
Net cash provided (used) by operating activities	\$ -	\$ 50,893	\$ 50,893	\$ (425,268)
Noncash investing, noncapital and capital financing activities:				
Purchase of capital assets on account	\$ -	\$ 7,950	\$ 7,950	\$ -

See notes to basic financial statements.

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

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 6,280,041	\$ 788,682
Investments	7,614,254	-
Taxes and assessments receivable	-	1,150,294
Total assets	13,894,295	\$ 1,938,976
LIABILITIES		
Accounts payable	-	\$ 602,758
Due to others	-	17,741
Due to special districts	-	28,278
Due to state	-	162,725
Due to schools	-	887,856
Due to cities/towns	-	239,618
Total liabilities	-	\$ 1,938,976
NET ASSETS		
Held in trust	\$ 13,894,295	

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended June 30, 2010

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 25,653,907
Interest earnings	167,046
Total additions	25,820,953
DEDUCTIONS	
Withdrawals	25,553,372
Administrative	3,614
Total deductions	25,556,986
Change in net assets	263,967
Net assets - beginning	13,630,328
Net assets - ending	\$ 13,894,295

See notes to basic financial statements.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. 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. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the government. Based on the aforementioned criteria, the government has no component units.

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

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. Fiduciary funds are excluded from the government-wide financial statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

The PILT fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Payments made from the fund are at the discretion of the Board of County Commissioners.

The Roundhouse road fund accounts for the repayment from land owners that hook into the sewer line on Roadhouse road.

The government reports the following major proprietary funds:

The hospital fund accounts for the activities of the government's hospital capital lease and debt service activities.

The airport fund accounts for the activities of the government's airport services.

Additionally, the government reports the following fund types:

Internal service funds account for the financing of services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

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

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

Assets, Liabilities and Net Assets or Equity

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool, 50% of the investment pool belongs to these districts.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2A7-like pool, and as such, uses amortized cost to report unit values. The pool unit value is fixed at \$1 for purchases and redemptions. Income is automatically reinvested in additional units. The government did not provide or obtain any legally binding guarantees to support the value of the units.

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

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

individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of the year.

The government charges a 2% administrative fee to all participants in the pool. The fee is deducted prior to distributing interest to the County funds and pool participants. The administrative fee charged during the year was \$5,974.

Receivables and Payables

In the fund financial statements, transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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.

Net Investment in Capital Lease

Net investment in capital lease is a direct financing lease in which Fergus County (lessor) is leasing to the Central Montana Medical Facilities, Inc.-CMMF (lessee) land, buildings and equipment. The lease transfers substantially all of the risks and benefits of ownership from the lessor to the lessee. In a direct financing lease, the lessor finances the in-substance purchase of the property by the lessee. Financing to construct the hospital and nursing home was obtained through the issuance of debt in Fergus County's name.

Inventories

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

Restricted Assets

The Board of County Commissioners determined it was in the best interest of the citizens of the County to establish short-term (\$222,237) and discretionary (\$37,477) cash and investment accounts within the Hospital enterprise fund. These cash accounts were established through contributions from CMMF and remain the property of CMMF.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 for machinery and equipment, \$20,000 for buildings and improvements and \$35,000 for infrastructure and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest expense incurred by the government for capital assets.

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

Assets	Years
Building and improvements	10-100
Infrastructure	100
Machinery and equipment	5-25

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.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide and proprietary fund 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 applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as an other financing source.

Fund Equity

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

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

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

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

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The Roundhouse Road (\$68,088), Group Insurance (\$47,510) and Fair Construction (\$4,702) funds had deficit fund balances as of June 30, 2010. The Roundhouse Road deficit is expected to be eliminated through the recovery of construction costs from hookup fees or a contribution from the General fund. The Group Insurance and Fair Construction deficits are expected to be eliminated by transferring funds from the General fund.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

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

Governmental activities	\$ 8,053,256
Business-type activities	378,168
Fiduciary funds	14,682,977
	<u>\$ 23,114,401</u>

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 1,325	\$ -	\$ 1,325
Cash in banks:			
Demand deposits	(754,157)	-	(754,157)
Savings deposits	3,586,774	-	3,586,774
Time deposits	-	2,234,784	2,234,784
U.S. Government securities	-	10,000,000	10,000,000
Short-term Investment Program (STIP)	6,900,000	-	6,900,000
Repurchase agreements	1,145,675	-	1,145,675
	<u>\$ 10,879,617</u>	<u>\$ 12,234,784</u>	<u>\$ 23,114,401</u>

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2010, \$2,874,495 of the government's bank balance of \$4,322,523 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 77,983
Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>2,796,512</u>
	<u>\$ 2,874,495</u>

State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2010, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2010 is listed below. The security type percentage is based on the book value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
Certificates of deposit	.75 to 2.40%	Various	\$ 2,234,784	\$ 2,234,784	\$ 2,234,784	18.27%
U.S. Government securities	.75 to 1.90%	Various	10,000,000	10,000,000	10,043,235	81.73%
				<u>\$ 12,234,784</u>	<u>\$ 12,278,019</u>	

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

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

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

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Repurchase agreements	\$ -	\$ -	\$ 1,145,675	\$ 1,145,675	\$ 1,145,675
U.S. Government securities	500,000	-	9,500,000	10,000,000	10,043,235
	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 10,645,675</u>	11,145,675	11,188,910
STIP				6,900,000	6,900,000
				<u>\$18,045,675</u>	<u>\$18,088,910</u>

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

	Internal	External	Total
Net assets - beginning of year	\$ 9,187,914	\$ 13,630,328	\$ 22,818,242
Contributions from participants	15,991,586	25,653,907	41,645,493
Investment earnings	131,621	167,046	298,667
Administration expenses	(2,360)	(3,614)	(5,974)
Distributions to participants	(16,088,655)	(25,553,372)	(41,642,027)
Net assets - end of year	<u>\$ 9,220,106</u>	<u>\$ 13,894,295</u>	<u>\$ 23,114,401</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 leases 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, 2010 are as follows:

	Business-type Activities
Minimum lease payments receivable	\$ 893,288
Less: unearned income	(74,969)
	<u>\$ 818,319</u>

Future minimum lease payments are as follows:

Year ending June 30,	Business-type Activities		
	Principal	Interest	Total
2011	\$ 192,650	\$ 30,672	\$ 223,322
2012	200,393	22,929	223,322
2013	208,448	14,874	223,322
2014	218,828	6,494	223,322
	<u>\$ 818,319</u>	<u>\$ 74,969</u>	<u>\$ 893,288</u>

Roundhouse Road Receivable

\$15,335 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, 2010, was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 55,187	\$ -	\$ -	\$ 55,187
Construction-in-progress	452,379	292,140	(691,203)	53,316
Total capital assets, not being depreciated	<u>507,566</u>	<u>292,140</u>	<u>(691,203)</u>	<u>108,503</u>
Capital assets, being depreciated				
Buildings/improvements	4,688,406	1,036,381	-	5,724,787
Machinery and equipment	5,110,012	142,575	(61,008)	5,191,579
Infrastructure	368,611	159,067	-	527,678
Total capital assets, being depreciated	<u>10,167,029</u>	<u>1,338,023</u>	<u>(61,008)</u>	<u>11,444,044</u>
Less accumulated depreciation for:				
Buildings/improvements	(2,031,148)	(147,650)	-	(2,178,798)
Machinery and equipment	(3,386,380)	(445,940)	38,433	(3,793,887)
Infrastructure	(614)	(9,479)	-	(10,093)
Total accumulated depreciation	<u>(5,418,142)</u>	<u>(603,069)</u>	<u>38,433</u>	<u>(5,982,778)</u>
Total capital assets, being depreciated, net	<u>4,748,887</u>	<u>734,954</u>	<u>(22,575)</u>	<u>5,461,266</u>
Governmental activities capital assets, net	<u>\$ 5,256,453</u>	<u>\$ 1,027,094</u>	<u>\$ (713,778)</u>	<u>\$ 5,569,769</u>

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 13,261	\$ -	\$ -	\$ 13,261
Construction-in-progress	-	201,940	-	201,940
Total capital assets, not being depreciated	<u>13,261</u>	<u>201,940</u>	<u>-</u>	<u>215,201</u>
Capital assets, being depreciated				
Buildings	115,181	-	-	115,181
Improvements other than buildings	4,977,464	-	-	4,977,464
Machinery and equipment	174,446	-	-	174,446
Total capital assets, being depreciated	<u>5,267,091</u>	<u>-</u>	<u>-</u>	<u>5,267,091</u>
Less accumulated depreciation for:				
Buildings	(42,732)	(1,841)	-	(44,573)
Improvements other than buildings	(3,761,281)	(169,557)	-	(3,930,838)
Machinery and equipment	(143,238)	(15,604)	-	(158,842)
Total accumulated depreciation	<u>(3,947,251)</u>	<u>(187,002)</u>	<u>-</u>	<u>(4,134,253)</u>
Total capital assets, being depreciated, net	<u>1,319,840</u>	<u>(187,002)</u>	<u>-</u>	<u>1,132,838</u>
Business-type activities capital assets, net	<u>\$ 1,333,101</u>	<u>\$ 14,938</u>	<u>\$ -</u>	<u>\$ 1,348,039</u>

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 53,002
Public safety	108,519
Public works	340,984
Public health	11,979
Social and economic	7,040
Culture and recreation	81,545
Total depreciation-governmental activities	\$ 603,069
Business-type activities:	
Airport	\$ 187,002

Interfund Receivables, Payables and Transfers

The composition of interfund balances (due from/to other funds) as of June 30, 2010, consisted of the Roundhouse Road fund owing the USG Loan fund \$68,088. \$854 is expected to be repaid next fiscal year.

Interfund transfers consisted of the following

	Transfers In	Transfers Out	Total
Governmental activities:			
General	\$ 255,826	\$ (33,009)	\$ 222,817
Road	188,427	-	188,427
PILT	-	(134,935)	(134,935)
Nonmajor governmental funds	400,961	(647,270)	(246,309)
	<u>\$ 845,214</u>	<u>\$ (815,214)</u>	<u>\$ 30,000</u>
Business-type activities:			
Airport	\$ -	\$ (30,000)	\$ (30,000)

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

Long-Term Debt

During 2004, the County issued a Hospital Revenue Note to payoff the 1993 revenue refunding bonds. The government pledged net rental 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	-	4,950
Airport-2007	14,232	10 yrs	3.63%	Annual	-	9,962
Airport-2010	3,947	10 yrs	1.63%	Annual	-	3,553
Fair equipment-2008	29,555	4 yr	0.00%	Annual	14,777	-
Fair INTERCAP-2009 (1)	998,000	10 yrs	1.95%	Semi-annual	145,145	-
Hospital Revenue Note	1,980,000	10 yrs	3.98%	Semi-annual	-	818,319
					<u>\$ 159,922</u>	<u>\$ 836,784</u>

(1) Interest adjust each February, up to a maximum of 15 percent. Total loan commitment \$998,000.

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
2011	\$ 23,554	\$ 2,751	\$ 26,305	\$ 195,293	\$ 31,215	\$ 226,508
2012	24,082	2,434	26,516	203,036	23,393	226,429
2013	17,241	2,111	19,352	211,091	15,259	226,350
2014	17,806	1,766	19,572	219,471	6,800	226,271
2015	18,389	1,416	19,805	2,643	228	2,871
2016-2019	58,850	2,035	60,885	5,250	240	5,490
	<u>\$ 159,922</u>	<u>\$ 12,513</u>	<u>\$ 172,435</u>	<u>\$ 836,784</u>	<u>\$ 77,135</u>	<u>\$ 913,919</u>

Pollution Remediation Obligation

The County received a notice of violation from the Department of Environmental Quality (DEQ). The notice stated the County violated the Hazardous Waste Act by unlawfully disposing of hazardous waste and operating a hazardous waste management facility without a permit. The DEQ issued an administrative order on consent that required the County to remit a work plan to the DEQ that outlines the County's plan to remove and properly manage used oil and hazardous waste. The cleanup must be completed by December 2011. The County recorded a liability, which totals \$1,235,120 at June 30, 2010, to address required environmental cleanup costs. The estimate of costs used to establish the liability was developed through extensive site analysis by independent engineers retained by the County. The liability could change due to price increases, changes in technology, or other factors. There are no expected recoveries from other responsible parties or from the County's insurer.

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
Governmental activities:					
Notes payable	\$ 188,737	\$ -	\$ (28,815)	\$ 159,922	\$ 23,554
Pollution remediation obligation	1,264,301	-	(29,181)	1,235,120	800,000
Compensated absences	334,802	24,347	-	359,149	35,915
Governmental activity long-term liabilities	\$ 1,787,840	\$ 24,347	\$ (57,996)	\$ 1,754,191	\$ 859,469
Business-type activities:					
Notes payable	\$ 1,020,685	\$ 3,947	\$ (187,848)	\$ 836,784	\$ 195,293
Compensated absences	11,151	758	-	11,909	1,191
Business-type activity long-term liabilities	\$ 1,031,836	\$ 4,705	\$ (187,848)	\$ 848,693	\$ 196,484

For the governmental activities, notes payable are liquidated with resources accumulated in the Fair CIP Voted Levy fund. Compensated absences are paid from the fund in which the employee is paid. Pollution control remediation obligations will be liquidated with road and PILT fund resources.

Conduit Debt

To provide for the construction of improvements to the County-owned hospital, the County issued Healthcare and Boarding Home Facilities Revenue Notes amounting to \$525,000 in 2003. In August 2006, an additional \$1,500,000 note was issued for equipment. These notes are special limited obligations of the County, payable solely from and secured by a pledge of Central Montana Medical Facilities, Inc. revenues. The notes do not constitute a debt or pledge of the faith and credit of the County or the State, and accordingly have not been reported in the basic financial statements. As of June 30, 2010, Healthcare and Boarding Home Facilities Revenue Notes outstanding were \$181,710 and \$643,536, respectively.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. OTHER INFORMATION

Risk Management

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

Self-Insurance Plan

During the year ended June 30, 2010, employees of the government were covered by a medical self-insurance plan (the "plan"). The government contributed approximately \$568 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Claims were paid by a third party administrator acting on behalf of the government.

The 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 \$488,339.

The 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 of the medical self-insurance plan includes incurred but not reported claims. The liability as of June 30, 2010, 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 the 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. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Changes in the claims liability amount during fiscal years 2010 and 2009 were:

	Liability July 1,	Current Year Claims and Changes in Estimates	Claims Payments	Liability June 30,
2009-10	\$ 27,335	\$ 516,497	\$ (498,163)	\$ 45,669
2008-09	24,544	355,254	(352,463)	27,335

Subsequent Events

Subsequent June 30, 2010, the County obtained two loans from the Montana Aeronautics Board for airport improvements. The loans amounted to \$35,000 and \$140,000 and are payable over ten years, with an interest rate of 1.625%.

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.

Interlocal Agreements

The City of Lewistown and Fergus County entered into an agreement to fund a library for City and County residents. Fergus County levied 1.4 mills in 2010 for library purposes and contributed \$40,000 for the year ended June 30, 2010. The City maintains the library accounting records and includes the financial activities of the library in its financial statements.

FERGUS COUNTY
NOTES TO BASIC 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 accounted for 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-appointed member 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 airports 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 City judge for the City. The City contributes forty-five percent of fines and assessments collected or \$25,000, whichever is greater. The County maintains the accounting records and remits a monthly accounting to the City.

Jointly Governed

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 2010. The purpose of the Center is to initiate preventive mental health activities for statewide mental health programs and to perform other duties as listed in MCA.

Fergus County Council on Aging

The 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, 2010 the County contributed \$28,856 for matching purposes.

Retirement Plans

The government participates in three 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 Teachers' Retirement System (TRS) covers the county superintendent. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Beginning in fiscal year 2002, eligible members of PERS had a 12-month window to choose between the PERS-defined benefit retirement plan (DBRP) or the PERS-defined contribution retirement plan (DCRP). Eligible new hires have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP. Members may not be active in both the defined contribution and defined benefit retirement plans. The choice is irrevocable. For members that choose to join the PERS-DCRP, a percentage of the employer contribution is used to maintain the funding of the defined benefit plan.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	Total
SRS	10.115%	9.245%	19.360%
PERS	7.070%	6.900%	13.970%
TRS	7.470%	7.150%	14.620%

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.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The amounts contributed to the plans during the years ended June 30, 2010, 2009 and 2008 were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
SRS	\$ 104,470	\$ 104,597	\$ 83,080
TRS	5,539	5,437	5,278
PERS	<u>325,955</u>	<u>301,034</u>	<u>272,901</u>
	<u>\$ 435,964</u>	<u>\$ 411,068</u>	<u>\$ 361,259</u>

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

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

REQUIRED SUPPLEMENTARY INFORMATION

FERGUS COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes and assessments	\$1,616,500	\$ 1,616,500	\$ 1,674,091
Fines and forfeitures	95,000	95,000	80,487
Licenses and permits	-	-	820
Intergovernmental	381,511	381,511	364,190
Charges for services	356,051	366,051	380,864
Investment earnings	150,000	150,000	72,269
Miscellaneous	29,500	29,500	6,217
Total revenues	<u>2,628,562</u>	<u>2,638,562</u>	<u>2,578,938</u>
EXPENDITURES			
Current:			
General government	1,446,303	1,376,533	1,292,648
Public safety	1,531,005	1,459,110	1,320,583
Public health	190,216	192,623	172,889
Social and economic services	7,000	7,000	6,190
Total expenditures	<u>3,174,524</u>	<u>3,035,266</u>	<u>2,792,310</u>
Excess (deficiency) of revenues over expenditures	<u>(545,962)</u>	<u>(396,704)</u>	<u>(213,372)</u>
OTHER FINANCING SOURCES (USES)			
Insurance recoveries	-	-	14,192
Transfers in	428,000	278,742	255,826
Transfers out	(33,009)	(33,009)	(33,009)
Total other financing sources (uses)	<u>394,991</u>	<u>245,733</u>	<u>237,009</u>
Net change in fund balance	<u>\$ (150,971)</u>	<u>\$ (150,971)</u>	<u>23,637</u>
Fund balance - beginning			1,116,957
Fund balance - ending			<u>\$ 1,140,594</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, 2010

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes and assessments	\$ 528,866	\$ 528,866	\$ 551,268
Intergovernmental	938,558	938,558	743,048
Charges for services	35,000	35,000	80,068
Investment earnings	-	-	60
Miscellaneous	1,000	1,000	55
Total revenues	<u>1,503,424</u>	<u>1,503,424</u>	<u>1,374,499</u>
EXPENDITURES			
Current:			
Public works	1,473,002	1,437,040	995,665
Capital outlay	135,000	135,000	122,600
Total expenditures	<u>1,608,002</u>	<u>1,572,040</u>	<u>1,118,265</u>
Excess (deficiency) of revenues over expenditures	<u>(104,578)</u>	<u>(68,616)</u>	<u>256,234</u>
OTHER FINANCING SOURCES			
Insurance recoveries	-	-	4,645
Transfers in	98,851	62,889	188,427
Total other financing sources	<u>98,851</u>	<u>62,889</u>	<u>193,072</u>
Net change in fund balance	<u>\$ (5,727)</u>	<u>\$ (5,727)</u>	<u>449,306</u>
Fund balance - beginning			469,140
Fund balance - ending			<u>\$ 918,446</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, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
EXPENDITURES:			
Current:			
General government	1,610,525	1,610,525	3,075
Total expenditures	<u>1,610,525</u>	<u>1,610,525</u>	<u>3,075</u>
Excess expenditures over revenues	<u>(1,610,525)</u>	<u>(1,610,525)</u>	<u>(3,075)</u>
OTHER FINANCING USES			
Transfers out	-	-	(134,935)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(134,935)</u>
Net change in fund balance	<u>\$(1,610,525)</u>	<u>\$ (1,610,525)</u>	(138,010)
Fund balance - beginning			<u>1,570,101</u>
Fund balance - ending			<u>\$ 1,432,091</u>

See notes to required supplementary information.

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

BUDGETARY INFORMATION

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

OTHER SUPPLEMENTARY INFORMATION

FERGUS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2009	Receipts	Expenditures	Returned to Grantor/ Other	Balance June 30, 2010
U.S. Department of Transportation:								
Direct Program:								
Airport Improvement Program	20.106	DOT-FA09NM-2020	\$ 198,093	\$ -	\$ 196,275	\$ 187,068	\$ (9,207)	\$ -
Airport Improvement Program	20.106	DOT-FA08NM-2021	97,375	-	4,775	4,775	-	-
Subtotal				-	201,050	191,843	(9,207)	-
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HM-HMP-055-09-01-00	11,470	-	-	6,162	-	(6,162)
Subtotal				-	-	6,162	-	(6,162)
Passed through the Montana Department of Transportation:								
Highway Planning and Construction	20.205	STPE 14(35)	160,357	(7,945)	16,084	9,515	-	(1,476)
Highway Planning and Construction	20.205	STPE 14(18)	23,378	-	1,560	1,560	-	-
Subtotal				(7,945)	17,644	11,175	-	(1,476)
Total U.S. Department of Transportation				(7,945)	218,694	209,180	(9,207)	(7,638)
U.S. Department of Justice:								
Passed through the Montana Board of Crime Control:								
Crime Victim Assistance	16.575	09-V01-90494	34,000	-	22,138	34,000	-	(11,862)
Total U.S. Department of Justice				-	22,138	34,000	-	(11,862)
U.S. Department of Homeland Security:								
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Emergency Management Performance Grants	97.042	2009-EP-E9-009	38,906	-	20,385	24,649	-	(4,264)
Total U.S. Department of Homeland Security				-	20,385	24,649	-	(4,264)
U.S. Department of Health and Human Services:								
Passed through Petroleum County:								
Maternal and Child Health Services								
Block Grant to the States	93.994	10-07-5-01-035-0	1,545	-	1,545	1,545	-	-
Passed through Judith Basin County:								
Maternal and Child Health Services								
Block Grant to the States	93.994	10-07-5-01-014-0	1,500	-	1,500	1,500	-	-
Passed through the Montana Department of Public Health and Human Services:								
Maternal and Child Health Services								
Block Grant to the States	93.994	08-07-5-01-001-057	3,838	560	-	-	(560)	-
Block Grant to the States	93.994	10-07-5-01-067-0	3,958	-	3,958	3,958	-	-
Block Grant to the States	93.994	10-07-5-11-009-0	150	-	156	156	-	-
Block Grant to the States	93.994	10-07-5-01-014-0	11,878	-	11,878	11,878	-	-
Subtotal				560	19,037	19,037	(560)	-
Passed through the Montana State University:								
Centers for Disease Control and Prevention								
Investigations and Technical Assistance	93.283	G256-09-W2235	24,000	-	11,250	15,000	-	(3,750)
Passed through the Montana Department of Public Health and Human Services:								
Centers for Disease Control and Prevention								
Investigations and Technical Assistance	93.283	10-07-3-01-003-0	34,800	-	31,219	34,800	-	(3,581)

FERGUS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance	Receipts	Expenditures	Returned to	Balance
				July 1, 2009			Other	June 30, 2010
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.263	10-07-3-01-066-0	6,840	-	6,840	6,840	-	-
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.263	09-07-3-01-021-0	9,000	5,911	-	-	(5,911)	-
Subtotal				5,911	49,309	66,840	(5,911)	(7,331)
HIV Prevention Activities-Health Department Based	93.940	09-07-4-51-005-0	4,035	-	2,722	2,722	-	-
HIV Prevention Activities-Health Department Based	93.940	10-07-4-51-006-0	4,035	-	694	943	-	(249)
Subtotal				-	3,416	3,665	-	(249)
Immunization Grants	93.268	09-07-4-31-055-0	3,031	(1,125)	3,531	2,406	-	-
Immunization Grants	93.268	09-07-4-31-014-0	4,630	(4,418)	4,630	212	-	-
Immunization Grants	93.268	10-07-4-31-055-0	4,680	-	1,170	1,852	-	(682)
Immunization Grants	93.268	10-07-4-31-014-0	5,705	-	1,087	4,761	-	(3,674)
Subtotal				(5,543)	10,416	9,231	-	(4,356)
Public Health Emergency Preparedness	93.069	09-07-5-11-010-0	154,270	(28,918)	69,422	25,941	(14,563)	-
Public Health Emergency Preparedness	93.069	10-07-5-11-010-0	249,750	-	179,940	167,840	-	12,100
Subtotal				(28,918)	249,362	193,781	(14,563)	12,100
Public Health Research Accreditation Project	93.993	10-07-5-11-009-0	1,972	-	1,972	1,972	-	-
Subtotal				-	1,972	1,972	-	-
Family Planning Services	93.217	10-07-5-11-009-0	41,657	-	41,657	41,657	-	-
Subtotal				-	41,657	41,657	-	-
Total U.S. Department of Health and Human Services				(27,990)	375,171	325,983	(21,034)	164
U.S. Department of the Interior:								
Direct Programs:								
Bankhead Jones Farm Tenant Act	15.999	N/A	30,485	-	30,485	30,485	-	-
Bankhead Jones Farm Tenant Act	15.999	N/A	15,388	-	15,388	15,388	-	-
Subtotal				-	45,873	45,873	-	-
Refuge Revenue Sharing	15.659	N/A	661	-	661	661	-	-
Subtotal				-	661	661	-	-
Total U.S. Department of the Interior				-	46,534	46,534	-	-
U.S. Department of Agriculture:								
Passed through Montana State Auditor's Office:								
Schools and Roads - Grants to States	10.665	N/A	58,776	-	58,776	58,776	-	-
Total U.S. Department of Agriculture				-	58,776	58,776	-	-
Total Federal Awards				\$ (35,935)	\$ 741,698	\$ 699,122	\$ (30,241)	\$ (23,000)

Note to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

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

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

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

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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
Lewistown, Montana

We have audited the 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, 2010, which collectively comprise the government's basic financial statements and have issued our report thereon dated December 2, 2010. The report on governmental activities, the road fund and the aggregate remaining fund information was qualified because materials and supplies inventory was not recorded. Also, the report on governmental activities, the business-type activities and proprietary funds (excluding the hospital nursing home) was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense. Except as discussed in the second sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2010-1 through 2010-3 and 2010-5 through 2010-8)

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. (Findings 2010-4 and 2010-9 through 2010-12)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2010-1, 2010-6, 2010-9, 2010-11 and 2012-12.

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

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

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

Olness & Associates, PC

December 2, 2010

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

OLNESS & ASSOCIATES, P. C.
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of County Commissioners
Fergus County
Lewistown, 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, 2010. The government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the government's management. Our responsibility is to express an opinion on the government's compliance based on our audit.

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

As described in item 2013-01 in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding cash management that are applicable to its Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the government complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-13 and 2010-14 to be material weaknesses.

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

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

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

Olness & Associates, PC

December 2, 2010

FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: qualified

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted? yes no

FEDERAL AWARDS:

Internal control over major programs:

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

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

Qualified for the Airport Improvement Program
Unqualified for the remaining major federal programs

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
16.575	Crime Victim Assistance
10.665	Schools and Roads-Grants to States
20.106	Airport Improvement Program
15.999	Bankhead Jones Farm Tenant Act
97.042	Emergency Management Performance Grants

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

2010-1. FINANCIAL STATEMENT PREPARATION

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

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

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

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

FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

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

2010-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2010.

Effect: The governmental activities, business-type activities and proprietary funds' liabilities are understated, net assets are overstated and expenses are understated.

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

2010-3. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

2010-4. SELF-INSURANCE FUND NET ASSETS/RESERVES

Criteria: Self-insurance reserves should be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels should be analyzed and updated at least biennially for the self-insurance fund, taking into account any reinsurance.

Condition: The most recent actuarial valuation completed was in March 2006.

Cause: Unknown.

Effect: Management does not have sufficient information to determine if the self-insurance fund is financially sound. Recording the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) will have an impact on the self-insurance fund's net assets/reserves.

Recommendation: The County should contract with a third party actuary to determine adequate reserve levels for the self-insurance fund.

2010-5. JUSTICE OF THE PEACE TIME PAY ACCOUNTING

Criteria: A reconciliation that reconciles the monthly time pay activity to the beginning and ending time pay balances should be prepared to determine that all transactions have been recorded properly and to discover errors and irregularities. Further, a formal time pay reconciliation is a useful tool in evaluating and monitoring outstanding time pay balances.

Condition: The Justice of the Peace office does not perform a monthly time pay account reconciliation.

Cause: Unknown.

FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Effect: Not reconciling the time pay accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis.

Recommendation: The Justice of the Peace office should prepare a formal reconciliation of time pay activity to the beginning and ending time pay balances on a monthly basis. Once completed, the reconciliation should be reviewed and approved by the Justice of the Peace.

2010-6. CASH MANAGEMENT

Criteria: The OMB Circular A-133 Compliance Supplement Cash Management requirements dictate that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition: For the County's Airport Improvement Program grant (CFDA No. 20.106), the County requested and received reimbursement for engineering and professional services between 8 and 170 days prior to actually disbursing the warrants.

Cause: Unknown.

Effect: Non-compliance with grant terms and conditions.

Recommendation: We recommend the County establish effective cash management procedures that will either minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement of those funds or request reimbursement after the disbursement has actually been made.

2010-7. GRANT MANAGEMENT

Criteria: Grant funding is a significant portion of Fergus County's annual operating budget. The County has multiple locations with substantial decentralization of department heads and management. It is important that a highly-developed, well-communicated, and consistent grant management system be maintained.

Condition: Most of the major grant funded functions and activities exist outside of the courthouse at various locations. Currently, there are no existing policies and procedures to ensure that grants are managed in a consistent or uniform manner and in accordance with all grant terms and conditions. Further, no one person is in charge of identifying, organizing and monitoring federal and state grants.

Cause: Unknown.

Effect: Potential non-compliance with grant terms and conditions.

Recommendation: The County should identify, in detail, the various grant funded activities existing within the County and how and where they are administered. The County should then designate or assign someone the task of organizing and monitoring federal and state grants. The individual would be responsible for the following: a). classification of grant revenues b). maintaining complete and organized grant files, including the grant application, correspondence with the granting agency, draw requests, evidence of monitoring any special grant terms and conditions and the close out report that agrees with the accounting records, c). developing adequate cash management procedures, d). monitoring match requirements and, when applicable, e). follow up with subrecipients.

2010-8. COUNTY FAIR

Criteria: Ticket reconciliation forms provide effective cash controls over admission charges.

Condition: Fair gate receipts are not formally accounted for through ticket reconciliation forms. Collections were placed in a bag with a note attached as to how many tickets the ticket sellers thought they had sold. Further, for night shows and fair entertainment events, reconciliation reports that are generated from the fair's ticket management software were not printed immediately after the conclusion of the events and used to reconcile tickets sold to cash collected. The reconciliation reports were only printed upon request of the County Treasurer when receipting fair cash collections.

Cause: Unknown.

Effect: Cash controls are weakened.

Recommendation: We recommend the accounting policies and procedures and overall operation of the fair be reviewed and updated to strengthened internal control over the fair operations and cash collections. Once formalized, it should be expected that the fair manager and fair employees adhere to the established procedures.

FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

2010-9. EXTERNAL EMPLOYMENT POLICY

Criteria: A distinct external employment policy (moonlighting) clarifies potential conflicts of interest and employer expectations regarding outside work to employees.

Condition: Under the Work Rules section of the county's Official Handbook of Personnel Policies and Procedures, the County has identified guidelines for appropriate employee conduct. However, the section does not specifically address external employment or "moonlighting".

Cause: Unknown.

Effect: Moonlighting, even while not directly in competition with County operations, may impact adversely on an employee's ability to work and on an employee's ability to dedicate him or herself to the County. A second job's responsibilities might be "inconsistent" with those of the county and conflicts of interest can arise.

Recommendation: The County should update its Official Handbook of Personnel Policies and Procedures to include a section on external employment.

2010-10. RECONCILE PAYROLL WAGE BASES

Criteria: To ensure the accuracy of payroll setup, the various wage bases (unemployment, workers compensation, social security, medicare and federal wages) reported on the federal and state payroll reports should be reconciled at end of each payroll period.

Condition: The various wage bases reported on the federal and state payroll reports were not reconciled.

Cause: Unknown.

Effect: Errors in the payroll setup may occur and not be detected in a timely manner.

Recommendation: To ensure the accuracy of payroll setup, we recommend the various wages bases be reconciled at the end of each payroll period.

2010-11. COMPETITIVE BIDDING

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

Condition: The County entered into a contract to remodel the County Attorney office building for approximately \$145,000 and purchased weed chemicals for \$56,932 without publishing a notice calling for bids.

Cause: Unknown.

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

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

2010-12. GROSS RECEIPTS TAX

Criteria: On all public construction contracts, Section 15-50-206, MCA, requires that the County withhold 1% of all payments due the contractor and remit that money to the Department of Revenue (DOR).

Condition: The County did not withhold and remit the 1% tax to the DOR for the County Attorney office remodel.

Cause: Unknown.

Effect: Noncompliance with Section 15-50-206, MCA.

Recommendation: The 1% tax should be withheld and remitted to the Department of Revenue on all future contracts.

FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF TRANSPORTATION:

2010-13. AIRPORT IMPROVEMENT PROGRAM, CFDA NO. 20.106, GRANT NO. DOT-FA09NM-2020, GRANT PERIOD YEAR ENDED JUNE 30, 2010

Finding 2010-6 applies to this federal award program.

2010-14. ALL MAJOR FEDERAL PROGRAMS

Findings 2010-1 and 2010-3 apply to these federal award programs.

FERGUS COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>Prior Year Financial Statement Findings</u>	<u>Status</u>
09-1. Self-Insurance Fund Net Assets/Reserves	Partially Implemented
09-2. Financial Reporting	Continued Disclosure
09-3. Segregation of Duties	Continued Disclosure
09-4. Payroll	Partially Implemented
09-5. Justice of the Peace	Not Implemented
09-6. County Fair Operations	Not Implemented
09-7. Contractors Gross Receipts Tax	Not Implemented

Montana Code Annotated 2009

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2-7-515. Actions by governing bodies. (1) Upon receipt of the audit report, the governing bodies of each audited local government entity shall review the contents and within 30 days shall notify the department in writing as to what action they plan to take on any deficiencies or recommendations contained in the audit report. If no deficiencies or recommendations appear in the audit report, notification is not required.

(2) Notification to the department shall include a statement by the governing bodies that noted deficiencies or recommendations for improvement have been acted upon by adoption as recommended, adoption with modification, or rejection.

(3) The local government entity shall adopt measures to correct the report findings and submit a copy of the corrective action plan to the department and, if the local government entity is a school district, shall also send a copy to the superintendent of public instruction. The department shall notify the entity of the acceptance of the corrective measures. If the department and the local government entity fail to agree, a conference between the parties must be held. Failure to resolve findings or implement corrective measures shall result in the withholding of financial assistance in accordance with rules adopted by the department pending resolution or compliance.

(4) In cases where a violation of law or nonperformance of duty is found on the part of an officer, employee, or board, the officer, employee, or board must be proceeded against by the attorney general or county, city, or town attorney as provided by law. If a written request to do so is received from the department, the county, city, or town attorney shall report the proceedings instituted or to be instituted, relating to the violations of law and nonperformance of duty, to the department within 30 days after receiving the request. If the county, city, or town attorney fails or refuses to prosecute the case, the department may refer the case to the attorney general to prosecute the case at the expense of the local government entity.

History: En. 82-4521, 82-4522 by Secs. 7, 8, Ch. 380, L. 1975; R.C.M. 1947, 82-4521(2), 82-4522; amd. Sec. 1, Ch. 128, L. 1991; amd. Sec. 13, Ch. 489, L. 1991.

Provided by Montana Legislative Services

Said council shall meet on a quarterly basis with no compensation.

ARTICLE III EXECUTIVE BRANCH

Section 3.01 Executive and Administrative Functions

The chief executive and chief administrative functions of Fergus County government shall be vested in the three elected members of the board of county commissioners whose term of office and method of selection are set forth in Article II of this Charter.

Section 3.02 Powers and Duties

The board of county commissioners shall:

1. enforce laws, this Charter, ordinances, and resolutions and carry out policies established by the commission;
2. perform the duties required by law, Charter, ordinance, or resolution;
3. administer the affairs of Fergus County government;
4. direct, supervise, and administer all departments, agencies, and offices of the Fergus County government except as otherwise provided by law, ordinance or this Charter;
5. prepare a commission meeting agenda;
6. execute bonds, notes, contracts, and written obligations of the county;
7. prepare, adopt and administer the county budget;
8. appoint all members of boards and committees;
9. appoint and remove all department heads who are not elected, and appoint and remove all other employees not serving under elected department heads;
10. exercise direct control and supervision of departments not headed by elected officials or boards.

Section 3.03 Terms of Appointed Boards

All county appointed board members shall serve not more than two terms consecutively.

ARTICLE IV JUDICIAL BRANCH

Section 4.01 County Courts

There shall be such county courts as prescribed by law.

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