FERGUS COUNTY
LEWISTOWN, MONTANA

FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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FERGUS COUNTY

ORGANIZATION

June 30, 2012

BOARD OF COUNTY COMMISSIONERS

Carl Seilstad	Chairman
Sandra Youngbauer	Commissioner
Ken Ronish	Commissioner

COUNTY OFFICIALS

Thomas Meissner	Attorney
Rana Wichman	Clerk and Recorder
Phyllis Smith	Clerk of Court
Richard Brown	Coroner
Jack Shields	Justice of the Peace
Gary Kruger	Public Administrator
Thomas Killham	Sheriff
Rhonda Long	Superintendent of Schools
Dolores R. Sramek	Treasurer

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Fergus County
Lewistown, Montana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fergus County, Montana (the government) as of and for the year ended June 30, 2012, which collectively comprise the government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the government's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

Because of inadequacies in the government's accounting records, we were unable to form an opinion regarding the classification of federal and state emergency disaster revenue (intergovernmental) between the road fund and aggregate remaining fund information.

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amounts at which inventory was recorded and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the classification of federal and state emergency disaster revenue (intergovernmental), as described in the third and fourth paragraphs, respectively, and except for the effects of not recording the OPEB liability and related expense as described in the preceding paragraph in the governmental activities, business-type activities and proprietary funds (excluding the hospital nursing home), the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, the road fund, proprietary funds (excluding the hospital nursing home) and the aggregate remaining fund information of the government as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund (excluding the road fund) and the hospital nursing home fund (a major enterprise fund) of the government, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2013, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

Olness & Associates, PC

February 21, 2013

Our discussion and analysis of the County's financial performance provides an overview of the government's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with our financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of Fergus County exceeded its liabilities at the close of fiscal year 2012 by $18,443,767. Of this amount, $2,699,314 may be used to meet the County's ongoing operational needs and $10,474,407 was invested in capital assets, net of related debt.
- The County's total net assets increased by $3,483,480 as a result of this year's operations.
- There were no general fund budget amendments. Actual revenues were $49,531 more than budgeted revenues, while actual expenditures were $337,679 less than budgeted appropriations.

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).

Proprietary funds—Fees are charged to customers for the services provided—whether to outside customers or to other units of the government—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other programs and activities—such as the Self-Insurance fund.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the same basis of accounting as proprietary funds. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In our case the assets of Fergus County exceeded its liabilities at the close of fiscal year June 30, 2012 by $18,443,767. Of this amount, $2,699,314 may be used to meet the County's ongoing operational needs, and $10,474,407 was invested in capital assets, net of related debt. The restricted net assets for the governmental activities are subject to external resources on how they are used. There are not currently any business-type activities restricted net assets.

NET ASSETS:

	Governmental		Business-type		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 10,510,847	$ 8,451,294	$ 756,400	$ 1,174,905	$ 11,267,247	$ 9,626,199
Capital assets	7,600,644	6,130,639	3,851,457	1,905,538	11,452,101	8,036,177
Total assets	18,111,491	14,581,933	4,607,857	3,080,443	22,719,348	17,662,376
Other liabilities	1,986,879	404,016	225,903	326,856	2,212,782	730,872
Long-term liabilities outstanding	1,470,175	1,160,266	592,624	810,951	2,062,799	1,971,217
Total liabilities	3,457,054	1,564,282	818,527	1,137,807	4,275,581	2,702,089
Net assets:						
Invested in capital assets, net of related debt	6,776,129	6,015,070	3,698,278	1,732,216	10,474,407	7,747,286
Restricted	5,270,046	4,680,720	-	-	5,270,046	4,680,720
Unrestricted	2,608,262	2,321,861	91,052	210,420	2,699,314	2,532,281
	$ 14,654,437	$ 13,017,651	$ 3,789,330	$ 1,942,636	$ 18,443,767	$ 14,960,287

CHANGE IN NET ASSETS:

	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 1,239,543	$ 1,284,831	$ 219,976	$ 208,591	$ 1,459,519	$ 1,493,422
Operating grants and contributions	3,158,721	1,077,365	-	-	3,158,721	1,077,365
Capital grants and contributions	2,693,460	497,278	22,904	696,835	2,716,364	1,194,113
General revenues:						
Taxes	3,916,532	3,588,367	-	-	3,916,532	3,588,367
Licenses and permits	810	600	-	-	810	600
Intergovernmental	1,420,107	1,356,069	-	-	1,420,107	1,356,069
Unrestricted investment earnings	67,505	98,639	24,808	33,466	92,313	132,105
Miscellaneous	83,383	80,273	-	3	83,383	80,276
Gain on disposal of capital assets	489,500	243,595	-	-	489,500	243,595
Total revenues	13,069,561	8,227,017	267,688	938,895	13,337,249	9,165,912
Expenses:						
General government	2,243,684	1,974,354	-	-	2,243,684	1,974,354
Public Safety	1,582,248	1,608,026	-	-	1,582,248	1,608,026
Public works	3,776,760	2,324,053	-	-	3,776,760	2,324,053
Public health	904,312	895,556	-	-	904,312	895,556
Social and economic services	199,960	199,258	-	-	199,960	199,258
Culture and recreation	597,699	559,450	-	-	597,699	559,450
Housing and community development	9,235	15,846	-	-	9,235	15,846
Airport	-	-	508,873	364,030	508,873	364,030
Hospital	-	-	22,927	30,671	22,927	30,671
Interest on long-term debt	8,071	1,960	-	-	8,071	1,960
Total expenses	9,321,969	7,578,503	531,800	394,701	9,853,769	7,973,204
Transfers	(2,110,806)	25,000	2,110,806	(25,000)	-	-
Change in net assets	1,636,786	673,514	1,846,694	519,194	3,483,480	1,192,708
Net assets, beginning	13,017,651	12,344,137	1,942,636	1,423,442	14,960,287	13,767,579
Net assets, ending	$ 14,654,437	$ 13,017,651	$ 3,789,330	$ 1,942,636	$ 18,443,767	$ 14,960,287

Net assets for governmental activities increased $1,636,786. The increase is mainly due to capital grants. Net assets for business-type activities increased $1,846,694. The increase can be attributable to a capital grant for airport improvements.

FUND FINANCIAL STATEMENTS

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

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

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

General Fund – The general fund is the County's primary operating fund. It accounts for all financial resources of the general government, except for those accounted for in another fund. At the end of the fiscal year, unassigned fund balance was $1,277,419. Overall fund balance decreased $102,115.

Road Fund – The road fund accounts for resources accumulated and payments made for the maintenance, repair and construction of county-owned roads. At the end of fiscal year 2012, the fund balance of the road fund was $1,482,086, an increase of $416,958. The increase is mainly due to various projects that did not start before year-end.

PILT Fund – The PILT (payment in lieu of taxes) fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Expenditures from the fund are at the discretion of the Board of County Commissioners. During 2012, resources from the PILT fund were distributed to other funds to fund their budgets. The overall fund balance increased $188,963. This increase occurred because various budgeted projects did not transpire before year-end.

Airport Capital Improvements Fund – This fund is used to account for federal and state grants for airport improvements. $2,211,628 in capital assets was contributed to the airport fund (an enterprise fund).

Airport Fund – Net assets increased $1,846,694 mainly due to contributed capital assets and capital grants.

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 were no budget resolutions done that affected the general fund budget for 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Fergus County's investment in capital assets, net of related debt, as of June 30, 2012, was $10,474,407. Invested in capital assets includes property, buildings, improvements, machinery, equipment and infrastructure (i.e. roads, bridges, etc.). For more information related to capital assets, see the notes to the basic financial statements.

Compensated absences are a liability of the County for unpaid vacation leave, sick leave, and compensatory time. The liability typically increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. The amount of this liability at June 30, 2012, was $410,020, an increase of $40,888. Other debt outstanding consists of notes payable, with various maturities.

THE GOVERNMENT'S FUTURE

Fergus County sustained several millions of dollars' worth of damage on hundreds of sites due to the spring snow melt and the disastrous flooding that occurred in FY2011. Our road and bridge departments, along with our DES and sheriff's department have all continued to diligently work through this. There continues to be extensive paperwork with FEMA. With projects not covered by FEMA, there are grants to apply for and administer if we are successful in getting them. It is estimated that some of the work will not be completed for a couple of years.

The following factors were considered when preparing the Fergus County Budgets for FY2013:

- Flood damage continues to be one of our top financial concerns.
- Lack of funds to repair the necessary roads and bridges, along with a shortage of staff due to a lack of qualified applicants continues to be an issue for the road and bridge departments. Fergus County applied for and was approved for an Intercap Loan to help with road and bridge projects. Paying it back as we are able, along with keeping up with the required payments to contractors, etc., requires extra paperwork and planning.
- High utility and fuel costs are a major concern for several of Fergus County's departments, including but not limited to the road, bridge, weed, and sheriff.
- The Penta cleanup at the road department had a huge negative financial impact on the County. This cleanup is now complete.
- The jail continues to need updates and improvements.
- The County Commissioners moved to a new office so moving costs were incurred along with costs for new furniture and equipment.
- Energy efficiency work continues to be done throughout the County.
- Continuing on a rotation schedule with replacement of large equipment for the road and bridge departments is essential and is always a budgetary concern. There is additional wear and tear on the County equipment due to the FY2011 flooding and the need to repair more roads and bridges outside of the regular schedule.
- Concern over the possible discontinuance of PILT monies forces us to look to the future years for funding options.
- Technology is expensive and it is essential that the County keep up with the needed information and equipment. This will continue to be a budgetary concern for many years to come for most if not all departments.
- 2013 is a Legislative year so additional travel to monitor and testify at bills was a consideration.
- All elected officials and department heads were asked to cut any non-essential items from their budget(s).
- The rising cost of health insurance is a major concern for Fergus County. We are self-insured. Our employee base is aging, causing increased costs. We raised our stop loss, and we plan to make significant changes to both the coverage and the premiums in FY2014.

FERGUS COUNTY
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	$ 4,787,722	$ 49,543	$ 4,837,265
Investments	3,656,145	37,833	3,693,978
Receivables:			
Taxes and assessments	204,307	-	204,307
Governments	1,381,652	22,904	1,404,556
Roundhouse road	19,995	-	19,995
Stop loss reimbursement	151,921	-	151,921
Other	70,000	-	70,000
Inventories	239,105	-	239,105
Restricted assets:			
Cash and equivalents	-	125,220	125,220
Investments	-	95,624	95,624
Net investment in capital lease	-	425,276	425,276
Capital assets:			
Land and construction in progress	305,034	86,146	391,180
Depreciable capital assets, net	7,295,610	3,765,311	11,060,921
Total assets	18,111,491	4,607,857	22,719,348
LIABILITIES			
Accounts payable:			
Vendors	962,295	5,059	967,354
IBNR	151,252	-	151,252
Due to Central Montana Medical Center	-	220,844	220,844
Deferred revenue	873,332	-	873,332
Long-term liabilities:			
Due within one year:			
Notes and capital leases	219,921	228,591	448,512
Compensated absences	39,585	1,417	41,002
Due in more than one year:			
Notes and capital leases	854,403	349,864	1,204,267
Compensated absences	356,266	12,752	369,018
Total liabilities	3,457,054	818,527	4,275,581
NET ASSETS			
Invested in capital assets, net of related debt	6,776,129	3,698,278	10,474,407
Restricted for:			
General government	494,555	-	494,555
Public safety	144,494	-	144,494
Public works	2,107,153	-	2,107,153
Public health	905,683	-	905,683
Social and economic services	125,085	-	125,085
Culture and recreation	50,009	-	50,009
Housing and community development	363,147	-	363,147
Capital projects	1,079,920	-	1,079,920
Unrestricted	2,608,262	91,052	2,699,314
Total net assets	$ 14,654,437	$ 3,789,330	$ 18,443,767

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
General government	$ 2,243,684	$ 205,454	$ 14,432	$ -	$ (2,023,798)	$ -	$ (2,023,798)
Public safety	1,582,248	107,079	251,326	-	(1,223,843)	-	(1,223,843)
Public works	3,776,760	376,742	2,543,516	2,628,454	1,771,952	-	1,771,952
Public health	904,312	258,788	303,452	-	(342,072)	-	(342,072)
Social and economic services	199,960	-	-	-	(199,960)	-	(199,960)
Culture and recreation	597,699	291,480	45,995	65,006	(195,218)	-	(195,218)
Housing and community development	9,235	-	-	-	(9,235)	-	(9,235)
Interest on long-term debt	8,071	-	-	-	(8,071)	-	(8,071)
Total governmental activities	9,321,969	1,239,543	3,158,721	2,693,460	(2,230,245)	-	(2,230,245)
Business-type activities:							
Hospital	22,927	-	-	-	-	(22,927)	(22,927)
Airport	508,873	219,976	-	22,904	-	(265,993)	(265,993)
Total business-type activities	531,800	219,976	-	22,904	-	(288,920)	(288,920)
Total	$ 9,853,769	$ 1,459,519	$ 3,158,721	$ 2,716,364	(2,230,245)	(288,920)	(2,519,165)
General revenues:							
Property taxes					3,916,532	-	3,916,532
Licenses and permits					810	-	810
Intergovernmental					1,420,107	-	1,420,107
Unrestricted investment earnings					67,505	24,808	92,313
Miscellaneous					83,383	-	83,383
Gain on disposal of capital assets					489,500	-	489,500
Transfers					(2,110,806)	2,110,806	-
Total general revenues and transfers					3,867,031	2,135,614	6,002,645
Change in net assets					1,636,786	1,846,694	3,483,480
Net assets - beginning					13,017,651	1,942,636	14,960,287
Net assets - ending					$ 14,654,437	$ 3,789,330	$ 18,443,767

See notes to basic financial statements.

FERGUS COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	Road	PILT	Airport Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 766,213	$ 1,022,700	$ 737,244	$ 92,594	$ 1,859,149	$ 4,477,900
Investments	585,119	780,985	562,996	70,710	1,419,739	3,419,549
Receivables:						
Taxes and assessments	88,462	31,247	-	-	84,598	204,307
Governments	33,116	1,167,520	-	69,578	111,438	1,381,652
Roundhouse road	-	-	-	-	19,995	19,995
Other	-	-	-	-	70,000	70,000
Due from other funds	-	-	-	-	64,495	64,495
Inventories	-	51,248	-	-	187,857	239,105
Total assets	$ 1,472,910	$ 3,053,700	$ 1,300,240	$ 232,882	$ 3,817,271	$ 9,877,003
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable-vendors	$ 107,029	$ 679,540	$ -	$ 77,120	$ 98,606	$ 962,295
Due to other funds	-	-	-	-	64,495	64,495
Deferred revenue	88,462	892,074	-	-	117,098	1,097,634
Total liabilities	195,491	1,571,614	-	77,120	280,199	2,124,424
Fund balances:						
Nonspendable:						
Inventory	-	51,248	-	-	187,857	239,105
Noncurrent portion of advance to funds	-	-	-	-	63,106	63,106
Restricted:						
General government	-	-	-	-	454,388	454,388
Public safety	-	-	-	-	144,494	144,494
Public works	-	1,430,838	-	-	387,053	1,817,891
Public health	-	-	-	-	902,793	902,793
Social and economic services	-	-	-	-	117,721	117,721
Culture and recreation	-	-	-	-	44,485	44,485
Housing and community development	-	-	-	-	300,041	300,041
Capital projects	-	-	-	155,762	914,415	1,070,177
Committed:						
General government	-	-	1,300,240	-	85,214	1,385,454
Unassigned	1,277,419	-	-	-	(64,495)	1,212,924
Total fund balances	1,277,419	1,482,086	1,300,240	155,762	3,537,072	7,752,579
Total liabilities and fund balances	$ 1,472,910	$ 3,053,700	$ 1,300,240	$ 232,882	$ 3,817,271	$ 9,877,003

See notes to basic financial statements.

FERGUS COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total fund balance, governmental funds	$ 7,752,579
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.	7,600,644
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.	224,302
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.	547,087
Some liabilities (such as notes payable, capital leases 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.	(1,470,175)
Net assets of governmental activities	$ 14,654,437

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, 2012

	General	Road	PILT	Airport Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	$ 1,902,779	$ 495,476	$ -	$ -	$ 1,565,983	$ 3,964,238
Fines and forfeitures	76,988	-	-	-	11,615	88,603
Licenses and permits	810	-	-	-	33,300	34,110
Intergovernmental	399,992	2,954,878	287,602	2,121,693	1,346,225	7,110,390
Charges for services	416,276	194,050	-	-	507,508	1,117,834
Investment earnings	44,268	87	5,431	793	11,090	61,669
Miscellaneous	23,298	-	-	-	216,410	239,708
Total revenues	2,864,411	3,644,491	293,033	2,122,486	3,692,131	12,616,552
EXPENDITURES						
Current:						
General government	1,548,654	-	4,070	-	562,875	2,115,599
Public safety	1,426,361	-	-	-	48,263	1,474,624
Public works	-	3,173,778	-	29,576	864,868	4,068,222
Public health	198,573	-	-	-	669,793	868,366
Social and economic services	9,330	-	-	-	173,964	183,294
Culture and recreation	-	-	-	-	470,938	470,938
Housing and community development	-	-	-	-	9,235	9,235
Debt service:						
Principal	8,438	56,357	-	-	7,388	72,183
Interest and other charges	264	7,807	-	-	-	8,071
Capital outlay	64,984	1,030,125	-	2,211,628	473,395	3,780,132
Total expenditures	3,256,604	4,268,067	4,070	2,241,204	3,280,719	13,050,664
Excess (deficiency) of revenues over (under) expenditures	(392,193)	(623,576)	288,963	(118,718)	411,412	(434,112
OTHER FINANCING SOURCES (USES)						
Long-term debt issued	64,984	965,954	-	-	-	1,030,938
Insurance recoveries	2,067	-	-	-	1,951	4,018
Transfers in	295,767	74,580	-	100,822	396,172	867,341
Transfers out	(72,740)	-	(100,000)	-	(593,779)	(766,519
Total other financing sources (uses)	290,078	1,040,534	(100,000)	100,822	(195,656)	1,135,778
Net change in fund balances	(102,115)	416,958	188,963		215,756	701,666
Fund balances - beginning	1,379,534	1,065,128	1,111,277	173,658	3,321,316	7,050,913
Fund balances - ending	$ 1,277,419	$ 1,482,086	$ 1,300,240	$ 155,762	$ 3,537,072	$ 7,752,579

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, 2012

Net change in fund balances - total governmental funds	$ 701,666
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 ($3,780,132) exceeded depreciation ($587,999) in the current period.	3,192,133
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.	489,500
Capital assets contributed to business-type activities	(2,211,628)
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.	(40,637)
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 amount is the difference between debt issued and debt repayments.	(958,755)
Pollution remediation costs are recognized as expenditures in the govenrment 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.	687,525
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	(38,679)
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.	(184,339)
Change in net assets of governmental activities	$ 1,636,786

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Enterprise Funds			Governmental Activities
	Hospital Nursing Home	Airport	Total	Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	$ -	$ 49,543	$ 49,543	$ 309,822
Investments	-	37,833	37,833	236,596
Due from other governments	-	22,904	22,904	-
Receivables:				
Stop loss receivable	-	-	-	151,921
Total current assets	-	110,280	110,280	698,339
Non-current assets:				
Restricted assets:				
Cash and cash equivalents	125,220	-	125,220	-
Investments	95,624	-	95,624	-
	220,844	-	220,844	-
Net investment in capital lease	425,276	-	425,276	-
Capital assets:				
Land	-	13,261	13,261	-
Construction in progress	-	72,885	72,885	-
Buildings and improvements	-	8,155,777	8,155,777	-
Machinery and equipment	-	190,041	190,041	-
Less: accumulated depreciation	-	(4,580,507)	(4,580,507)	-
	-	3,851,457	3,851,457	-
Total non-current assets	646,120	3,851,457	4,497,577	-
Total assets	646,120	3,961,737	4,607,857	698,339
LIABILITIES				
Current liabilities:				
Accounts payable	-	5,059	5,059	151,252
Due to Central Montana Medical Center	220,844	-	220,844	-
Compensated absences	-	1,417	1,417	-
Notes payable	208,448	20,143	228,591	-
Total current liabilities	429,292	26,619	455,911	151,252
Non-current liabilities:				
Compensated absences	-	12,752	12,752	-
Notes payable	216,828	133,036	349,864	-
Total non-current liabilities	216,828	145,788	362,616	-
Total liabilities	646,120	172,407	818,527	151,252
NET ASSETS				
Invested in capital assets, net of related debt	-	3,698,278	3,698,278	-
Unrestricted	-	91,052	91,052	547,087
Total net assets	$ -	$ 3,789,330	$ 3,789,330	$ 547,087

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, 2012

	Enterprise Funds			Governmental Activities
	Hospital Nursing Home	Airport	Total	Internal Service Fund
REVENUES				
Charges for services	$ -	$ 219,976	$ 219,976	$ 737,520
Total operating revenues	-	219,976	219,976	737,520
OPERATING EXPENSES				
Personal services	-	117,473	117,473	-
Supplies	-	16,002	16,002	-
Purchased services	-	101,408	101,408	-
Fixed charges	-	5,258	5,258	-
Administration and insurance	-	-	-	208,177
Claims	-	-	-	719,518
Depreciation	-	265,709	265,709	-
Total operating expenses	-	505,850	505,850	927,695
Operating loss	-	(285,874)	(285,874)	(190,175)
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	22,927	1,881	24,808	5,836
Interest expense	(22,927)	(3,023)	(25,950)	-
Total non-operating revenue (expenses)	-	(1,142)	(1,142)	5,836
Loss before contributions and transfers	-	(287,016)	(287,016)	(184,339)
Capital contributions	-	2,234,532	2,234,532	-
Transfers out	-	(100,822)	(100,822)	-
Change in net assets	-	1,846,694	1,846,694	(184,339)
Total net assets - beginning	-	1,942,636	1,942,636	731,426
Total net assets - ending	$ -	$ 3,789,330	$ 3,789,330	$ 547,087

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Enterprise Funds			Governmental Activities
	Nursing Home	Airport	Total	Internal Service Fund
CASH FLOWS FROM OPERATIONS:				
Cash received for health insurance premiums	$ -	$ -	$ -	$ 737,520
Cash received from customers	-	230,502	230,502	-
Medical claims paid	-	-	-	(821,563)
Cash paid to employees	-	(115,364)	(115,364)	-
Cash paid to suppliers for goods and services	-	(122,752)	(122,752)	(208,177)
Net cash used by operating activities	-	(7,614)	(7,614)	(292,220)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash transferred out	-	(100,822)	(100,822)	-
Net decrease in amount due to CMMC	(38,013)	-	(38,013)	-
Net cash used by noncapital financing activities	(38,013)	(100,822)	(138,835)	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Cash paid for purchase of capital assets	-	(62,756)	(62,756)	-
Capital contribution	-	50,436	50,436	-
Principal payments on debt	(200,393)	(20,143)	(220,536)	-
Interest paid	(22,927)	(3,023)	(25,950)	-
Net cash used by capital financing activities	(223,320)	(35,486)	(258,806)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net change in investments	(5,173)	42,314	37,141	54,377
Payments received on capital lease	200,393	-	200,393	-
Interest received	22,927	1,881	24,808	5,836
Net cash provided by investing activities	218,147	44,195	262,342	60,213
Change in cash and cash equivalents	(43,186)	(99,727)	(142,913)	(232,007)
Cash and cash equivalents - beginning	168,406	149,270	317,676	541,829
Cash and cash equivalents - ending	$ 125,220	$ 49,543	$ 174,763	$ 309,822
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	$ -	$ (285,874)	$ (285,874)	$ (190,175)
Adjustment to reconcile operating loss to net cash used by operating activities:				
Depreciation	-	265,709	265,709	-
(Increase) decrease in accounts receivable	-	10,526	10,526	(115,396)
Increase (decrease) in accounts payable	-	(184)	(184)	13,351
Increase in compensated absences	-	2,209	2,209	-
Net cash used by operating activities	$ -	$ (7,614)	$ (7,614)	$ (292,220)
Noncash investing, noncapital and capital financing activities:				
Contributed capital assets	$ -	$ 2,211,628	$ 2,211,628	$ -
Noncash capital contribution	-	22,904	22,904	-

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ 7,786,956	$ 431,302
Investments	5,946,508	-
Taxes and assessments receivable	-	812,460
Due from other governments	-	13,415
Total assets	13,733,464	$ 1,257,177
LIABILITIES		
Accounts payable	-	$ 431,302
Due to others	-	17,908
Due to special districts	-	34,981
Due to state	-	108,734
Due to schools	-	492,816
Due to cities/towns	-	171,436
Total liabilities	-	$ 1,257,177
NET ASSETS		
Held in trust	$ 13,733,464	

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended June 30, 2012

	External Investment Trust Fund
ADDITIONS	
Contributions	$ 28,830,291
Interest earnings	104,353
Total additions	28,934,644
DEDUCTIONS	
Withdrawals	28,209,684
Administrative	2,123
Total deductions	28,211,807
Change in net assets	722,837
Net assets - beginning	13,010,627
Net assets - ending	$ 13,733,464

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

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

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

The 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 airport capital improvements fund accounts for federal and state grants and payments made for improvements made to the airport facility.

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. 60% 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 $3,539.

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." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

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 ($220,802) and discretionary ($42) 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.

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."

Proprietary fund equity is classified the same as in the government-wide statements.

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

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

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

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

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

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

The governing body has by resolution authorized the clerk and recorder, in conjunction with the county commissioners to assign fund balance. Assigned fund balance in the general fund represents year-end encumbrances.

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

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The Roundhouse Road ($64,495) fund had a deficit fund balance as of June 30, 2012. 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.

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	$ 8,443,867
Business-type activities	308,220
Fiduciary funds	14,164,766
	$ 22,916,853

Total carrying value of cash, cash equivalents and investments as of June 30, 2012, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	$ 1,325	$ -	$ 1,325
Cash in banks:			
Demand deposits	242,521	-	242,521
Savings deposits	2,781,897	-	2,781,897
Time deposits	-	236,110	236,110
Brokers:			
U.S. Government securities	-	9,500,000	9,500,000
Short-term Investment Program (STIP)	10,155,000	-	10,155,000
	$ 13,180,743	$ 9,736,110	$ 22,916,853

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, 2012, $2,529,573 of the government's bank balance of $3,202,545 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank's trust department not in the government's name	$2,529,573

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, 2012, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2012 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	1.35 to 2.60%	Various	$ 236,110	$ 236,110	$ 236,110	2.43%
U.S. Government securities	.5 to 1.55%	Various	9,500,000	9,500,000	9,515,380	97.57%
				$ 9,736,110	$ 9,751,490	

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

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

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

	Custodial Credit Risk Category 1	2	3	Carrying Amount	Fair Value
Brokers:					
U.S. Government securities	$ 1,000,000	$ -	$ 8,500,000	$ 9,500,000	$ 9,515,380
	$ 1,000,000	$ -	$ 8,500,000	9,500,000	9,515,380
STIP				10,155,000	10,155,000
				$19,655,000	$19,670,380

Following is the condensed schedule of changes in net assets and net assets for the investment pool for the year ended June 30, 2012:

	Internal	External	Total
Net assets - beginning of year	$ 8,490,130	$ 13,010,627	$ 21,500,757
Contributions from participants	18,231,922	28,830,291	47,062,213
Investment earnings	75,939	104,353	180,292
Administration expenses	(1,416)	(2,123)	(3,539)
Distributions to participants	(17,613,186)	(28,209,684)	(45,822,870)
Net assets - end of year	$ 9,183,389	$ 13,733,464	$ 22,916,853

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, 2012 are as follows:

	Business-type Activities
Minimum lease payments receivable	$ 446,642
Less: unearned income	(21,366)
	$ 425,276

Future minimum lease payments are as follows:

Year ending June 30,	Business-type Activities Principal	Interest	Total
2013	$ 208,448	$ 14,873	$ 223,321
2014	216,828	6,493	223,321
	$ 425,276	$ 21,366	$ 446,642

Roundhouse Road Receivable

$18,815 of the Roundhouse Road receivable is not expected to be collected within one year.

Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Governmental activities:				
Capital assets, not being depreciated				
Land	$ 67,687	$ -	$ -	$ 67,687
Construction-in-progress	-	2,448,975	(2,211,628)	237,347
Total capital assets, not being depreciated	67,687	2,448,975	(2,211,628)	305,034
Capital assets, being depreciated				
Buildings/improvements	6,087,670	17,630	-	6,105,300
Machinery and equipment	5,535,055	1,023,158	(1,009,714)	5,548,499
Infrastructure	708,489	779,869	-	1,488,358
Total capital assets, being depreciated	12,331,214	1,820,657	(1,009,714)	13,142,157
Less accumulated depreciation for:				
Buildings/improvements	(2,310,255)	(160,420)	-	(2,470,675)
Machinery and equipment	(3,934,648)	(410,158)	1,009,714	(3,335,092)
Infrastructure	(23,359)	(17,421)	-	(40,780)
Total accumulated depreciation	(6,268,262)	(587,999)	1,009,714	(5,846,547)
Total capital assets, being depreciated, net	6,062,952	1,232,658	-	7,295,610
Governmental activities capital assets, net	$ 6,130,639	$ 3,681,633	$(2,211,628)	$ 7,600,644

Depreciation expense was charged as follows:

Governmental activities:	
General government	$ 48,848
Public safety	59,547
Public works	358,804
Public health	14,707
Social and economic	7,315
Culture and recreation	98,778
Total depreciation-governmental activities	$ 587,999

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Business-type activities:				
Capital assets, not being depreciated				
Land	$ 13,261	$ -	$ -	$ 13,261
Construction-in-progress	924,389	49,276	(900,780)	72,885
Total capital assets, not being depreciated	937,650	49,276	(900,780)	86,146
Capital assets, being depreciated				
Buildings	115,181	-	-	115,181
Improvements other than buildings	4,977,464	3,063,132	-	8,040,596
Machinery and equipment	190,041	-	-	190,041
Total capital assets, being depreciated	5,282,686	3,063,132	-	8,345,818
Less accumulated depreciation for:				
Buildings	(46,414)	(1,840)	-	(48,254)
Improvements other than buildings	(4,092,378)	(260,750)	-	(4,353,128)
Machinery and equipment	(176,006)	(3,119)	-	(179,125)
Total accumulated depreciation	(4,314,798)	(265,709)	-	(4,580,507)
Total capital assets, being depreciated, net	967,888	2,797,423	-	3,765,311
Business-type activities capital assets, net	$ 1,905,538	$ 2,846,699	$ (900,780)	$ 3,851,457

Depreciation expense was charged as follows:

Business-type activities:	
Airport	$ 265,709

Interfund Receivables, Payables and Transfers

The composition of interfund balances (due from/to other funds) as of June 30, 2012, consisted of the Roundhouse Road fund owing the USG Loan fund $64,495. $1,389 is expected to be repaid next fiscal year.

Interfund transfers consisted of the following

	Transfers In	Transfers Out	Total
Governmental activities:			
General	$ 295,767	$ (72,740)	$ 223,027
Road	74,580	-	74,580
PILT	-	(100,000)	(100,000)
Airport Capital Improvements	100,822	-	100,822
Nonmajor governmental funds	396,172	(593,779)	(197,607)
	$ 867,341	$ (766,519)	$ 100,822
Business-type activities:			
Airport	$ -	$ (100,822)	$ (100,822)

Transfers are made to finance various programs accounted for in other funds in accordance with budgetary authorizations. Additionally, the governmental activities contributed capital assets amounting to $2,211,628 to the business-type activities.

Capital Leases

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

	Governmental Activities
Machinery and equipment	$ 1,160,594
Less: accumulated depreciation	(113,626)
	$ 1,046,968

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2012, are as follows:

Year ending June 30,	Governmental Activities
2013	$ 182,198
2014	125,187
2015	125,188
Total minimum lease payments	432,573
Less: amount representing interest	(27,134)
Present value of minimum lease payments	$ 405,439

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	$ -	$ 3,300
Airport-2007	14,232	10 yrs	3.63%	Annual	-	7,116
Airport-2010	3,947	10 yrs	1.63%	Annual	-	2,763
Airport-2011	140,000	10 yrs	1.63%	Annual	-	112,000
Airport-2011	35,000	10 yrs	1.63%	Annual	-	28,000
Road and bridge-2012 (1)	615,454	15 yrs	1.25%	Semi-annual	612,339	-
Sheriff vehicle-2012	32,492	4 yrs	3.79%	Semi-annual	28,314	-
Sheriff vehicle-2012	32,492	4 yrs	3.79%	Semi-annual	28,232	-
Hospital Revenue Note	1,980,000	10 yrs	3.98%	Semi-annual	-	425,276
					$ 668,885	$ 578,455

(1) Through Montana Board of Investments, with interest adjusted each February, up to 15%.

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

	Governmental Activities			Business-type Activities		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2013	$ 52,339	$ 9,558	$ 61,897	$ 228,591	$ 17,535	$ 246,126
2014	53,652	8,484	62,136	236,971	8,790	245,761
2015	55,001	7,398	62,399	20,143	1,934	22,077
2016	47,687	6,281	53,968	20,143	1,572	21,715
2017	39,914	5,643	45,557	19,319	1,209	20,528
2018-2022	211,616	20,426	232,042	53,288	1,777	55,065
2023-2027	208,676	6,601	215,277	-	-	-
	$ 668,885	$ 64,391	$ 733,276	$ 578,455	$ 32,817	$ 611,272

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Governmental activities:					
Notes payable	$ 7,388	$ 680,438	$ (18,941)	$ 668,885	$ 52,339
Pollution remediation obligation	687,525	-	(687,525)	-	-
Capital leases	108,181	350,500	(53,242)	405,439	167,582
Compensated absences	357,172	38,679	-	395,851	39,585
Governmental activity long-term liabilities	$ 1,160,266	$ 1,069,617	$ (759,708)	$ 1,470,175	$ 259,506

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Business-type activities:					
Notes payable	$ 798,991	$ -	$ (220,536)	$ 578,455	$ 228,591
Compensated absences	11,960	2,209	-	14,169	1,417
Business-type activity long-term liabilities	$ 810,951	$ 2,209	$ (220,536)	$ 592,624	$ 230,008

For the governmental activities, notes payable are liquidated within the Road fund and with resources accumulated in the Fair CIP Voted Levy fund. Capital leases are liquidated within the Road fund. Compensated absences are paid from the fund in which the employee is paid.

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. The note is a special limited obligation of the County, payable solely from and secured by a pledge of Central Montana Medical Facilities, Inc. revenues. The note does not constitute a debt or pledge of the faith and credit of the County or the State, and accordingly has not been reported in the basic financial statements. As of June 30, 2012, Healthcare and Boarding Home Facilities Revenue Notes outstanding were $63,182.

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, 2012, employees of the government were covered by a medical self-insurance plan (the "plan"). The government contributed approximately $671 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 $35,000 and for aggregate loss, which is based on a factor determined by MJPT. The aggregate stop-loss coverage was $717,399.

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, 2012, 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 2012 and 2011 were:

	Liability July 1,	Curent Year Claims and Changes in Estimates	Claims Payments	Liability June 30,
2011-12	$ 137,901	$ 719,517	$ (706,166)	$ 151,252
2010-11	45,669	579,937	(487,705)	137,901

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately $175,000, primarily for the purchase of land for the airport facilities.

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

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

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 2012 for library purposes and contributed $50,392 for the year ended June 30, 2012. The City maintains the library accounting records and includes the financial activities of the library in its financial statements.

The City-County Airport is owned and operated jointly by the City of Lewistown and Fergus County. The operation of the airport is accounted for by the County as an enterprise fund. All capital 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 2012. 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, 2012 the County contributed $27,689 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 (hired prior to 7-1-2011)	7.070%	6.900%	13.970%
PERS (hired on or after 7-1-2011	7.070%	7.900%	14.970%
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.

The amounts contributed to the plans during the years ended June 30, 2012, 2011 and 2010 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:

	2012	2011	2010
SRS	$108,716	$105,249	$104,470
TRS	5,858	5,676	5,539
PERS	346,286	338,205	325,955
	$460,860	$449,130	$435,964

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

GASB No. 60, Accounting and Financial Reporting for Service Concession Arrangements (effective for periods beginning after December 15, 2011). Improve financial reporting by addressing issues related to service concession arrangements (SCAs).

GASB No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34 (effective for periods beginning after June 15, 2012). Improve financial reporting for a governmental financial reporting entity.

GASB No.62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (effective for periods beginning after December 15, 2011). The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (effective for periods beginning after December 15, 2011). Presentation changes in the government-wide financial statements and the proprietary and fiduciary fund financial statements.

GASB No. 65, Items Previously Reported as Assets and Liabilities (effective for periods beginning after December 15, 2012). Presentation changes due to expansion of transactions that result in deferred inflows/outflows; identification of new inflows/outflows, and related change in major funds determination.

GASB No. 66, Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62 (effective for periods beginning after December 15, 2012). Presentation and disclosure.

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, 2012

	Budgeted Amounts		
	Original	Final	Actual Amounts
REVENUES			
Taxes and assessments	$1,868,719	$ 1,868,719	$ 1,902,779
Fines and forfeitures	93,000	93,000	76,988
Licenses and permits	500	500	810
Intergovernmental	397,167	397,167	399,992
Charges for services	391,490	391,490	416,276
Investment earnings	50,000	50,000	44,268
Miscellaneous	14,004	14,004	23,298
Total revenues	2,814,880	2,814,880	2,864,411
EXPENDITURES			
Current:			
General government	1,564,624	1,564,624	1,548,654
Public safety	1,562,916	1,562,916	1,426,361
Public health	222,460	222,460	198,573
Social and economic services	8,500	8,500	9,330
Debt service:			
Principal	-	-	8,438
Interest and other charges	-	-	264
Capital outlay	235,783	235,783	64,984
Total expenditures	3,594,283	3,594,283	3,256,604
Excess (deficiency) of revenues over expenditures	(779,403)	(779,403)	(392,193)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	-	-	64,984
Insurance recoveries	34,000	34,000	2,067
Transfers in	478,143	478,143	295,767
Transfers out	(100,740)	(100,740)	(72,740)
Total other financing sources (uses)	411,403	411,403	290,078
Net change in fund balance	$ (368,000)	$ (368,000)	(102,115)
Fund balance - beginning			1,379,534
Fund balance - ending			$ 1,277,419

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, 2012

	Budgeted Amounts		
	Original	Final	Actual Amounts
REVENUES			
Taxes and assessments	$ 496,256	$ 496,256	$ 495,476
Intergovernmental	545,729	1,161,729	2,954,878
Charges for services	25,000	25,000	194,050
Investment earnings	-	-	87
Total revenues	1,066,985	1,682,985	3,644,491
EXPENDITURES			
Current:			
Public works	2,426,329	2,486,329	3,173,778
Debt service:			
Principal	-	-	56,357
Interest and other charges	-	-	7,807
Capital outlay	190,000	806,000	1,030,125
Total expenditures	2,616,329	3,292,329	4,268,067
Excess (deficiency) of revenues over expenditures	(1,549,344)	(1,609,344)	(623,576)
OTHER FINANCING SOURCES			
Long-term debt issued	998,000	998,000	965,954
Transfers in	97,709	97,709	74,580
Total other financing sources	1,095,709	1,095,709	1,040,534
Net change in fund balance	$ (453,635)	$ (513,635)	416,958
Fund balance - beginning			1,065,128
Fund balance - ending			$ 1,482,086

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, 2012

	Budgeted Amounts		Actual
	Original	Final	Amounts
REVENUES			
Intergovernmental	$ -	$ -	$ 287,602
Investment earnings	-	-	5,431
Total revenues	-	-	293,033
EXPENDITURES:			
Current:			
General government	1,111,277	1,111,277	4,070
Total expenditures	1,111,277	1,111,277	4,070
Excess expenditures over revenues	(1,111,277)	(1,111,277)	288,963
OTHER FINANCING USES			
Transfers out	-	(135,000)	(100,000)
Total other financing uses	-	(135,000)	(100,000)
Net change in fund balance	$(1,111,277)	$ (1,246,277)	188,963
Fund balance - beginning			1,111,277
Fund balance - ending			$ 1,300,240

See notes to required supplementary information.

FERGUS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012

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 first Thursday in September or within 30 calendar days after 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.

The following funds were overspent: Road ($975,738), Bridge ($15,522), Gas Tax ($30,383) and MCH ($4,441).

OTHER SUPPLEMENTARY INFORMATION

FERGUS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2011	Receipts	Expenditures	Returned to Grantor/ Other	Balance June 30, 2012
U.S. Department of Transportation:								
Direct Program:								
Airport Improvement Program	20.106	DOT-FA12NM-2008	$ 229,050	$ -	$ -	$ 44,348	$ (22,904)	$ (67,252)
Airport Improvement Program	20.106	DOT-FA08NM-2021	97,375	-	5,924	5,833	(91)	-
Airport Improvement Program	20.106	DOT-FA09NM-2020	209,623	-	1,838	12,818	-	(10,980)
Airport Improvement Program	20.106	DOT-FA10NM-2030	294,921	(31,621)	31,621	-	-	-
Airport Improvement Program	20.106	DOT-FA10NM-2054	2,839,083	(18,815)	1,919,598	1,900,783	-	-
Airport Improvement Program	20.106	DOT-FA11NM-2026	132,435	-	118,185	132,435	-	(14,250)
Subtotal				(50,436)	2,077,168	2,096,217	(22,995)	(92,482)
Passed through the Montana Department of Transportation:								
Highway Planning and Construction	20.205	STPE 14(35)	160,357	(44,634)	44,634	-	-	-
Subtotal				(44,634)	44,634	-	-	-
Total U.S. Department of Transportation				(95,070)	2,121,800	2,096,217	(22,995)	(92,482)
U.S. Department of Justice:								
Passed through the Montana Board of Crime Control:								
Crime Victim Assistance	16.575	11-VD1-90995	31,977	-	23,464	31,977	-	(8,513)
Crime Victim Assistance	16.575	10-VD1-90811	31,977	(9,250)	9,250	-	-	-
Total U.S. Department of Justice				(9,250)	32,714	31,977	-	(8,513)
U.S. Department of Homeland Security:								
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Emergency Management Performance Grants	97.042	2010-EP-E0-0015	41,875	(9,820)	9,820	-	-	-
Subtotal				(9,820)	9,820	-	-	-
Disaster Grants-Public Assistance	97.036	FEMA-1996-DR-MT	3,923,683	-	1,605,431	1,296,428	-	309,003
Subtotal				-	1,605,431	1,296,428	-	309,003
Total U.S. Department of Homeland Security				(9,820)	1,615,251	1,296,428	-	309,003
U.S. Department of Health and Human Services:								
Passed through the Montana Department of Public Health and Human Services:								
Maternal and Child Health Services Block Grant to the States	93.994	12-07-5-01-057-0	3,923	-	3,923	3,923	-	-
Maternal and Child Health Services Block Grant to the States	93.994	12-07-5-01-035-0	1,500	-	1,500	1,500	-	-
Maternal and Child Health Services Block Grant to the States	93.994	12-07-5-11-009-0	136	-	136	136	-	-
Maternal and Child Health Services Block Grant to the States	93.994	12-07-5-01-014-0	11,653	-	11,653	11,653	-	-
Subtotal				-	17,212	17,212	-	-
Passed through Montana State University:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	G153-11-W3300	15,000	(3,750)	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	12-07-3-01-092-0	15,000	-	11,250	14,412	(588)	(3,750)
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	12-07-3-01-003-0	51,340	-	36,168	43,819	-	(7,651)
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	11-07-3-01-003-0	51,640	(8,115)	13,476	-	(5,361)	-
Subtotal				(11,865)	64,644	58,231	(5,949)	(11,401)
HIV Prevention Activities-Health Department Based	93.940	09-07-4-51-005-0	4,035	(341)	-	-	341	-
Subtotal				(341)	-	-	341	-
Immunization Grants	93.268	11-07-4-31-055-0	4,680	(1,189)	2,340	1,151	-	-
Immunization Grants	93.268	11-07-4-31-014-0	5,705	(1,136)	2,853	198	(1,521)	-
Immunization Grants	93.268	12-07-4-31-055-0	3,669	-	3,669	2,490	(1,179)	-
Immunization Grants	93.268	12-07-4-31-014-0	2,853	-	2,853	2,093	(760)	-
Subtotal				(2,325)	11,715	5,930	(3,460)	-

FERGUS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2011	Receipts	Expenditures	Returned to Grantor/ Other	Balance June 30, 2012
Public Health Emergency Preparedness	93.069	11-07-6-11-010-0	155,132	(13,914)	69,810	27,103	(28,793)	-
Public Health Emergency Preparedness	93.069	12-07-6-11-010-0	116,349	-	81,444	110,568	(5,781)	(34,905)
Subtotal				(13,914)	151,254	137,671	(34,574)	(34,905)
Preventive Health and Health Services Block Grant	93.991	12-07-5-11-009-0	426	-	426	426	-	-
Subtotal				-	426	426	-	-
Family Planning Services	93.217	12-07-5-11-009-0	33,957	-	32,333	31,589	(2,368)	(1,624)
Subtotal				-	32,333	31,589	(2,368)	(1,624)
Total U.S. Department of Health and Human Services				(28,445)	277,584	251,059	(46,010)	(47,930)
U.S. Department of the Interior:								
Direct Program:								
Bankhead Jones Farm Tenant Act	15.999	N/A	14,567	-	14,567	14,567	-	-
Total U.S. Department of the Interior				-	14,567	14,567	-	-
U.S. Department of Energy:								
Passed through the Montana Department of Environmental Quality:								
ARRA - Energy Efficiency and Conservation Block Grant Program, Recovery Act	81.128	210150	166,153	(164,906)	166,153	1,247	-	-
Total U.S. Department of Energy				(164,906)	166,153	1,247	-	-
U.S. Department of Agriculture:								
Direct Program:								
ARRA - Emergency Watershed Protection Program, Recovery Act	10.923	69-0325-11-049	8,294	-	7,366	7,366	-	-
ARRA - Emergency Watershed Protection Program, Recovery Act	10.923	69-0325-11-048	12,014	-	12,014	12,014	-	-
ARRA - Emergency Watershed Protection Program, Recovery Act	10.923	69-0325-11-047	17,222	-	17,222	17,222	-	-
ARRA - Emergency Watershed Protection Program, Recovery Act	10.923	69-0325-11-046	16,582	-	16,357	16,357	-	-
Subtotal				-	52,959	52,959	-	-
Passed through the Montana Department of Natural Resources and Conservation:								
Cooperative Forestry Assistance	10.664	VFA-11-140	20,000	-	16,194	8,838	(7,356)	-
Cooperative Forestry Assistance	10.664	VFA-12-140	9,000	-	-	9,000	-	(9,000)
Subtotal				-	16,194	17,838	(7,356)	(9,000)
Passed through Montana State Auditor's Office:								
Secure Payments for States and Counties Containing Federal Lands	10.665	N/A	59,163	-	59,163	59,163	-	-
Subtotal				-	59,163	59,163	-	-
Total pass-though programs				-	75,357	77,001	(7,356)	(9,000)
Total U.S. Department of Agriculture				-	128,316	129,960	(7,356)	(9,000)
Total Federal Awards				$ (307,491)	$ 4,356,385	$ 3,821,455	$ (76,361)	$ 151,078

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

2011-12. ALL MAJOR FEDERAL PROGRAMS

Criteria: The auditors 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: We did 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: We are a small organization with limited resources.

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

Recommendation: The auditors recommended that we continue to read our draft financial statements and SEFA and ensure the quality of the document and the preparer.

Current Status: This finding is repeated in the schedule of findings and questioned costs.

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 auditors recommended that we continue to evaluate our segregation of duties and when possible assign tasks to strengthen controls.

Current Status: This finding is repeated in the schedule of findings and questioned costs.

OLNESS & ASSOCIATES, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2012, which collectively comprise the government's basic financial statements and have issued our report thereon dated February 21, 2013. The report on the governmental activities, the road fund and aggregate remaining fund information was qualified because we did observe year-end inventories and because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Also, the report on the road fund and aggregate remaining fund information was qualified because of inadequacies in the government's accounting records related to the classification of federal and state emergency disaster revenue (intergovernmental) between funds. Also, the report on governmental activities, the business-type activities and proprietary funds (excluding the hospital nursing home fund) was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense. Except as discussed in the second and third sentences, 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

Management of the government is responsible for establishing and maintaining effective 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 opinions 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 2012-1 through 2012-5, 2012-8 and 2012-9.

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 2012-6 and 2012-7)

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 2012-7 through 2012-9.

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

February 21, 2013

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

To the Board of County Commissioners
Fergus County
Lewistown, Montana

Compliance

We have audited Fergus County, Montana's (the government) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the government's major federal programs for the year ended June 30, 2012. 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 2012-11 in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding allowable costs/cost principles and procurement, suspension and debarment that are applicable to its Disaster Grants-Public Assistance program. Compliance with such requirements is necessary, in our opinion, for the government to comply with requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the government did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the Disaster Grants-Public Assistance program. Also, in our opinion, the government complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its other major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-10 and 2012-11 to be material weaknesses.

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

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

Olness & Associates, PC

February 21, 2013

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:

Adverse: Disaster Grants Public Assistance
Unqualified: Airport Improvement Program

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:

CFDA Numbers	*Name of Federal Program or Cluster*
97.036	Disaster Grants Public Assistance
20.106	Airport Improvement Program

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

2012-1. 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.

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

2012-2. 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, 2012.

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.

2012-3. 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.

2012-4. JUSTICE OF THE PEACE TIME PAY ACCOUNTING

Criteria: A reconciliation of 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.

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.

2012-5. COUNTY FAIR

Criteria: Effective internal control requires adopting and adhering to formal accounting policies and procedures for the overall operation of the fair and fairgrounds.

Condition: The fairgrounds does not have written formal accounting policies and procedures for the overall operation of the fair and fairgrounds.

Cause: Unknown.

Effect: Internal 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 certify that they understand and agree to adhere to the established procedures.

2012-6. DEPARTMENT HEAD TIMESHEETS

Criteria: Effective internal control dictates that department head timesheets are reviewed and signed by a County Commissioner.

Condition: Department head timesheets are reviewed by a County Commissioners; however, there is no indication of the review and approval of the hours worked.

Cause: Unknown.

Effect: Internal control is weakened.

Recommendation: A County Commissioner should sign each of the department head's timesheet indicating review and approval of hours worked.

2012-7. EXPENDITURES LIMITED TO APPROPRIATIONS

Criteria: Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund. (MCA 7-6-4005)

Condition: The following funds were overspent: Road ($975,738), Bridge ($15,522), Gas Tax ($30,383) and MCH ($4,441).

Cause: Unknown.

Effect: Noncompliance with laws and regulations.

Recommendation: Procedures should be developed to monitor budget to actual results. If necessary, budget amendments should be developed, approved and posted to the accounting records.

2011-8. COMPETITIVE BIDDING

Criteria: For category C (non-emergent) projects, grant terms and conditions require the county to follow its internal procurement guidelines and state procurement laws when purchasing goods and/or contracting for services. Per Section 7-5-2301, MCA, 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.

Condition: The County purchased gravel and riprap, contracted for the repair and replacement of the Grass Range bridge and contracted for other FEMA project repairs where the total, for each individual purchase, was in excess of $50,000. The County did not formally bid these purchases in accordance with Section 7-5-2301, MCA.

Questioned Costs: None

Cause: Unknown

Effect: Non-compliance with program terms and conditions and state law.

Recommendation: In future category C (non-emergent) projects, the County should follow its own procurement guidelines and state procurement laws when contracting for goods and services.

2012-9. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT

Criteria: Per OMB Circular A-87, *COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS,* to be allowable under Federal awards, costs must meet certain general criteria (A-87, Attachment A, paragraph C.1). One of the general criteria is that all items claimed as a cost must be adequately documented.

Condition: We selected 17 of the 85 completed FEMA approved Project Worksheets (PW's) for review, which constitutes approximately 20 percent of the total project worksheets and 70 percent of the total completed program dollars. For all PW's reviewed, the FEMA recommended forms or equivalent worksheets and supporting documentation required to be included in the project files were either not present and/or were not complete.

Questioned Costs: $1,296,428.

Cause: Unknown.

Effect: Non-compliance with program terms and conditions.

Recommendation: The FEMA recommended forms or equivalent worksheets should be fully completed and supported by employee timesheets, vendor/contractor invoices and other adequate documentation for all PW's.

Criteria: Per OMB Circular A-87, *COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS,* the total cost of Federal awards is comprised of the allowable direct costs of the program. Direct costs are those that can be identified specifically with a particular final cost objective.

Condition: Program expenditures were not separately identified in the general ledger for the PW's and specific PW's were not always separately identified on employee day sheets. Additionally, because expenditures were not separately identified in the general ledger, we could determine if the federal and state disaster grant funds were recorded in the correct fund.

Questioned Costs: None.

Cause: Unknown.

Effect: Non-compliance with program terms and conditions and OMB Circular A-87.

Recommendation: Grant program expenditures should be separately identified in the general ledger. By separately identifying expenditures in the general ledger, revenue can also be recorded correctly in each fund. Additionally, employee time should be separately identified on employee day sheets.

Criteria: OMB Circular A-133 requires that when a non-federal entity (the County) enters into a transaction of any value equal to or exceeding $25,000 with a contractor or individual, the County must verify that the contractor or individual is not suspended or debarred or otherwise excluded from participation in the federal program.

Condition: The County did not verify the eligibility for participation in the federal program for the contractors or individuals on the Disaster Grants-Public Assistance program.

Questioned Costs: None

Cause: Unknown

Effect: Non-compliance with program terms and conditions

Recommendation: The County should develop a process to verify that contractors or individuals are not suspended or debarred or otherwise excluded from participation in the federal program. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the contractor or individual, or adding a clause or condition to the contract with the contractor or individual.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-10. ALL MAJOR FEDERAL PROGRAMS

Findings 2012-1 and 2012-3 apply to these federal award programs.

U.S. DEPARTMENT OF HOMELAND SECURITY:

2012-11. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT

Findings 2012-8 and 2012-9 apply to this federal award program.

FERGUS
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

PRIOR YEAR FINANCIAL STATEMENT FINDINGS	STATUS
2011-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2011-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2011-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2011-4. JUSTICE OF THE PEACE TIME PAY ACCOUNTING	NOT IMPLEMENTED
2011-5. COUNTY FAIR	NOT IMPLEMENTED
2011-6. DEVELOP PROCEDURES TO ENSURE TIMELY PAYROLL TAX DEPOSITS	IMPLEMENTED
2011-7. GRANT MANAGEMENT	IMPLEMENTED
2011-8. RECONCILE PAYROLL WAGE BASES	IMPLEMENTED
2011-9. CLAIMS PROCESSING	IMPLEMENTED
2011-10. STATE PREVAILING WAGE RATES	IMPLEMENTED
2011-11. COMPETITIVE BIDDING	NOT IMPLEMENTED

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