

SWEET GRASS COUNTY, MONTANA

Fiscal Year Ended June 30, 2011

**AUDIT REPORT**

**Denning, Downey & Associates, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

# SWEET GRASS COUNTY, MONTANA

Fiscal Year Ended June 30, 2011

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SWEET GRASS COUNTY, MONTANA

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SWEET GRASS COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2011

**BOARD OF COUNTY COMMISSIONERS**

Susan Mosness  
Rick Reed  
Bill Wallace

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Pat Dringman  
Jane Stene  
Sherry Bjorndal  
Deanna Novotney  
Jessie McKenney  
Susan Metcalf  
Dan Tronrud

County Attorney  
Treasurer  
Clerk and Recorder  
Clerk of District Clerk  
Justice of the Peace  
School Superintendent  
Sheriff

**Sweet Grass County, Montana**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2011**

As management of Sweet Grass County (the County), we offer readers of Sweet Grass County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year (FY) ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished with our letter of transmittal.

**Financial Highlights**

The total net assets from the governmental activities of Sweet Grass County at the close of the fiscal year ending June 30, 2011 were \$11,633,726. Total net assets have a variety of components. One is capital assets, net of related debt, at \$6,327,301. Capital assets are buildings, land, machinery and equipment, and infrastructure valued in excess of five thousand dollars. All capital assets, with the exception of land, are depreciated using straight line depreciation based on the life span of the asset. Capital assets are 54% of the total net asset figure. Long term debt is also a component of net assets. It amounts to \$640,757. Of that amount \$165,801 is debt related to capital assets. The remaining \$312,174 is to report Other Post-Employment Benefits (OPEB). OPEB is discussed in Government-Wide Financial Statements: *Statement of Net Assets*. The next component in total net assets is the unrestricted assets at \$1,506,205. Unrestricted assets are, for the most part, made up of actual cash. It can be used to meet the general government's ongoing obligations to its citizens and creditors. These unrestricted assets are found primarily in the general fund and PILT; which is an acronym for "payment in lieu of taxes". It is a yearly payment from the federal government to pay a modified amount for the taxes that they would owe on land owned in our county. The remaining \$3,800,220 is restricted in its usage. It is used by funds whose resources are designated by law, contractual agreement or administrative regulation and does not allow for the money to be used for any other purpose than what it is designated for. For example the road fund contains restricted assets. The county levies taxes specifically to be used to repair and maintain county roads. In addition the road fund receives federal funding that restricts its usage. The road fund has net assets totaling \$609,077. This amount is comprised of cash on hand (\$288,073), taxes receivable (\$23,689) and inventory (\$331,846 for gravel and culverts). The road department does have equipment but for accounting purposes it is accounted for separately and en mass with all other county capital assets. Current liabilities at the end of the fiscal year for the road fund included accrued payroll (\$10,842) and deferred tax revenue (\$23,689). In modified accrual accounting deferred revenue is considered measurable but not available and, therefore, reduces the amount of the assets.

Sweet Grass County operates a medical facility, Pioneer Medical Center (the PMC). This facility is a combined nursing home, medical clinic, assisted living facility, critical-access hospital and ambulance service. The PMC operates with administrative assistance from Billings Clinic, Billings, MT. Billings Clinic provides management and accounting services and a chief executive officer. The PMC is accounted for on the county's books as a business-type activity (proprietary or enterprise fund). For FY11 PMC assets exceeded its liabilities by \$2,361,801. Pioneer Medical Center has \$1,260,607 in unrestricted assets. Unrestricted assets may be used by the PMC to meet ongoing obligations to our citizens and its creditors. There is \$255,137 in restricted assets. Restricted assets are the cash reserves required to be held for the bond debt and are part of the bond agreements. The PMC is currently operating with a 5-year county-wide 25

mill tax levy, voted on in the spring of 2009 and going into effect for real estate taxes billed out the following November. The levy was voted on in FY09 but not effective until FY10. At the end of FY10, a previously voted on 25 mill levy, would sunset. By having two voted levies in one year there was an extra inflow of cash allowing the PMC to get back on its feet after several years of a declining economy had left them financially strapped. In FY14, with the billing of real estate taxes in November 2013, the mill levy will come to an end. With the added tax dollars and changes in the management of the Pioneer Medical Center, the facility has found itself back on solid footing.

Sweet Grass County is home to Stillwater Mining Company - East Boulder Mine (SMC). The company mines two ores: platinum and palladium. SMC real estate and gross proceed taxes comprise 38% of the total real estate taxes collected by Sweet Grass County. This gives the mine the distinction of being our number one taxpayer in the County

### **Overview of the Financial Statements: What They Are and How to Read Them**

This discussion and analysis are intended to serve as a narrative introduction to Sweet Grass County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Sweet Grass County's finances in a manner similar to a private-sector business. The governmental unit is on a cash basis of accounting throughout the year. At the end of the fiscal year, for reporting purposes only, we convert our books to a modified accrual system.

The *statement of net assets* presents information on all Sweet Grass County assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Sweet Grass County is improving or deteriorating.

The Governmental Accounting Standards Board (GASB) issued Statement 45, "Postemployment Benefits Other than Pension Benefits" (GASB 45). The following excerpt is from frequently asked questions regarding OPEB issued by the State of Montana Local Government Services.

*"OPEB stands for "Other Postemployment Benefits", defined as benefits that an employer offers to retirees as compensation for past services. OPEB includes postemployment healthcare benefits (such as medical, dental, vision, hearing), but may, under certain circumstances, also include other benefits such as life, disability and long term care insurance. The cost of these benefits is generally financed by an employer on a "pay-as-you-go" basis, rather than being advance-funded.*

*Governmental Accounting Standards Board (GASB) Statement 45 (Postemployment Benefits Other than Pension Benefits) requires the cost of OPEB to be recognized (accrued as an expense and liability) in the accounting period in which it is earned (during an employee's active service), rather than when paid (after the employee has retired). GASB 45 does NOT require that OPEB liability be advance-funded. You may continue to pay for OPEB on a "pay-as-you-go" basis."*

***Our government does not offer any benefits to our retirees, other than the benefit of remaining on our group health insurance plan (which is required by State law – MCA 2-18-704). The retiree must pay his/her full premium if he/she elects this benefit. Do we have any OPEB that we need to recognize?***

*A: IT DEPENDS:*

*NO – if your government uses a fully age-adjusted premium for retirees that covers the entire cost of retiree healthcare.*

*YES - if your government uses a single “common” or “blended” premium for both active and retired employees, OR if the premium that is used for retired employees is not fully age-adjusted to cover the entire cost of retiree healthcare. Because healthcare costs tend to increase significantly with age, these situations result in a premium that is higher than the cost of coverage for active employees and lower than the cost of coverage for retirees. This “implicit rate subsidy” that is built into the active employee’s healthcare premium has nothing to do with the active employee and should not be treated as part of an active employee’s healthcare costs. An “implicit rate subsidy” is OPEB and should be recognized as an expense (and liability) when it is earned, not when it is paid.*

Sweet Grass County allows its retirees to stay on the health insurance policy but is not charged an age-related premium thus creating the implicit rate subsidy. The County contracted with Actuaries Northwest to prepare the actuarial valuation for both the county and the PMC. The liability is reported in the *Statement of Net Assets Noncurrent portion of long term liabilities*. A copy of the actuarial report is available in the Sweet Grass County Finance Office.

The *statement of activities* presents information showing how the governments’ net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected taxes and earned but unused vacation time). In modified accrual accounting we recognize revenues when they are earned (due to us) and expenditures when they are incurred. In a cash basis accounting system you record revenues when you receive them and expenditures when you pay them.

Both of the government-wide financial statements distinguish functions of Sweet Grass County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Sweet Grass County include most of the County’s basic services – general administration, public safety, roads and bridges, cemetery, fair, extension service and planning. The only business-type activity for Sweet Grass County is the Pioneer Medical Center.

The government-wide financial statements are also included in this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. A less technical explanation uses our previous example with the road department. It is a fund in our accounting system (fund number 2110). Within it are numerous account codes to record revenues, expenditures, assets and liabilities for just the road fund. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with Montana Code Annotated finance-related legal requirements and to adhere to Generally Accepted Accounting Principles (GAAP). The funds we use can be divided into three categories: governmental, proprietary, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The governmental funds report separates out funds considered "major" from all others. A major fund is one whose assets and liabilities exceed a percentage of the total assets and liabilities. The general fund is always a major fund.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare information presented for *governmental funds* with the similar information presented for *governmental activities* in the government-wide financial statements. By doing so readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Road, Law Enforcement, and Released Metal Mine Trust as these funds is major funds in FY11. Data from the remaining funds are combined into a single, aggregated presentation. Sweet Grass County maintains approximately 60 individual non-major governmental funds.

The Governmental Accounting Standards Board (GASB) issued Statement 54 titled "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54), effective for periods beginning after June 15, 2010. Fund balance is defined as the net worth of the governmental entity. It is basically assets minus liabilities. In private enterprise it can be compared to owners' equity.

What does GASB 54 mean when you read this report? It changes how fund balance is reported. It does not change the total amount of fund balance. GASB wrote the new rule to provide you, the reader, with a clearer vision of what county fund balances were available for. Prior to passage of this rule fund balance fell in one of two categories: reserved and unreserved. Unreserved had no specific usage (general fund); reserved had a designated usage (road fund). GASB 54 now provides for five classifications of fund balance: nonspendable, restricted, committed, assigned and unassigned. Definitions for each are:



- Non-spendable: not in a spendable form, i.e. inventory or permanent endowments where the principal may never be spent
- Restricted: subject to external legal restrictions, set by a party outside of the local government and with the authority to do so, i.e. written in Montana State Law, imposed by creditors
- Committed: constraint of these funds is placed by Board of County Commissioners (BOCC) by resolution and commitment can only be removed by resolution by BOCC
- Assigned: intended for a specific use, not as formal a process, notes can be found in BOCC minutes for intent of this fund balance
- Unassigned: available for any purpose, normally only the general fund, but in our case it also includes PILT

With Sweet Grass County's implementation of GASB 54 in FY 2011, the PILT fund is combined with the general fund for reporting purposes only. While it may appear in these reports that the general fund has an excessive amount of assets it should be remembered that it is combined with PILT for reporting purposes only. This has no effect on the number of mills required to be levied for the general fund. PILT funds do not have specified use and as such GASB 54 requires they be rolled into other funds with unassigned fund balance. The general running of the government, which is what occurs in the general fund, is not considered a specific use. Historically the commissioners have always treated PILT as a "savings" account for the County. There have been many events over the years, including the recent floods and fires, where PILT money has been available to assist the County in getting through the disaster.

**Proprietary funds.** Sweet Grass County maintains one proprietary fund (enterprise fund). Enterprise funds are used to report business-type activities in the government wide financial statements. The County uses an enterprise fund to account for the activities of the Pioneer Medical Center. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. GASB 54 does not apply to proprietary funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the County. An example would be the public schools in the County. The schools are county entities but are governed by their own boards and maintain their own accounting systems. The County's role with the schools is to act as their "bank"; holding and investing their money, clearing their checks but not controlling how it is spent, again, those are board decisions. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Sweet Grass County's own programs. GASB 54 does not apply to fiduciary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential for a more complete understanding of the data provided in this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also contains certain *Required Supplementary Information* (RSI).

## THE COUNTY AS A WHOLE

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of Sweet Grass County governmental fund types, assets exceeded liabilities by \$11,633,726 June 30, 2011 as compared to \$10,980,128 June 30, 2010; an increase of \$653,598.

A little over half of Sweet Grass County’s net assets, approximately 54%, reflect its investment in capital assets. The County uses these capital assets to provide services to citizens; consequently the assets are not available for future spending. Although the County’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. Debt related to the capital assets is \$165,801. Total debt is \$640,757. This includes the OPEB liability of \$312,174.

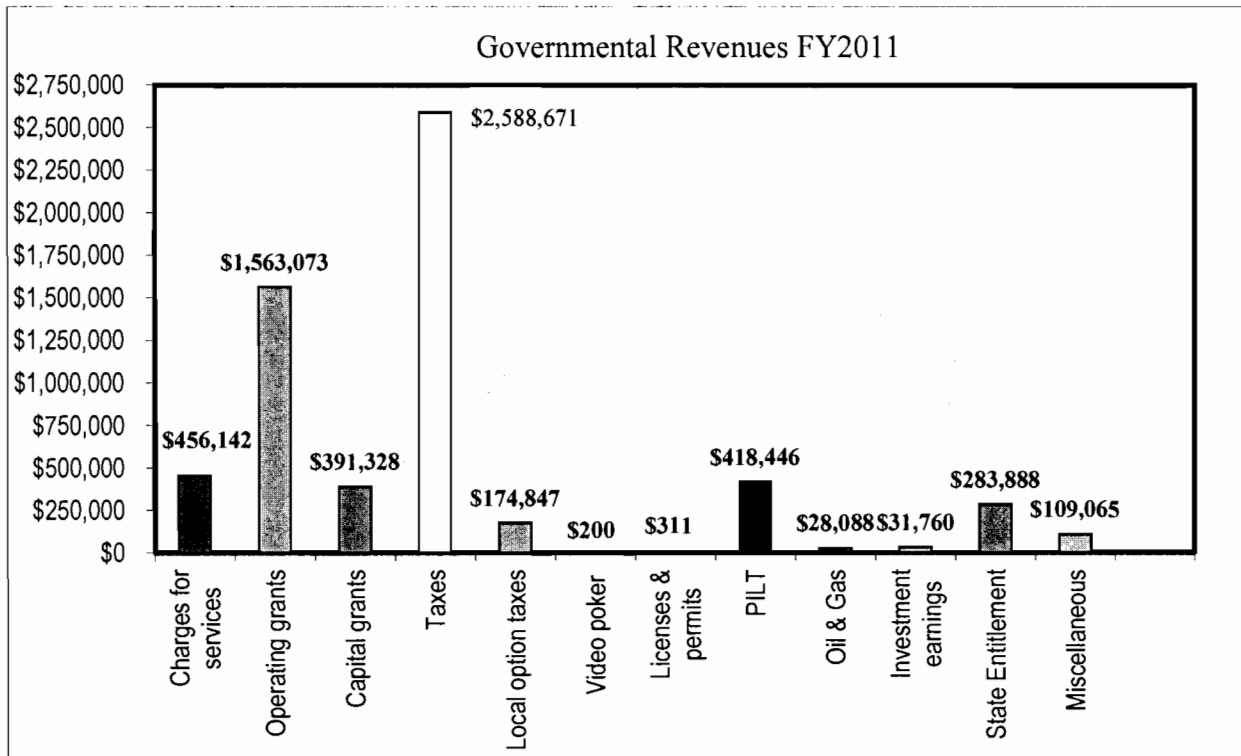
SWEET GRASS COUNTY  
Net Assets

	Governmental Activities			Business-type Activities (PMC)		
	<u>2011</u>	<u>2010</u>	<u>change between 2010 &amp; 2011</u>	<u>2011</u>	<u>2010</u>	<u>change between 2010 &amp; 2011</u>
Current & other assets	\$ 5,910,855	\$ 6,113,813	\$ (202,958)	\$ 2,552,970	\$ 2,524,537	\$ 28,433
Capital assets	\$ 6,493,102	\$ 5,527,957	\$ 965,145	\$ 2,667,895	\$ 2,594,556	\$ 73,339
<b>Total assets</b>	<b>\$12,403,957</b>	<b>\$11,641,770</b>	<b>\$ 762,187</b>	<b>\$ 5,220,865</b>	<b>\$ 5,119,093</b>	<b>\$ 101,772</b>
Long-term debt outstanding	\$ 640,757	\$ 437,887	\$ 202,870	\$ 2,545,701	\$ 2,300,563	\$ 245,138
Other liabilities	\$ 129,474	\$ 223,755	\$ (94,281)	\$ 313,363	\$ 451,422	\$ (138,059)
<b>Total liabilities</b>	<b>\$ 770,231</b>	<b>\$ 661,642</b>	<b>\$ 108,589</b>	<b>\$ 2,859,064</b>	<b>\$2,751,985</b>	<b>\$ 107,079</b>
Invested in capital assets (net of debt)	\$ 6,327,301	\$ 5,273,247	\$ 1,054,054	\$ 846,057	\$ 634,009	\$ 212,048
Restricted	\$ 3,800,220	\$ 3,930,229	\$ (130,009)	\$ 255,137	\$ 248,635	\$ 6,502
Unrestricted	\$ 1,506,205	\$ 1,776,652	\$ (270,447)	\$ 1,260,607	\$1,484,464	\$ (223,857)
<b>Total net assets</b>	<b>\$11,633,726</b>	<b>\$10,980,128</b>	<b>\$ 653,598</b>	<b>\$ 2,361,801</b>	<b>\$2,367,108</b>	<b>\$ (5307)</b>

At the end of FY 2011, Sweet Grass County is able to report positive balances in all three categories of net assets (current, noncurrent and net), both for the government as a whole, as well as for its separate governmental and business-type activities.

From the Net Assets table it can be seen that Sweet Grass County’s restricted net assets of \$3,800,220 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets in the amount of \$1,506,205 are the county general fund and PILT. As we discussed earlier, these funds have few restrictions on how they can be spent and are meant for the overall running of the local government.

The PMC has 51% of its net assets invested in net capital assets (buildings and machinery less accumulated depreciation and related debt balances). A small percentage (11%) of PMC net assets are restricted by bond agreements. PMC assets exceeded its liabilities by \$2,361,801. A memorial fund is accounted for on County books but is for the benefit of the PMC. The money comes from donations, grants and interest earned. It is overseen by a board of directors who determine what it will be spent on (unless the use has been restricted by the donor). Cash balance in the memorial fund at the end of FY11 was \$477,533.



Revenues	Governmental Activities		Change Inc (Dec)	% Change	Govt Act #
	FY11	FY10			
<i>Program revenues (by major source):</i>					
Charges for services	\$ 456,142	\$405,631	\$ 50,511	12.45%	
Operating grants and contributions	1,563,073	929,519	633,554	68.16%	1
Capital grants and contributions	391,328	1,169,663	(778,335)	(66.54)%	2
<i>General revenues (by major source):</i>					
Property taxes for general purposes	2,588,671	2,901,705	(313,034)	(10.79)%	3
Local option tax	174,847	160,711	14,136	8.8%	
Video poker apportionment	200	2,625	(2,425)	(92.38)%	4
Personal property tax reimbursement	-	4,200	(4,200)	100%	5
Miscellaneous	109,065	46,480	62,585	134.65%	6
Interest/investment earnings	46,342	45,498	844	1.86%	
Montana oil and gas production tax	28,088	-	28,088	100.00%	7
PILT (reported in property taxes for gen purposes fy 10)	403,864	-	403,864	100.00%	8
Grants and entitlements not restricted	283,888	317,485	(33,597)	(10.58)%	
Licenses and permits	311	349	(38)	(10.89)%	
Planning fees	-	15,000	(15,000)	(100)%	
<b>Total revenues</b>	<b>\$ 6,045,819</b>	<b>\$5,998,866</b>	<b>\$ 46,953</b>		

<b>Program expenses</b>						
General government	\$	1,563,617	\$1,410,687	\$152,930	10.84%	
Public safety		1,413,758	1,263,615	150,143	11.88%	
Public works		1,525,521	1,341,675	183,846	13.7%	
Public health		422,733	345,697	77,036	22.28%	
Social and economic services		61,439	59,561	1,878	3.15%	
Culture and recreation		110,562	93,034	17,528	18.84%	
Housing and community						
development		117,250	17,330	99,920	576.57%	1
Debt service - interest		4,211	2,927	1,284	43.87%	2
Miscellaneous		<u>38,321</u>	<u>409,611</u>	<u>(371,290)</u>	(90.64)%	3
<b>Total expenses</b>		<b>\$5,257,412</b>	<b>\$4,944,137</b>	<b>\$ 313,275</b>		
Excess (deficiency) before						
special items and transfers	\$	788,407	\$1,054,729	\$(266,322)		
Gain (loss) on sale of capital assets	\$	-	\$ (7,700)	\$ 7,700		
Transfers - net	\$	-	\$ (3,059)	\$ 3,059		
<b>Increase (decrease) in net assets</b>	\$	<b>788,407</b>	<b>\$1,043,970</b>	<b>\$(255,563)</b>		

Explanations for any percentage change over 20% follows this chart.

**Governmental Activities.** Governmental activities increased Sweet Grass County net assets by \$788,407.

Changes in revenues that require further explanation are as follows:

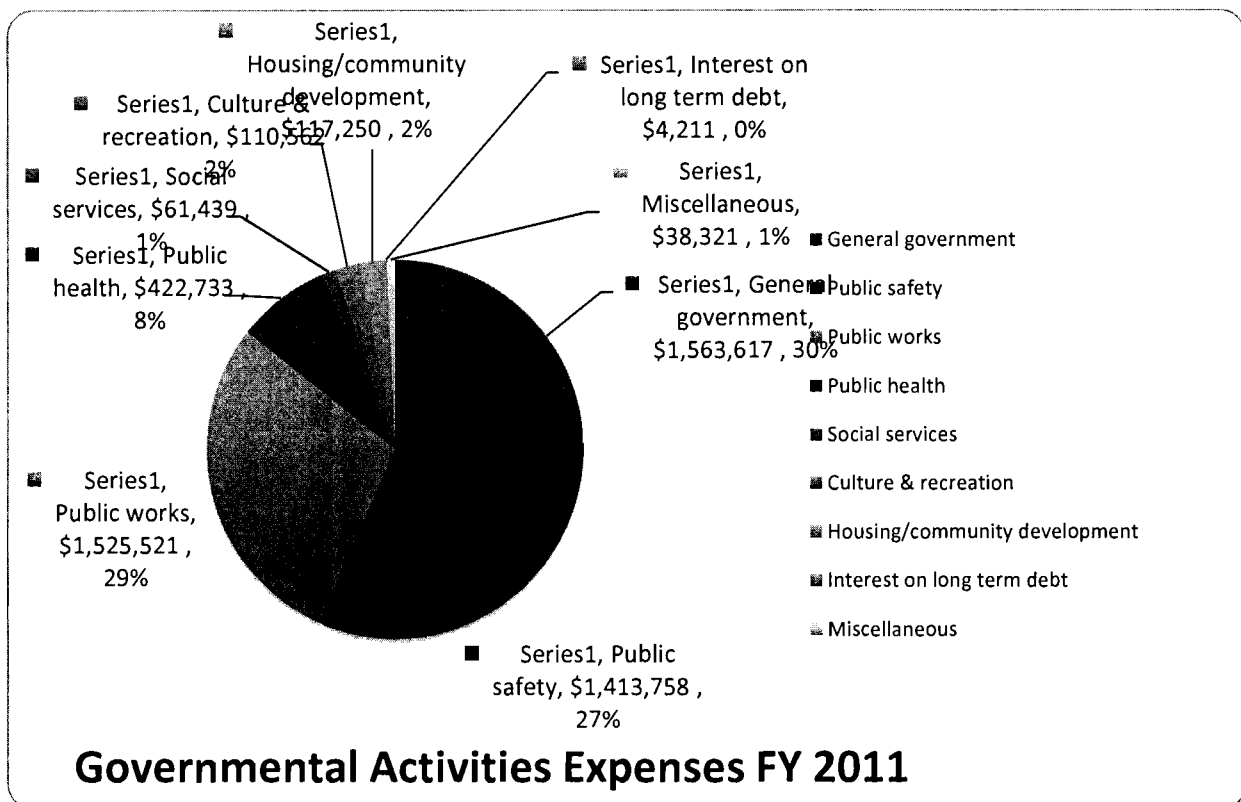
1. A. Operating grants increased from FY10 to FY11 by 40.53%
  - The Pioneer Medical center received \$122,703 in Stimulus funds for new equipment at the PMC. All grant funds for the PMC are accounted for in the memorial fund (fund 2700).
  - Funding from the State of Montana Department of Natural Resources for spraying weeds on fire damaged ground was incorrectly recorded as grant revenue. It should be a charge for services. The net of the entry was a wash. We paid for \$45,000 of spraying and received \$45,000 to reimburse us for the spraying.
  - An increase in platinum and palladium prices has provided us with an increase to both our metal mines trust account (fund 2895) and the economic and development fund (fund 2860) which is the portion the county is allowed to retain and use immediately. The trust account remains intact until an economic downturn creates a trigger and then it is released from the trust.
  - An operating grant for the fuels reduction team increased by 66%. This was caused by the team having good weather and being able to cut dead trees to help prevent future fires.
  - An operating grant was received through State Department of Disaster and Emergency Services to update the County Emergency Operations Plan.
  - A major flood occurred in the County in May 2011. A due from other governments was recorded (fund 2958) in the amount of \$16,812 for disaster aid to be received from the FEMA in FY12
  - The County received a 2010 Homeland Security Grant to build a communications tower (courthouse tower). Expenditures had been made at the end of FY11 but the reimbursement had not been received. A due from other governments was recorded in the amount of \$42,604 in fund 2999.

- B. Operating grant revenues also decreased in several areas.
- Federal Mineral Royalty money (fund 2894) decreased from \$30,250 in FY10 to just \$2,765 in FY11. Historically these collections tend to stay between \$500 and \$2000. There was no explanation given for the increase in FY10 or reduction in FY11 but most counties in Montana had similar experience.
  - A pre-disaster mitigation operating grant ended in FY 2010, decreasing the revenue in fund 2957 by \$9,267.
  - A bullet proof vest grant was not requested for FY11.
  - The NRCS weed grant had its funding decreased in FY11 (fund 2846).
2. A. Capital grants decreased by 199% between FY10 and FY11. In FY10 we received several large capital grants.
- Disaster and Emergency Services had a FY10 grant to build a communications tower that was completed (decrease of \$306,000). (Greycliff tower)
  - The airport was finished up the runway and wildlife fence projects in FY11 but also started and completed a weather system. The installation was paid for with an FAA grant. The net between the two left a decrease of grant money between this fiscal year and last fiscal year of \$115,000.
  - A bank stabilization grant to study how to control the eroding of a road by the Yellowstone River was close to being completed in FY11.
- B. There was also an increase in capital grants in FY11.
- ✓ An energy grant was received and spent in FY11. It was used to purchase energy efficient lighting for the courthouse and to purchase windows and lighting for the annex remodel. This grant was for \$112,853 (fund 2930)
3. Property tax collections appear to have decreased in FY11 by 12%; however, they did not decrease. A change was made in the way revenue is being reported. PILT had been reported as part of tax revenue in FY10 but was pulled out and reported on its own (\$418,446) in FY11. Oil and gas proceeds had been reported in tax revenue in past years and corrected and receipted into the appropriate revenue code in FY11.
4. Video poker receipts took a nose dive in FY11. They decreased by 1200% due to the fact that there is just one establishment in the county that has video poker machines and it was closed for most of FY11. It has since re-opened so this revenue should increase again for FY12. The county only receives the video poker machine apportionment for machines outside city limits. The city receives the receipts for all machines within the city limits.
5. Personal property tax reimbursement from the State of Montana ended in FY10.
6. A. Miscellaneous revenues in numerous county funds increased from FY10 to FY11.
- Insect sales in the weed fund (2140) went from \$100 in FY10 to \$5000 in FY11.
  - Rents at the fairgrounds for the rodeo grounds and the pavilion increased from \$3957 FY10 to \$6190 FY11.
  - Miscellaneous revenue for the fire department (2340) increased by \$3422 in FY11. Miscellaneous revenue in the fire department has been derived from taking our trucks and equipment to fires in other areas. We are paid an hourly rate for the use of the trucks.
  - Donations to the sheriff posse and the fire department also increased in FY11. Posse donations increased from \$2500 in FY10 to \$4493 in FY11. Fire

department donations (2730) increased from \$54,608 in FY10 to \$86,292 in FY11.

B. Miscellaneous revenues decreased in several funds.

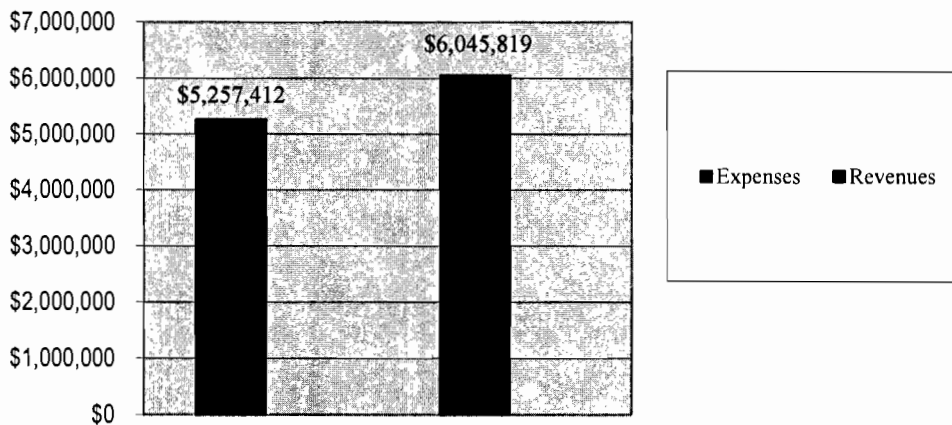
- Rents were down in the general fund by \$6600. This was the yearly rent from alcohol rehab (2800) that is made once a year. The entry did not get made in FY11. In FY12 rent has been paid for both FY11 and FY12.
  - The fire hall for McLeod fire department (2731) was completed and donations went down from \$19,449 in FY10 to just \$2731 in FY11.
  - A change in accounting procedures caused justice court trust account (2740) to decrease its revenues from \$57,518 in FY10 to just \$6227 in FY11. This trust account is held on the county books for the benefit of justice court. They have a bank account to deposit and write checks for justice court business (but not its operating costs which are processed through the county claims process). The funds in this trust are not available for general county use and the decision was made by the commissioners and finance officer to adjust the trust on a yearly basis to reflect the June 30th bank statement balance.
  - The final significant change to miscellaneous revenue was the community events center fund (2790). Donations in FY10 had been \$198,066 and in FY11 were \$23,805. The events center fund was set up to receive donations to re-build a building that was donated to the county.
7. Oil and Gas production tax had been receipted into an incorrect revenue account in past years. We began accounting for it in the correct revenue code in FY 2011. In previous years it had been reported in the property tax revenue.
  8. In previous years PILT revenue has been reported in general property tax revenue. With the implementation of GASB 54 unassigned revenues were broken out for easier recognition. Thus the \$403,864 is the amount the county received in FY11 from the federal government for payment in lieu of taxes.



Expenditures increased in almost all county programs. Increases ranged from 3% to 85% and a decrease in one fund of -989%.

- General Government (commissioners, treasurer, finance office, justice court, county attorney, district court, etc...) increased 9.78%
- Public Safety (law enforcement, fire department) increased 10.62%
- Public Works (road, bridge, weed, cemetery) increased 12.05%
- Public Health (sanitarian, mental health, alcohol rehab, memorial fund) increased 18.22%
- Social and Economic Services (extension office) increased 3.06%
- Culture and Recreation (fair, library) increased 15.85%
- Housing and Community Development (metal mines trust for planning and economic development, capital improvement planning) increased 85.22%. The entire cash balance in planning capital improvement was used in the remodel of the annex for the planning department.
- Debt Service – Interest increased 30.49% due to a new loan in the road and bridge departments for a grader, skidsteer and mower.
- Miscellaneous expenditures decreased 989% or by \$371,290 between FY10 and FY11. This can be attributed to one fund – 2705 Released Metal Mine Trust Account. Stillwater Mining Company reached an economic trigger point in early 2010 that required the trust account money to be released to the affected entities. Affected entities were Sweet Grass County, Sweet Grass County High School, Big Timber Grade School, Greycliff Rural School and McLeod Rural School. The County waited several months for a ruling from the Montana State Attorney General’s office before releasing the money to the schools. The ruling was to clarify what the distribution to the schools was based on. We felt it was the tax-based sharing percentage but other counties did not believe it should be that. In the end we quit waiting for a ruling and released the money based on tax-based sharing. Later, when the opinion came out, it was consistent with what we had done. The \$370,00 was the total expensed to the four schools.

### Revenue and Expenses Government Activities FY 2011



**Sweet Grass County  
Change in Net Assets  
Business-type Activities (PMC)**

	<u>2011</u>	<u>2010</u>	<u>Change from FY10 to FY11</u>	<u>% Change</u>
<b>REVENUES</b>				
Charges for services/fines/fees	\$ 7,055,924	\$ 6,976,867	\$ 88,012	1.15%
Taxes	406,636	867,031	(406,395)	(53.10%)
Miscellaneous	7,145	-	7,145	100%
Interest earnings	18,368	9,070	9,298	102.51%
Unrestricted grants	810	-	810	100%
Total revenues	<u>\$ 7,496,838</u>	<u>\$ 7,851,968</u>	<u>\$ (355,130)</u>	
<b>EXPENSES</b>				
PMC/Ambulance	<u>\$ 7,276,746</u>	<u>\$ 7,035,553</u>	<u>\$ 241,193</u>	3.43%
Total expenses	<u>\$ 7,276,746</u>	<u>\$ 7,035,553</u>	<u>\$ 241,193</u>	
Excess/def before special items	\$ 212,137	\$ 816,415	\$ (596,323)	
Gain/loss on sale of assets	-	(322)	322	
Tranfers – net	-	3,059	(3,059)	
Inc/dec net assets	<u>\$ 212,137</u>	<u>\$ 816,093</u>	<u>\$ (596,001)</u>	

**CHANGES IN ENTERPRISE FUND NET ASSETS**

Changes in PMC revenues that require further explanation are as follows:

1. In FY10 the PMC was collecting 2 – 25 mill levies, in FY11 it returned to one levy of 25 mills, causing a significant reduction in taxes collected. Interest income was higher with the additional influx of cash.
2. Interest income increased significantly with the change in cash. At the beginning of FY10 the PMC cash abalance was \$147,000. It ended the year at \$1.3mil and has consistently kept that cash ba;ance throughout FY11, thus resulting uin more interest being earned.

**THE COUNTY’S FUNDS**

**Governmental funds.**

As of June 30, 2011 Sweet Grass County’s governmental funds reported a combined fund balances of \$5,632,687. There was a small decrease of -\$10,350 from the previous fiscal year. Of this amount \$331,846 is considered nonspendable; \$3,399,124 is restricted; and, \$1,901,717 is unassigned.

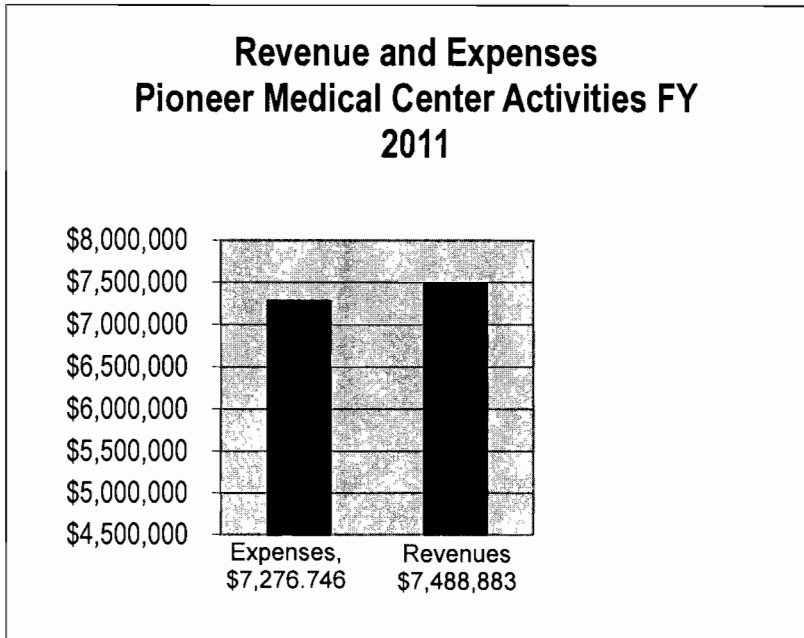
The general fund is the chief operating fund of the County. Its fund balance is considered unassigned. On the balance sheet it is combined with the fund balance of PILT, also unassigned. At the end of FY11 unassigned fund balance in the general fund and PILT was \$1,907,240.

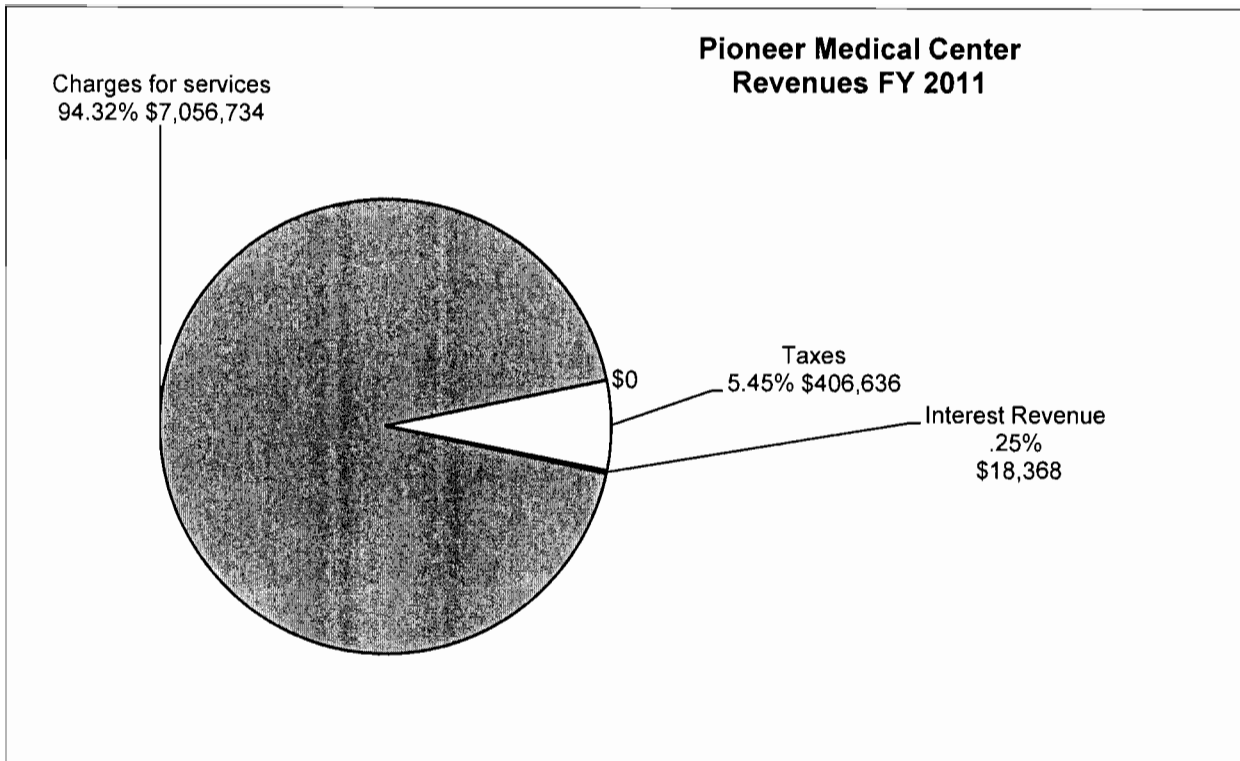


**Proprietary funds.**

Sweet Grass County’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the PMC were \$1,260,607. The majority of PMC revenues (94%) were generated by charges for services. The remaining revenues were generated by levied property taxes (5%) and from interest earnings (0.02%). Revenues exceeded expenses \$212,137 due to an increase in patient revenue.





### General Fund Budgetary Highlights

Total revenues budgeted in the general fund were \$567,350 and collected were \$1,207,946. Actual collections for the general fund were \$640,596 more than anticipated. Total expenditures budgeted in the general fund were \$1,264,700 and spent were \$1,192,045. Actual expenditures from the general fund were \$72,655 less than budgeted. Revenues exceeded expenditures by \$15,910 in the general fund. The County strives to be fiscally conservative.

The County went through the bid process to hire a contractor, Martel Construction, in FY 2010 to remodel the annex building. Remodel work began in September 2010. The annex was once the county hospital and has been used for a few county and state offices since the hospital closed and the medical clinic moved to its present location adjoining the nursing home. When the remodel has been completed 7 offices in the courthouse will relocate to the annex. These include the commissioners, clerk and recorder office, treasurer office, State Department of Revenue, finance office, sanitarian office, and the planning office. From the annex, the Montana Highway Patrol Office will relocate to the courthouse. This move will allow offices to expand in room and the building will become handicapped accessible. Anticipated completion is Spring 2011. Funds to pay for the remodel are from capital projects funds and the county's share of the released metal mines trust.

Sweet Grass County had several significant events occur in FY11. The first was the decision in FY10 to remodel the annex (formerly the "old hospital"). The majority of the renovations occurred during FY11. Expenditures between FY10 and FY11 were \$968,848. The renovation was done with no tax dollars or loans used. The majority of the remodel money came from fund 2705, Released Metal Mines Taxes. A tally of the expenditures and where it was funded from is listed below. This is effective through the end of FY11.

SUMMARY OF ANNEX REMODEL FY 2010 THRU FY 2011

Expenses:	
SMA (architect)	
FY 2010	\$53,135.23
FY 2011	\$42,023.81
FY 2012	\$0.00
	\$95,159.04
Martel Const	
FY 2011	\$814,483.01
FY 2012	\$0.00
	\$814,483.01
Misc Exp	
FY 2011	\$1,400.00
	\$500.00
	\$926.98
	\$702.00
	\$790.00
	\$4,318.98
Energy Grant	
FY 2011	\$104,676.67
	\$104,676.67

(\$103,276.67 Martel,  
\$1400 SMA)

Funding:	
Capital Improvement Fund 4000	\$53,135.23
Released Metal Mine Fund 2705	\$755,486.56
Planning Capital Improve Fund 4002	\$11,611.85
Alcohol Rehab Fund 2800	\$27,635.00
Fed Mineral Royalty Fund 2894	\$30,747.00
Energy Grant Fund 2930	\$104,676.67
State of Montana	\$39,000.00
	\$1,022,292.31
Expenses	\$1,018,637.70
	\$3,654.61

Total Annex Remodel \$1,018,637.70

The County suffered from devastating flooding in May 2011. Upper Deer Creek, Bridge Creek and West Bridger Creek Roads suffered heavy damage from the flooding. Numerous other roads and bridges suffered damages. Road crews worked non-stop to repair roads where they could to get access for residents. Law enforcement and fire department provided citizen safety on the highways and through a rescue of a resident from rising flood waters. Our very initial damage estimates had been \$5mil. This estimate was high because we could not get to the roads that were damaged because they were still flooding. We needed to provide a rough estimate to the governor's office that was in the process of having a federal disaster declared. In FY12 as things slowed and the rain stopped FEMA came on site to inspect and new damage estimates ended at just over \$2mil. The county is in the process of receiving federal disaster assistance from FEMA to repair and rebuild roads and bridges. We did not receive any of these funds until FY12.

## Capital Asset and Debt Administration

**Capital assets.** Sweet Grass County's investment in capital assets (net of accumulated depreciation) is \$4,304,221. This investment in capital assets includes land, buildings, improvements other than buildings, and machinery and equipment. The following are key highlights to capital assets for FY 2010:

- ✓ There are numerous constructions in progress projects (CIPP). CIPP are not depreciated until they are completed and, therefore, are accounted for separately from depreciable fixed assets
  1. Replacement of grandstands at fairgrounds – ongoing project
  2. CIPP - Remodel of annex – will be completed early FY12
  3. CIPP - De-Construction and re-construction of community events center – ongoing project
  4. CIPP - TSEP funded bridges 08-411 and 10-523 – ongoing project
  5. CIPP – Courthouse remodel – to be complete FY12
  6. CIPP – FIRE 7 – command truck – to be complete FY12
  7. CIPP – Courthouse communications tower – to be complete FY12
- ✓ NAVAIDS (AWOS) weather system at airport - \$199,041
- ✓ Copier for annex - \$6,999
- ✓ 1984 Peterbilt for road - \$22,5100
- ✓ 2010 Dodge Pickup for road - \$24,589
- ✓ Chipper for fuels reduction - \$13,900
- ✓ Greycliff Communications Tower completed - \$342,834
- ✓ Airport fence complete - \$630,690

### SWEET GRASS COUNTY CURRENT AND LONG TERM DEBT SCHEDULE FY 2011

	CURRENT	LONG TERM	TOTAL
<b>skidsteer/grader/mower</b>	\$ 38,600.00	\$122,590.22	\$ 161,190.22
airport runway	4,610.30	0.00	4,610.30
fair building	0.11	0.00	0.11
dynapac vibrating roller	0.02	0.00	0.02
	<u>\$ 43,210.43</u>	<u>\$122,590.22</u>	<u>\$ 165,800.65</u>
Compensated Absences	<u>\$124,476.91</u>	<u>\$ 38,305.33</u>	<u>\$ 162,782.24</u>
	<u>\$167,687.34</u>	<u>\$160,895.55</u>	<u>\$ 328,582.89</u>
<b>PMC</b>			
ambulance	\$ 7,583.75	\$ 8,614.27	\$ 16,198.02
capital lease	9,614.67	6,117.19	15,731.86
2001 alf revenue bond (935,000)	45,000.00	500,000.00	545,000.00
2001 alf revenue bond (500,000)	11,948.09	389,362.93	401,311.02
1996 pmc revenue bond	64,563.49	779,033.12	843,596.61
2007 holmberg note	0.00	0.00	0.00
	<u>\$138,710.00</u>	<u>\$1,683,127.51</u>	<u>\$1,821,837.51</u>
Compensated Absences	<u>\$ 88,975.00</u>	<u>\$ 0.00</u>	<u>\$ 288,975.00</u>
	<u>\$427,685.00</u>	<u>\$1,683,127.51</u>	<u>\$2,110,812.51</u>

**Long-term debt.** As of June 30, 2011 the County had total outstanding debt of \$165,800. Compensated Absences was \$162,782. No new debt was incurred in FY11. The PMC total outstanding debt was \$1,821,838. Compensated Absence liability is \$288,975. No new debt was incurred in FY11.

- The following statistics are based on the latest census information and the Sweet Grass County Growth Policy adopted June 2009.
- The unemployment rate for Sweet Grass County for 1<sup>st</sup> quarter of 2009 is average 4.6%, as compared to the state average of 6.9%. The major employers in the County are Stillwater Mine, local government and the high school and grade school districts. The economy is primarily agriculture, tourism, and mining.
- The average earnings per job per year in Sweet Grass County are \$36,555 as of 2007 (latest figures available).
- Inflationary trends in the County compare favorably to national indices.

All these factors were considered in the preparation of Sweet Grass County's budget for the 2011 fiscal year.

The FY 2011 budget reflects 2011 mills and the inflationary increases allowed by statute.

### **Subsequent Events**

1. During the fiscal year ended June 30, 2011, the Pioneer Medical Center (PMC) applied for and was awarded a Community Development Block Grant (CDBG) grant in the amount of \$624,000 for the purchase of a new CT scanner and necessary remodels of the PMC to house the scanner; as well as the construction of a new ambulance barn next to the County Courthouse. In addition, the PMC obtained board approval for the application for an Intercap loan in the amount of \$500,000 to cover remaining costs of the above projects.

Subsequent to June 30, 2011, the application for the Intercap loan was dropped in favor of a 0% USDA loan sponsored by Triangle Telephone in the amount of \$551,000 for the above projects.

Construction on the ambulance barn has begun. The purchase of the CT scanner and needed remodels of the hospital building have not yet occurred.

2. During the spring of 2011 the County had damage to numerous county roads occur due to flooding caused from extensive rains. Since year end, the County has received \$1,347,117 from FEMA for flooding disaster related projects. The total amount expected to be received to assist in repairing the damages is \$2,130,000. Expenditures related to this money have been occurring in the fiscal year ending June 30, 2012.

3. During the fiscal year ending June 30, 2012, Sweet Grass County was awarded a RAC Grant. The total grant is \$137,000. The grant is shared with Park County and they will administer \$125,500 of it. The remaining \$11,500 will be administered by Sweet Grass County for the engineering work. These funds are being used for the repair of the Main Boulder Road.

### **Contacting the County's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions concerning this report or need additional financial information, contact the Finance Office at Sweet Grass County 406-932-3012, the County Commissioners at 406-932-5152 or the County Clerk and Recorder at 406-932-5152.

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Sweet Grass County  
Big Timber, Montana

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sweet Grass County, Montana, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sweet Grass County management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Sweet Grass County, Montana, as of June 30, 2011, 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.

As described in Note 1, the County has implemented the Post Retirement Benefits other than Pensions, as required by the provisions of GASB Statement No. 45, as of June 30, 2011.

As described in Note 1, the County has implemented the Fund Balance Reporting and Governmental Fund Type Definitions as required by the provisions of GASB Statement No. 54, as of June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012, on our consideration of the Sweet Grass County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 19, 54 through 56, and 57 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 Americas, 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 County's basic financial statements. 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 basic financial statements of Sweet Grass County, Sweet Grass County, Montana. 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 be 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.

*Dearing, Downey and Associates, CPA's, P.C.*

March 29, 2012



**Sweet Grass County, Montana**  
**Statement of Net Assets**  
**June 30, 2011**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 5,310,263	\$ 1,344,418	\$ 6,654,681
Taxes and assessments receivable, net	148,694	32,197	180,891
Internal balances	(1,284)	1,284	-
Accounts receivable - net	1,386	800,855	802,241
Interest receivable	5,227	449	5,676
Due from other governments	114,723	-	114,723
Prepaid expenses	-	29,698	29,698
Inventories	331,846	88,932	420,778
Total current assets	<u>\$ 5,910,855</u>	<u>\$ 2,297,833</u>	<u>\$ 8,208,688</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 255,137	\$ 255,137
Capital assets - land	61,056	2,500	63,556
Capital assets - construction in progress	1,430,355	4,475	1,434,830
Capital assets - depreciable, net	5,001,691	2,660,920	7,662,611
Total noncurrent assets	<u>\$ 6,493,102</u>	<u>\$ 2,923,032</u>	<u>\$ 9,416,134</u>
Total assets	<u>\$ 12,403,957</u>	<u>\$ 5,220,865</u>	<u>\$ 17,624,822</u>
<b>LIABILITIES</b>			
Current liabilities			
Warrants payable	\$ 336	\$ -	\$ 336
Accounts payable	-	109,365	109,365
Accrued payables	-	142,195	142,195
Accrued payroll	129,138	49,803	178,941
Due to other governments	-	5,000	5,000
Current portion of long-term capital liabilities	43,315	139,857	183,172
Current portion of compensated absences payable	124,477	225,574	350,051
Total current liabilities	<u>\$ 297,266</u>	<u>\$ 671,794</u>	<u>\$ 969,060</u>
Noncurrent liabilities			
Deposits payable	\$ -	\$ 7,000	\$ 7,000
Noncurrent portion of long-term liabilities	312,174	434,888	747,062
Noncurrent portion of long-term capital liabilities	122,486	1,681,981	1,804,467
Noncurrent portion of compensated absences	38,305	63,401	101,706
Total noncurrent liabilities	<u>\$ 472,965</u>	<u>\$ 2,187,270</u>	<u>\$ 2,660,235</u>
Total liabilities	<u>\$ 770,231</u>	<u>\$ 2,859,064</u>	<u>\$ 3,629,295</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 6,327,301	\$ 846,057	\$ 7,173,358
Restricted for capital projects	169	-	169
Restricted for debt service	550,385	249,410	799,795
Restricted for special projects	3,249,666	-	3,249,666
Restricted for other purposes	-	5,727	5,727
Unrestricted	1,506,205	1,260,607	2,766,812
Total net assets	<u>\$ 11,633,726</u>	<u>\$ 2,361,801</u>	<u>\$ 13,995,527</u>
Total liabilities and net assets	<u>\$ 12,403,957</u>	<u>\$ 5,220,865</u>	<u>\$ 17,624,822</u>

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana  
Statement of Activities  
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services		Capital Grants and Contributions	Primary Government	
		Operating Grants and Contributions	Governmental Activities		Business-type Activities	Total
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 1,563,617	\$ 198,964	\$ 418,493	\$ 388,013	\$ (558,147)	\$ -
Public safety	1,413,758	179,268	403,868	-	(830,622)	-
Public works	1,525,521	51,136	671,926	3,259	(799,200)	-
Public health	422,733	19,797	7,500	56	(395,380)	-
Social and economic services	61,439	787	-	-	(60,652)	-
Culture and recreation	110,562	6,190	100	-	(104,272)	-
Housing and community development	117,250	-	61,186	-	(56,064)	-
Debt service - interest	4,211	-	-	-	(4,211)	-
Miscellaneous	38,321	-	-	-	(38,321)	-
Total governmental activities	\$ 5,257,412	\$ 456,142	\$ 1,563,073	\$ 391,328	\$ (2,846,869)	\$ -
Business-type activities:						
Pioneer Medical Center	\$ 7,276,746	\$ 7,055,924	\$ -	\$ -	\$ (220,822)	\$ (220,822)
Total business-type activities	\$ 7,276,746	\$ 7,055,924	\$ -	\$ -	\$ (220,822)	\$ (220,822)
<b>Total primary government</b>	<b>\$ 12,534,158</b>	<b>\$ 7,512,066</b>	<b>\$ 1,563,073</b>	<b>\$ 391,328</b>	<b>\$ (2,846,869)</b>	<b>\$ (3,067,691)</b>
General Revenues:						
Property taxes for general purposes					\$ 2,588,671	\$ 406,636
Local option tax					174,847	-
Video poker apportionment					200	200
Miscellaneous					109,065	7,145
Interest/investment earnings					46,342	18,368
PILT					403,864	403,864
Montana oil and gas production tax					28,088	-
State entitlement					283,888	-
Grants and entitlements not restricted to specific programs					-	810
Licenses and permits					311	311
Total general revenues, special items and transfers					\$ 3,635,276	\$ 432,959
Change in net assets					\$ 788,407	\$ 212,137
Net assets - beginning					\$ 10,980,128	\$ 2,367,108
Restatements					(134,809)	(217,444)
Net assets - beginning - restated					\$ 10,845,319	\$ 2,149,664
Net assets - end					\$ 11,633,726	\$ 2,361,801

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana  
Balance Sheet  
Governmental Funds  
June 30, 2011

	General Fund	Road	Law Enforcement	Released Metal Mine Trust	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 1,748,248	\$ 288,073	\$ 293,406	\$ 6,583	\$ 2,973,953	\$ 5,310,263
Taxes and assessments receivable, net	39,107	23,689	26,266	-	59,632	148,694
Accounts receivable - net	1,386	-	-	-	-	1,386
Interest receivable	-	-	-	-	5,227	5,227
Due from other funds	195,583	-	-	-	500	196,083
Due from other governments	6,096	-	11,837	-	96,790	114,723
Inventories	-	331,846	-	-	-	331,846
Total assets	\$ 1,990,420	\$ 643,608	\$ 331,509	\$ 6,583	\$ 3,136,102	\$ 6,108,222
<b>LIABILITIES</b>						
Current liabilities:						
Warrants payable	336	-	-	-	-	336
Accrued payroll	43,737	10,842	28,623	-	45,936	129,138
Due to other funds	-	-	-	81,356	116,011	197,367
Deferred revenue	39,107	23,689	26,266	-	59,632	148,694
Total liabilities	\$ 83,180	\$ 34,531	\$ 54,889	\$ 81,356	\$ 221,579	\$ 475,535
<b>FUND BALANCES</b>						
Nonspendable	-	331,846	-	-	-	331,846
Restricted	-	277,231	276,620	-	2,955,623	3,509,474
Unassigned fund balance	1,907,240	-	-	(74,773)	(41,100)	1,791,367
Total fund balance	\$ 1,907,240	\$ 609,077	\$ 276,620	\$ (74,773)	\$ 2,914,523	\$ 5,632,687
Total liabilities and fund balance	\$ 1,990,420	\$ 643,608	\$ 331,509	\$ 6,583	\$ 3,136,102	\$ 6,108,222

See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**June 30, 2011**

<b>Total fund balances - governmental funds</b>	\$	5,632,687
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		6,493,102
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		148,694
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(640,757)
<b>Total net assets - governmental activities</b>	<b>\$</b>	<u><u>11,633,726</u></u>

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2011**

	General Fund	Road	Law Enforcement	Released Metal Mine Trust	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes and assessments	\$ 812,384	\$ 385,950	\$ 452,449	\$ -	\$ 992,816	\$ 2,643,599
Licenses and permits	311	900	-	-	85,069	86,280
Intergovernmental	582,366	292,887	79,957	-	1,237,700	2,192,910
Charges for services	123,499	-	170,196	-	75,721	369,416
Fines and forfeitures	55,246	-	-	-	22,026	77,272
Miscellaneous	32,608	3,182	1,125	69,852	503,362	610,129
Investment earnings	18,566	-	2,306	5,327	17,075	43,274
Total revenues	\$ 1,624,980	\$ 682,919	\$ 706,033	\$ 75,179	\$ 2,933,769	\$ 6,022,880
<b>EXPENDITURES</b>						
General government	\$ 1,130,626	\$ -	\$ -	\$ 32,521	\$ 187,662	\$ 1,350,809
Public safety	68,278	-	705,543	-	447,204	1,221,025
Public works	101,610	413,789	-	-	689,397	1,204,796
Public health	29,975	-	-	-	392,758	422,733
Social and economic services	1,750	-	-	-	59,689	61,439
Culture and recreation	-	-	-	-	90,203	90,203
Housing and community development	-	-	-	-	117,250	117,250
Debt service - principal	8,405	55,489	-	-	25,015	88,909
Debt service - interest	107	3,274	-	-	830	4,211
Miscellaneous	50,395	-	-	-	(12,074)	38,321
Capital outlay	76,645	-	-	860,826	606,979	1,544,450
Total expenditures	\$ 1,467,791	\$ 472,552	\$ 705,543	\$ 893,347	\$ 2,604,913	\$ 6,144,146
Excess (deficiency) of revenues over expenditures	\$ 157,189	\$ 210,367	\$ 490	\$ (818,168)	\$ 328,856	\$ (121,266)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	\$ -	\$ -	\$ 6,200	\$ -	\$ 246,467	\$ 252,667
Transfers out	(4,898)	(50,000)	-	-	(197,769)	(252,667)
Total other financing sources (uses)	\$ (4,898)	\$ (50,000)	\$ 6,200	\$ -	\$ 48,698	\$ -
Net Change in Fund Balance	\$ 152,291	\$ 160,367	\$ 6,690	\$ (818,168)	\$ 377,554	\$ (121,266)
Fund balances - beginning	\$ 445,016	\$ 448,710	\$ 269,930	\$ 743,395	\$ 3,857,252	\$ 5,764,303
Restatements	(16,998)	-	-	-	6,648	(10,350)
GASB 54 Restatements	1,326,931	-	-	-	(1,326,931)	-
Fund balances - beginning, restated	\$ 1,754,949	\$ 448,710	\$ 269,930	\$ 743,395	\$ 2,536,969	\$ 5,753,953
Fund balance - ending	\$ 1,907,240	\$ 609,077	\$ 276,620	\$ (74,773)	\$ 2,914,523	\$ 5,632,687

See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

Amounts reported for *governmental activities* in the statement of activities are different because:

<b>Net change in fund balances - total governmental funds</b>	\$	(121,266)
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- Capital assets purchased		1,544,450
- Depreciation expense		(610,933)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue)		22,939
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The change in compensated absences is shown as an expense in the Statement of Activities

20,395

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets:

- Long-term debt principal payments		88,909
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Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability		(156,087)
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<b>Change in net assets - Statement of Activities</b>	<b>\$</b>	<b><u>788,407</u></b>
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See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2011**

**Business-Type Activities -  
Enterprise Funds**

**Pioneer Medical Center**

**ASSETS**

Current assets:

Cash and investments	\$	1,344,418
Taxes and assessments receivable, net		32,197
Accounts receivable - net		800,855
Interest receivable		449
Due from other funds		1,284
Prepaid expenses		29,698
Inventories		88,932
Total current assets	\$	2,297,833

Noncurrent assets:

Restricted cash and investments	\$	255,137
Capital assets - land		2,500
Capital assets - construction in progress		4,475
Capital assets - depreciable, net		2,660,920
Total noncurrent assets	\$	2,923,032
Total assets	\$	5,220,865

**LIABILITIES**

Current liabilities:

Accounts payable	\$	109,365
Accrued payables		142,195
Accrued payroll		49,803
Due to other governments		5,000
Current portion of long-term capital liabilities		139,857
Current portion of compensated absences payable		225,574
Total current liabilities	\$	671,794

Noncurrent liabilities:

Deposits payable	\$	7,000
Noncurrent portion of long-term liabilities		434,888
Noncurrent portion of long-term capital liabilities		1,681,981
Noncurrent portion of compensated absences		63,401
Total noncurrent liabilities	\$	2,187,270
Total liabilities	\$	2,859,064

**NET ASSETS**

Invested in capital assets, net of related debt	\$	846,057
Restricted for debt service		249,410
Restricted for other purposes		5,727
Unrestricted		1,260,607
Total net assets	\$	2,361,801
Total liabilities and net assets	\$	5,220,865

See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2011**

		<u>Business-Type Activities - Enterprise Funds</u>
		<u>Pioneer Medical Center</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$	7,056,734
Miscellaneous revenues		7,145
Total operating revenues	\$	<u>7,063,879</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$	3,692,059
Supplies		435,460
Purchased services		1,614,560
Fixed charges		245,997
Loss/bad debt expense		915,619
Depreciation		273,448
Total operating expenses	\$	<u>7,177,143</u>
Operating income (loss)	\$	<u>(113,264)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Taxes/assessments revenue	\$	406,636
Interest revenue		18,368
Debt service interest expense		(99,603)
Total non-operating revenues (expenses)	\$	<u>325,401</u>
Income (loss) before contributions and transfers	\$	<u>212,137</u>
Change in net assets	\$	<u>212,137</u>
Net Assets - Beginning of the year	\$	2,367,108
Restatements		(217,444)
Net Assets - Beginning of the year - Restated	\$	<u>2,149,664</u>
Net Assets - End of the year	\$	<u><u>2,361,801</u></u>

See accompanying Notes to the Financial Statements



**Sweet Grass County, Montana**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**June 30, 2011**

	<b>Business - Type Activities - Enterprise Fund</b>
	<b>Pioneer Medical Center</b>
<b>Cash flows from operating activities:</b>	
Cash received from providing services	\$ 6,140,476
Cash received from miscellaneous sources	7,145
Cash payments to suppliers	(2,279,018)
Cash payments to employees	(3,515,788)
Net cash provided (used) by operating activities	\$ 352,815
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	\$ (346,787)
Principal paid on debt	(153,336)
Interest paid on debt	(100,153)
Net cash provided (used) by capital and related financing activities	\$ (600,276)
<b>Cash flows from non-capital financing activities:</b>	
Tax levies and contributions from the County	\$ 410,495
Cash payments to other governments	(145,000)
Cash received from other sources	1,000
Net cash provided (used) from non-capital financing activities	\$ 266,495
<b>Cash flows from investing activities:</b>	
Interest on investments	\$ 18,067
Net cash provided (used) by investing activities	\$ 18,067
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ 37,101
<b>Cash and cash equivalents at beginning</b>	1,562,454
<b>Cash and cash equivalents at end</b>	\$ 1,599,555
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (113,264)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	273,448
Other post-employment benefits	217,444
Changes in assets and liabilities:	
Accounts receivable	(639)
Inventory	8,138
Prepaid expenses	(2,389)
Accounts payable	11,250
Compensated absences	(36,414)
Accrued payroll taxes	(5,967)
Accrued wages	1,208
Net cash provided (used) by operating activities	\$ 352,815

See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and short-term investments	\$ 2,521,851	\$ 1,363,787
Interest and dividends receivable	-	26,002
Taxes receivable	-	117,115
Total assets	\$ 2,521,851	\$ 1,506,904
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 479,883
Due to others	-	1,027,021
Total liabilities	\$ -	\$ 1,506,904
<b>NET ASSETS</b>		
Assets held in trust	\$ 2,521,851	

See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2011**

		<u>Investment Trust Funds</u>
<b>ADDITIONS</b>		
Contributions to Investment Trust Fund	\$	2,462,484
Investment earnings		28,237
Total additions	\$	<u>2,490,721</u>
<b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	<u>1,683,487</u>
Total deductions	\$	<u>1,683,487</u>
Change in net assets	\$	<u>807,234</u>
Net Assets - Beginning of the year	\$	1,714,617
Net Assets - End of the year	\$	<u><u>2,521,851</u></u>

See accompanying Notes to the Financial Statements

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The County complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds GASB statement Nos. 20 and 34 provide the County the option of electing to apply FASB pronouncements issued after November 30, 1989. The County has elected not to apply those pronouncements.

The County adopted the provisions of Governmental Accounting Standards Board Statement No. 45 Accounting and Financial Reporting of Employers for Post Employment Benefits Other than Pensions.

The County adopted the provision of Governmental Accounting Standards Board Statement No. 54, Reporting and Governmental Fund Type Definitions as of June 30, 2011. The County included the PILT Fund as part of the General Fund. (In prior years, the PILT Fund was reported as special revenue fund.)

**Financial Reporting Entity**

In determining the financial reporting entity, the County complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the County appointed a voting majority of the units' board; the County is either able to impose its will on the unit or a financial benefit or burden relationship exists.

*Primary Government*

The County is a political subdivision of the State of Montana governed by an elected three member Board of County Commissioners. The County is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

***Government-wide Financial Statements:***

*Basis of Presentation*

The Government-wide Financial Statements (the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting County except fiduciary funds. The statements distinguish between governmental and business-type activities.

SWEET GRASS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made to minimize the double-counting of business type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function. The County does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

*Measurement Focus and Basis of Accounting*

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the 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. The County generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

**Fund Financial Statements:**

*Basis of Presentation*

Fund financial statements of the reporting County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The County defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be 60 days. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise fees, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current 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.

***Major Funds:***

The County reports the following major governmental funds:

*General Fund* – This is the County's primary operating fund and it accounts for all financial resources of the County except those required to be accounted for in other funds.

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

*Road* – This is a special revenue fund that was created to account for activities relating to road work.

*Law Enforcement* – This is a special revenue fund to account for the activities related to law enforcement services.

*Released Metal Mines Trust* – This is a special revenue fund that was created to collect impact fees associated with large-scale mineral development.

***Proprietary Funds:***

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise 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 non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

**Major Funds:**

The County reports the following major proprietary fund:

*Pioneer Medical Center (Hospital Fund)* – An enterprise fund that accounts for the activities of the Pioneer Medical Center.

***Fiduciary Funds***

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held in the County under the terms of a formal trust agreement.

The **investment trust fund** is accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The investment trust fund is used to account for the external portion of the investment pool held by the sponsoring government.

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2011

The **agency fund** is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the County holds for others in an agency capacity.

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2011, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and Deposits:</u>	
Petty Cash and Cash on Hand	\$ 58,873
Cash in Banks:	
Demand Deposits	2,500,497
Savings Deposits	80,747
Time Deposits	7,849,232
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	<u>306,107</u>
Total	<u>\$10,795,456</u>

**Credit Risk**

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments 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.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be place in time or savings



SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2011

deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

The government has no investment policy that would further limit its investment choices.

The government has the following investments and their related credit risk as reported by NRSRO:

Short Term Investment Pool (STIP) Credit Quality ratings by the NRSRO as of June 30, 2011:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 326,176,221	A1	18
Corporate Commercial Paper	289,334,734	A1	58
Corporate Fixed Rate	7,173,761	A1	15
Corporate Variable-Rate	522,126,148	A2	34
Certificates of Deposit Fixed Rate	28,012,037	A3	235
Certificates of Deposit Variable-Rate	359,994,307	A2	36
Other Asset Backed	24,591,903	BBB	NA
U.S. Government Agency Fixed	100,013,159	A1+	155
U.S. Government Agency Variable -Rate	474,851,769	A1+	20
Money Market Funds (Unrated)	140,598,914	NR	1
Money Market Funds (Rated)	111,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>46,317,465</u>	NR	<u>5</u>
Total Investments	<u>\$ 2,430,190,418</u>	A1	<u>35</u>
Securities Lending Collateral Investment Pool	<u>\$ 32,271,105</u>	NR	*

\* As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of 34 days and an average weighted final maturity of 105 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for U.S. dollar collateral.

Audited financial statements for the State of Montana's Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

**Custodial Credit Risk**

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. All deposits are carried at cost plus accrued interest. As of June 30, 2011 the government's bank balance was exposed to custodial credit risk as follows:

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

<u>Depository Account</u>	<u>Balance</u>
Insured	\$ 5,160,197
Collateralized	
- Collateral held by the pledging bank's trust department in the County's name.	3,557,407
Uninsured and uncollateralized	<u>1,860,692</u>
Total Deposits	<u>\$ 10,578,296</u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

(a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or

(b) 100% if the institution in which the deposit is made has a net worth of total assets ration of less than 6%.

The amount of collateral held for County deposits at June 30, 2011, did meet the amount required by State statutes.

**Cash and Investment Pool**

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments."

**Investment in the Treasurer's Pools**

The County Treasurer invests on behalf of most funds of the County and external participants in accordance with the County's investment policy and Montana law. The County's pools are managed by the County Treasurer. The external portion of the County's investment pools are accounted for as investment trust funds.

The County has one pooled investment trust fund, invested in STIP, savings, time deposits, U.S Government securities. The pooled funds invested in STIP, savings, time deposits, U.S. Government securities are carried at fair value.

Non-pooled investments are also carried at fair value. The fair value of non-pooled investments is determined annually and is based on current market prices.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2011 to support the value of the shares in the pool.

As noted below State statutes limit the type of investments but provide no other regulatory oversight.

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2011

Investment Income

Income from pooled investments is allocated to the individual funds or external participants based on the fund or participant's month end cash balance in relation to total pooled investments.

**Condensed statements of investments pools**

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2011.

**Statement of Net Assets**

Net assets held in trust for all pool participants:	
Equity of internal pool participants	\$ 5,051,274
Equity of external pool participants	<u>2,521,851</u>
Total equity	<u>\$ 7,573,125</u>

**Condensed Statement of Changes in Net Assets**

	<u>External</u>	<u>Internal</u>
Investment Earnings	\$ 28,237	\$ 56,559
Contributions to Trust	2,462,484	4,759,017
Distributions Paid	<u>(1,683,487)</u>	<u>(3,458,571)</u>
Net change in net assets	\$ 807,234	\$ 1,357,005
Net assets at beginning of year	<u>1,714,617</u>	<u>3,694,269</u>
Net assets at end of year	<u>\$ 2,521,851</u>	<u>\$ 5,051,274</u>

**Cash equivalents**

For purposes of the statement of cash flows, the enterprise funds consider all funds (including restricted assets) held in the County's cash management pool to be cash equivalents.

**NOTE 3. RECEIVABLES**

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write-off method is used for these accounts.

Property tax levies are set on or before the second Monday in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE 4. INVENTORIES**

The cost of inventories are recorded as an expenditure when purchased. At year-end, if the value of inventory is significant, it must be recorded as an asset.

**NOTE 5. CAPITAL ASSETS**

The County's assets are capitalized at historical cost or estimated historical cost. County policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings .....	20-108 years
Building Improvements .....	4-75 years
Equipment .....	3-30 years
Infrastructure .....	3-30 years
Vehicles .....	3-20 years
Office Equipment .....	3-7 years
Computer Equipment .....	3-5 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2011 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

	Balance July 1, 2010	Additions	Adjustments/ Transfers	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 61,056	\$ -	\$ -	\$ 61,056
Construction in Progress	<u>1,162,680</u>	<u>1,268,763</u>	<u>(1,001,088)</u>	<u>1,430,355</u>
Total capital assets not being depreciated	<u>\$ 1,223,736</u>	<u>\$ 1,268,763</u>	<u>\$(1,001,088)</u>	<u>\$ 1,491,411</u>
Other Capital Assets:				
Buildings	\$ 2,180,317	\$ 8,657	\$ 630,690	\$ 2,819,664
Machinery and Equipment	3,574,452	267,030	342,834	4,184,316
Infrastructure	<u>1,662,283</u>	<u>-</u>	<u>27,564</u>	<u>1,689,847</u>
Total other Capital Assets at historical cost	<u>\$ 7,417,052</u>	<u>\$ 275,687</u>	<u>\$ 1,001,088</u>	<u>\$ 8,693,827</u>
Less Accumulated Depreciation	<u>\$(3,112,831)</u>	<u>\$(610,933)</u>	<u>\$ 31,628</u>	<u>\$(3,692,136)</u>
Total	<u>\$ 5,527,957</u>	<u>\$ 933,517</u>	<u>\$ 31,628</u>	<u>\$ 6,493,102</u>

SWEET GRASS COUNTY, MONTANA  
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The following is a summary of business type capital assets were as follows:

	Balance <u>July 1, 2010</u>	<u>Additions</u>	Deletions/ <u>Transfers</u>	Balance <u>June 30, 2011</u>
Capital assets not being depreciated:				
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Construction in Progress	<u>49,876</u>	<u>4,475</u>	<u>(49,876)</u>	<u>4,475</u>
Total capital assets not being depreciated	\$ <u>52,376</u>	\$ <u>4,475</u>	\$ <u>(49,876)</u>	\$ <u>6,975</u>
Other Capital Assets:				
Buildings	\$ 5,752,119	\$ 158,529	\$ 5,625	\$ 5,916,273
Machinery and Equipment	<u>1,241,466</u>	<u>183,783</u>	<u>23,251</u>	<u>1,448,500</u>
Total other Capital Assets at historical cost	\$ <u>6,993,585</u>	\$ <u>342,312</u>	\$ <u>28,876</u>	\$ <u>7,364,773</u>
Less Accumulated Depreciation	\$ <u>(4,451,405)</u>	\$ <u>(273,448)</u>	\$ <u>21,000</u>	\$ <u>(4,703,853)</u>
Total	\$ <u>2,594,556</u>	\$ <u>73,339</u>	\$ <u>-</u>	\$ <u>2,667,895</u>

Governmental activities capital assets depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 77,116
Public Safety	192,733
Public Works	320,725
Culture and Recreation	<u>20,359</u>
Total governmental activities depreciation expense	<u>\$610,933</u>

**NOTE 6. LONG TERM DEBT OBLIGATIONS**

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2011, the following changes occurred in liabilities reported in long-term debt:

	Balance July 1, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	Balance June 30, <u>2011</u>	Due within one year
Intercap Loans	\$245,489	\$ -	\$ (84,299)	\$ -	\$161,190	\$ 38,704
Loans/ Contracted Debt	9,221	-	(4,610)	-	4,611	4,611
Compensated Absences	183,177	-	(20,395)	-	162,782	124,477
* Other Post Employment Benefits	<u>-</u>	<u>156,087</u>	<u>-</u>	<u>156,087</u>	<u>312,174</u>	<u>-</u>
Total	\$ <u>437,887</u>	\$ <u>156,087</u>	\$ <u>(109,304)</u>	\$ <u>156,087</u>	\$ <u>640,757</u>	\$ <u>167,792</u>

\* See Note 10

SWEET GRASS COUNTY, MONTANA  
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In prior years the general fund was used to liquidate compensated absences and claims and judgments.

Business-type Activities:

	Balance <u>July 1,</u> <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	Balance <u>June 30,</u> <u>2011</u>	Due within one <u>year</u>
Revenue Bonds	\$1,911,418	\$ -	\$(121,510)	\$ -	\$1,789,908	\$130,318
Capital Leases	25,347	-	(9,615)	-	15,732	9,539
Loans/ Contracted Debt	38,409	-	(22,211)	-	16,198	-
Compensated Absences	325,389	-	(36,414)	-	288,975	225,574
*Other Post Employment Benefits	-	<u>217,444</u>	-	<u>217,444</u>	<u>434,888</u>	-
Total	<u>\$2,300,563</u>	<u>\$217,444</u>	<u>\$(189,750)</u>	<u>\$ 217,444</u>	<u>\$2,545,701</u>	<u>\$365,431</u>

\* See Note 11

*Revenue Bonds* - The County also issues bonds where the County pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2011</u>
2001 Assisted Living Facility Bond #1	05/01/2001	6.15%	20 yrs	07/01/2020	935,000	Varies	\$ 545,000
2001 Assisted Living Facility Bond #2	05/01/2001	4.75%	30 yrs	05/14/2031	500,000	31,320	401,311
1996 Pioneer Medical Center	07/02/1996	4.89%	25 yrs	05/31/2021	1,500,000	107,508	<u>843,597</u> <u>\$1,789,908</u>

Reported in the business-type activities.

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The County was in compliance with applicable covenants as of June 30, 2011.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 130,318	\$ 91,148
2013	134,314	84,302
2014	143,509	77,231
2015	147,913	69,637

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June 30, 2011

2016	157,535	61,798
2017	167,388	53,405
2018	172,482	44,411
2019	182,829	35,131
2020	193,444	25,246
2021	115,378	14,491
2022	20,127	11,193
2023	21,104	10,216
2024	22,128	9,192
2025	23,202	8,118
2026	24,329	6,991
2027	25,510	5,810
2028	26,748	4,572
2029	28,047	3,273
2030	29,409	1,911
2031	<u>24,194</u>	<u>611</u>
Total	<u>\$1,789,908</u>	<u>\$ 618,687</u>

**Loans/Contracted Debt**

Loans/contracted debts outstanding as of June 30, 2011 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2011</u>
(1) Aeronautics DOT Loan 4-L	02/28/2004	2.125%	10 yrs	02/28/2013	46,603	\$ 4,611
(2) Ambulance	12/01/2009	4.25%	5 yrs	06/10/2013	38,024	<u>16,198</u>
Total						<u>\$ 20,809</u>

(1) Reported in the governmental activities.

(2) Reported in the business-type activities.

Reported in business type activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2012	\$12,523	\$ 634
2013	<u>8,286</u>	<u>193</u>
Total	<u>\$20,809</u>	<u>\$ 827</u>

**Intercap Loans**

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16<sup>th</sup> of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

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Interacap loans outstanding as of June 30, 2011 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2011</u>
Equipment	03/05/2010	1.95-4.75%	5 yrs	2015/2015	\$200,000	\$161,190

Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 38,704	\$ 3,163
2013	39,972	2,408
2014	41,282	1,629
2015	41,232	824
Total	\$ 161,190	\$ 8,024

**Capital Leases**

The County has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2011 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Remaining Payments as of June 30, 2011</u>
Fuji Carbon CF Machine	06/21/2007	8.68%	\$ 15,732

Reported in business type activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 9,539	\$ 920
2013	6,193	181
Total	\$15,732	\$1,101

**Compensated Absences**

It is the County's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from County service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with



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governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective fund.

**NOTE 7. DEFICIT FUND BALANCES/NET ASSETS**

<u>Fund</u>	<u>Amount</u>		
Emergency Disaster	\$(32,873)	Emergency mills have not been received	Future tax revenues
Permissive Insurance Levy	\$ (2,704)	Health insurance premiums exceeded permissive revenues in prior years	Future tax revenues
Bank Stabilization Grant	\$ (4,633)	Grant revenue has not yet been received	Future grant revenues
Fire Fuels Reduction Grant	\$ (890)	Grant revenue has not yet been received	Future grant revenues
Released Metal Mines Trust	\$(74,773)	Excess expenditures incurred in anticipation of either an intercap loan or transfer from PILT	Future PILT transfer

**NOTE 8. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2011, were as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Cover temporary negative cash balance	PILT – * Major Governmental	Emergency Disaster – Nonmajor Governmental	\$ 32,774
The board has decided to replace this loan with a transfer from the PILT fund when all expenditures are accounted for.	PILT – * Major Governmental	Released Mine Metal Trust – Major Governmental	81,356
Cover temporary negative cash balance	PILT – * Major Governmental	Bank Stabilization Grant – Nonmajor Governmental	13,264
Cover temporary negative cash balance	PILT – * Major Governmental	Fire – Nonmajor Governmental	6,694
Cover temporary negative cash balance	PILT – * Major Governmental	Homeland Security – Nonmajor Governmental	2,079
Cover temporary negative cash balance	PILT – * Major Governmental	Disaster (State/Federal) – Nonmajor Governmental	16,812
Cover temporary negative cash balance	PILT – * Major Governmental	2010 HSGP – Nonmajor Governmental	42,604
Cover temporary negative cash balance	PMC – Major Business-type	CDBG – Nonmajor Governmental	1,284
Cover temporary negative cash balance	Weed – Nonmajor Governmental	Weed NRCS Contribution – Nonmajor Governmental	<u>500</u>
			<u>\$197,367</u>

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\* The PILT Fund was combined with the General Fund under GASB #54. The General Fund is a major governmental fund.

**NOTE 9. INTERFUND RECEIVABLES AND PAYABLES**

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2010:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Fair operations	Fair – Nonmajor Governmental	PILT – * Major Governmental	\$ 1,000
Employee newsletter operations	Info Services – Nonmajor Governmental	PILT – * Major Governmental	1,700
To cover grant funds which will not be received	Pre-Disaster Mitigation– Nonmajor Governmental	PILT – * Major Governmental	2,198
Future capital projects	Capital Improvement Road – Nonmajor Governmental	Road – Major Governmental	50,000
Future capital projects	Capital Project Bridge – Nonmajor Governmental	Bridge – Nonmajor Governmental	70,000
Future capital projects	Capital Project Weed – Nonmajor Governmental	Weed – Nonmajor governmental	107,252
Future capital projects	Capital Project Weed – Nonmajor Governmental	Weed DNRC Derby Fire and Misc. – Nonmajor Governmental	7,010
Volunteer firefighter operations	BLM Controlled Burn Grants – Nonmajor Governmental	Fire – Nonmajor Governmental	3,824
Future capital projects	Capital Improvement Junk – Nonmajor Governmental	Junk Vehicle– Nonmajor Governmental	3,483
911 emergency services operations	Law Enforcement – Major Governmental	911 Emergency – Nonmajor Governmental	<u>6,200</u>
			<u>\$252,667</u>

\* The PILT Fund was combined with the General Fund under GASB #54. The General Fund is a major governmental fund.

**NOTE 10. STATE-WIDE RETIREMENT PLANS**

All full-time County employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS) and Sheriffs Retirement System (SRS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State.

SWEET GRASS COUNTY, MONTANA  
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	<u>PERS</u>	<u>SRS</u>
Employer	7.070%	10.115%
Employee	6.900%	9.245%
State	0.100%	-

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the County's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling: Public Employees Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

The County's contributions for the years ended June 30, 2009, 2010, and 2011, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2009	\$232,606	\$24,113
2010	\$233,483	\$25,113
2011	\$243,789	\$27,821

**NOTE 11. POSTEMPLOYMENT HEALTHCARE PLAN**

*Plan Description.* Terminated employees may remain on the County's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal COBRA law. Retirees may remain on the County's health plan to age 65, provided they pay the monthly premiums. State law requires the County to provide this benefit.

*Funding Policy.* The contribution requirements of plan members and the State are established and may be amended by the state legislature. The required contribution is based on projected pay-as-you-go financing requirements.

*Annual OPEB Cost and Net OPEB Obligation.* The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual required contribution	\$373,531
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>\$373,531</u>

SWEET GRASS COUNTY, MONTANA  
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Contributions made	\$ <u>      -</u>
Increase in net OPEB obligation	\$373,531
Net OPEB obligation – beginning of year	\$ -
Net OPEB obligation restatements	\$373,531
Net OPEB obligation – end of year	\$747,062

*Funded Status and Funding Progress.* As of July 1, 2010, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability (AAL) for benefits was \$2,278,260, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,278,260.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The *actuarial funding method* used to determine the cost of the Sweet Grass County Employee Group Benefits Plan is the projected unit credit cost funding method. The objective under this method is to fund each participant’s benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortizations schedule.

The actuarial assumptions included a:

4.25%	Interest/discount rate
2.5%	Projected payroll increases
45%	Of future retirees are assumed to elect coverage at the time of retirement
70%	Of future eligible spouses of future retirees are assumed to elect medical coverage
24.7%	Of future retirees are assumed to elect dental coverage
11.1%	Of future retirees are assumed to elect vision coverage

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The actuarial assumptions also included the following healthcare cost trend:

<u>Plan Year</u>	<u>Medical</u>	<u>Prescription Drugs</u>	<u>Dental</u>	<u>Vision</u>
2010	8.0%	10.0%	8.0%	4.0%
2011*	23.6%	23.6%	5.9%	9.3%
2012	8.5%	8.0%	7.0%	4.0%
2013	8.0%	7.0%	6.5%	4.0%
2014	7.5%	6.0%	6.0%	4.0%
2015	7.0%	5.0%	5.5%	4.0%
2016	6.5%	5.0%	5.0%	4.0%
2017	6.0%	5.0%	5.0%	4.0%
2018	5.5%	5.0%	5.0%	4.0%
2019+	5.0%	5.0%	5.0%	4.0%

\* Trend based on actual renewal rates.

**NOTE 12. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the County as of June 30, 2011. These amounts are reported within the cash/investment account on the Statement of Net Assets.

<u>Description</u>	<u>Amount</u>
PMC Patient Trust	\$ 5,727
Debt	249,410
	<u>\$ 255,137</u>

**NOTE 13. FUND EQUITY**

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

**Nonspendable Fund Balance**

<u>Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	\$331,846	Inventory

**Restricted Fund Balance**

<u>Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 277,231	Public Works
Law Enforcement	276,620	Public Safety
Other Governmental Funds	441,102	General Government
Other Governmental Funds	450,284	Public Safety
Other Governmental Funds	418,340	Public Works
Other Governmental Funds	505,262	Public Health
Other Governmental Funds	22,564	Social and Economic Services

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Other Governmental Funds	89,003	Culture and Recreation
Other Governmental Funds	34,231	Housing and Community Development
Other Governmental Funds	5,001	Conservation of Natural Resources
Other Governmental Funds	439,282	Miscellaneous
Other Governmental Funds	169	Debt service
Other Governmental Funds	<u>550,385</u>	Capital projects
Total restricted	<u>\$3,509,474</u>	

**NOTE 14. RESTATEMENTS**

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net assets.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ (16,998)	Prior year accrual will not be received
Pioneer Medical Center	(217,444)	2010 ARC adjustment for OPEB
Weed	7,339	Restate Weed NRCS fund balance
Weed NCRS Contribution	8,846	Prior year accrual will not be received
Weed NCRS Contribution	(7,339)	Restate Weed NRCS fund balance
Pre-disaster mitigation	(2,198)	Prior year accrual will not be received
Governmental activities	(156,087)	2010 ARC adjustment for OPEB
Governmental activities	<u>31,628</u>	Prior year errors in depreciation
	<u>\$(352,253)</u>	

**NOTE 15. JOINT VENTURES**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

**Law Enforcement**

The County participated in a law enforcement service agreement with the City of Big Timber for the fiscal year ended June 30, 2011. Sweet Grass County received \$151,125 from the City for providing law enforcement services.

**City Court**

The County participated in a city court service agreement with the City of Big Timber for the fiscal year ended June 30, 2011. Sweet Grass County was received \$23,020 from the City for providing law enforcement services

**Sanitarian Services**

The County entered into an agreement with Park County beginning May 1, 2011 for temporary sanitarian permitting and inspection services for Sweet Grass County. Sweet Grass County will reimburse Park County the sum of \$29 per hour for services provided by the Park County Sanitarian as well as for use of County vehicles at the State-authorized rate in effect at the time work is performed. Park County will not perform and Sweet Grass County will not pay for any work done in excess of forty hours per week.

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

authorized rate in effect at the time work is performed. Park County will not perform and Sweet Grass County will not pay for any work done in excess of forty hours per week.

**NOTE 16. SERVICES PROVIDED TO OTHER GOVERNMENTS**

Sweet Grass County provides various financial services to other governmental entities located within the County. The County serves as the billing agent, cashier and treasurer for tax and assessment collections for various taxing jurisdictions. The County also serves as a bank for such agencies as school districts, irrigation districts, rural fire districts, and other special purpose districts. The funds collected and held by the County for other entities are accounted for in agency funds. Funds collected for incorporated cities and towns are periodically remitted to those entities by the County Treasurer. The County has not recorded any service charges for the services it provides other governmental entities.

**NOTE 17. RISK MANAGEMENT**

The County faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the County has no coverage for potential losses from environmental damages.

**NOTE 18. PENDING LITIGATION**

The following is a list of litigation pending against the County and the amount of damages claimed by the Plaintiff. The County Attorney has made no evaluation as to the outcome of each case. The County has liability insurance which may cover all or part of the damages requested.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
<i>United Bank N. A. v. Cain ranch Company; A. Bruce Cain, Marian Cain and Sweet Grass County Treasurer. DV 2010-29 Litigation over unpaid loan by Cain Ranch company and lien for unpaid taxes by Sweet Grass County</i>	Not Stated	Not Stated

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 19. SUBSEQUENT EVENTS**

1. During the fiscal year ended June 30, 2011, the Pioneer Medical Center (PMC) applied for and were rewarded a Community Development Block Grant (CDBG) grant in the amount of \$624,000 for the purchase of a new CT scanner and necessary remodels of the PMC to house the scanner as well as the construction of a new ambulance barn next to the county courthouse. In addition, the PMC obtained board approval for the application for an intercap loan in the amount of \$500,000 to cover remaining costs of the above projects.

Subsequent to June 30, 2011, the application for the intercap loan was dropped in favor of a 0% USDA loan sponsored by Triangle Telephone in the amount of \$551,000 for the above projects.

Construction on the ambulance barn has begun. The purchase of the CT scanner and needed remodels of the hospital building have not yet occurred.

2. During the spring of 2011 the County had massive damage from flooding occur to roads and other property. Since year end, the County has received \$1,034,000 in money from Federal Emergency Management Agency (FEMA) for flooding disaster related projects. Expenditures related to this money have been occurring in the fiscal year ending June 30, 2012.
3. During the fiscal year ending June 30, 2012, Sweet Grass County was awarded \$137,500 of RAC funds. These funds are being used for the repair of the Main Boulder Road in conjunction with similar funds received by Park County.

**NOTE 20. SIGNIFICANT CONSTRUCTION COMMITMENTS**

The County has contracted with Sabre Construction for a courthouse tower project. To fund this project, the County has been awarded a Homeland Security Grant in the amount of \$124,000.

**NOTE 21. SIGNIFICANT TAXPAYERS**

The Stillwater Mining company pays approximately 38% of the total taxes paid to the County. As of June 30, 2011 their taxes were current.



**REQUIRED SUPPLEMENTAL  
INFORMATION**

Sweet Grass County, Montana  
 Budgetary Comparison Schedule  
 For the Fiscal Year Ended June 30, 2011

	General Fund				Road				
	BUDGETED AMOUNTS		VARIANCE WITH FINAL BUDGET	ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A		BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		ORIGINAL	FINAL	ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>									
Taxes and assessments	\$ 812,373	\$ 812,373	\$ 11	\$ 812,384	\$ 387,649	\$ 387,649	\$ 385,950	\$ 385,950	\$ (1,699)
Licenses and permits	2,800	2,800	(2,489)	311	400	400	900	900	500
Intergovernmental	272,450	272,450	(107,118)	165,332	285,446	285,446	292,887	292,887	7,441
Charges for services	33,150	33,150	90,349	123,499	-	-	-	-	-
Fines and forfeitures	43,450	43,450	11,796	55,246	-	-	-	-	-
Miscellaneous	38,500	38,500	(5,892)	32,608	1,000	1,000	3,182	3,182	2,182
Investment earnings	10,000	1,000	17,566	18,566	-	-	-	-	-
Amounts available for appropriation	\$ 1,212,723	\$ 1,203,723	\$ 4,223	\$ 1,207,946	\$ 674,495	\$ 674,495	\$ 682,919	\$ 682,919	\$ 8,424
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>									
General government	\$ 1,131,870	\$ 1,131,870	\$ 109,087	\$ 1,022,783	-	-	-	-	-
Public safety	83,800	83,800	15,522	68,278	-	-	-	-	-
Public works	-	-	-	-	335,900	335,900	413,789	413,789	(77,889)
Public health	40,750	40,750	10,775	29,975	-	-	-	-	-
Social and economic services	5,000	5,000	3,250	1,750	-	-	-	-	-
Debt service - principal	-	-	(3,177)	3,177	-	-	55,489	55,489	(55,489)
Debt service - interest	3,280	3,280	3,249	31	-	-	3,274	3,274	(3,274)
Miscellaneous	-	-	(50,395)	50,395	-	-	-	-	-
Capital outlay	57,000	-	(15,656)	15,656	559,150	559,150	-	-	559,150
Total charges to appropriations	\$ 1,321,700	\$ 1,264,700	\$ 72,655	\$ 1,192,045	\$ 895,050	\$ 895,050	\$ 472,552	\$ 472,552	\$ 422,498
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(50,000)	(50,000)	(50,000)
Total other financing sources (uses)	-	-	-	-	-	-	(50,000)	(50,000)	(50,000)
Net change in fund balance				\$ 15,901			\$ 160,367	\$ 160,367	
Fund balance - beginning of the year				\$ 445,016			\$ 448,710	\$ 448,710	
Restatements				(16,998)			-	-	
Fund balance - beginning of the year - restated				\$ 428,018			\$ 448,710	\$ 448,710	
Fund balance - end of the year				\$ 443,919			\$ 609,077	\$ 609,077	

Sweet Grass County, Montana  
 Budgetary Comparison Schedule  
 For the Fiscal Year Ended June 30, 2011

	Law Enforcement				Released Metal Mine Trust			
	BUDGETED AMOUNTS		VARIANCE WITH FINAL BUDGET	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL		ORIGINAL	FINAL			
<b>RESOURCES (INFLOWS):</b>								
Taxes and assessments	\$ 452,631	\$ 452,631	\$(182)	\$ -	\$ -	\$ -	\$ -	
Licenses and permits	-	-	-	-	-	-	-	
Intergovernmental	65,601	88,426	(8,469)	-	-	-	-	
Charges for services	177,625	177,625	(7,429)	-	-	-	-	
Fines and forfeitures	-	-	-	-	-	-	-	
Miscellaneous	-	-	1,125	-	-	-	-	
Investment earnings	1,500	1,500	806	-	-	69,852	69,852	
Amounts available for appropriation	\$ 697,357	\$ 720,182	\$(14,149)	\$ -	\$ -	\$ 75,179	\$ 75,179	
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>								
General government	\$ -	\$ -	-	\$ -	\$ -	\$ 32,521	\$ 710,874	
Public safety	741,613	764,438	58,895	-	743,395	-	-	
Public works	-	-	-	-	-	-	-	
Public health	-	-	-	-	-	-	-	
Social and economic services	-	-	-	-	-	-	-	
Debt service - principal	-	-	-	-	-	-	-	
Debt service - interest	-	-	-	-	-	-	-	
Miscellaneous	-	-	-	-	-	-	-	
Capital outlay	15,693	15,693	15,693	-	-	-	-	
Total charges to appropriations	\$ 757,306	\$ 780,131	\$ 74,588	\$ -	\$ 743,395	\$ 860,826	\$(860,826)	
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	\$ -	\$ -	-	\$ 6,200	\$ -	\$ -	\$ -	
Transfers out	6,200	-	6,200	-	-	-	-	
Total other financing sources (uses)	\$ 6,200	\$ -	\$ 6,200	\$ 6,200	\$ -	\$ -	\$ -	
Net change in fund balance				\$ 6,690		\$ (818,168)		
Fund balance - beginning of the year				\$ 269,930		\$ 743,395		
Restatements				-		-		
Fund balance - beginning of the year - restated				\$ 269,930		\$ 743,395		
Fund balance - end of the year				\$ 276,620		\$ (74,773)		

Sweet Grass County, Montana  
 Budgetary Comparison Schedule  
 Budget-to-GAAP Reconciliation

**Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures**

	<u>General Fund</u>	<u>Road</u>	<u>Law Enforcement</u>	<u>Released Metal Mine Trust</u>
<b>Sources/Inflows of resources</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,207,946	\$ 682,919	\$ 706,033	\$ 75,179
Combined funds (GASBS 54) revenues	417,034			
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 1,624,980	\$ 682,919	\$ 706,033	\$ 75,179
<b>Uses/Outflows of resources</b>				
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,192,045	\$ 472,552	\$ 705,543	\$ 893,347
Combined funds (GASBS 54) expenditures	275,746			
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 1,467,791	\$ 472,552	\$ 705,543	\$ 893,347

**Sweet Grass County, Montana**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended June 30, 2011**

**Post Employment Health Care Plan**

Schedule of funding progress:

<u>Actuarial</u> <u>Valuation Date</u>	<u>(AAL) Actuarial</u> <u>Accrued Liability</u>	<u>(UAAL)</u> <u>Unfunded AAL</u>	<u>Funded Ratio</u>
12/8/2011 for 07/01/2010	<u>\$2,278,260</u>	<u>\$2,278,260</u>	0%

Annual Covered Payroll \$5,880,596

Ratio of Unfunded Actuarial Accrued Liability to Annual Covered Payroll 39%.

## **SINGLE AUDIT SECTION**

Sweet Grass County, Montana  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For Fiscal Year Ended June 30, 2011

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures June 30, 2011</b>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Direct:</i>			
Environmental Quality Incentives Program	10.912	65-0325-09-012	\$ 25,320
<i>Passed through Montana Department of Agriculture:</i>			
Cooperative Forestry Assistance	10.664	MDA-08-709	4,652
<i>Passed through Department of Administration:</i>			
Schools and Roads - Grants to States	10.665	N/A	219,532
<b>Total U.S. Department of Agriculture</b>			<b>\$ 249,504</b>
<b><u>U.S. Department of Interior</u></b>			
<i>Passed through Sweet Grass Conservation District:</i>			
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	N/A	\$ 62,788
<b>Total U.S. Department of Housing &amp; Urban Development</b>			<b>\$ 62,788</b>
<b><u>U.S. Department of Justice</u></b>			
<i>Direct:</i>			
Public Safety Partnership and Community Policing Grants	16.710	2004SCHS0003	\$ 19,712
<b>Total U.S. Department of Justice</b>			<b>\$ 19,712</b>
<b><u>U.S. Department of Transportation</u></b>			
<i>Direct:</i>			
Airport Improvement Program	20.106	3-30-0007-05	\$ 26,471
Airport Improvement Program	20.106	3-30-0007-006-2009	29,389
Airport Improvement Program	20.106	3-30-0007-007-2010	242,253
<i>Passed through Montana Department of Transportation:</i>			
Alcohol Impaired Driving Countermeasures Incentive Grant	20.601	N/A	4,189
<b>Total U.S. Department of Transportation</b>			<b>\$ 302,302</b>
<b><u>U.S. Department of Energy</u></b>			
<i>Passed through Montana Department of Environmental Quality:</i>			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	210137	\$ 112,854
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ 112,854</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through Montana Department of Health and Human Services:</i>			
Public Health Emergency Preparedness	93.069	N/A	\$ 15,000
<i>Passed through Montana State University:</i>			
Small Rural Hospital Improvement Grant Program	93.301	G160-10-W2841	8,305
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 23,305</b>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed through Montana Department of Military Affairs:</i>			
Disaster Grants - Public Assistance	97.036	FEMA-1996-DR-MT	\$ 16,812
Emergency Management Performance Grants	97.042	2010-2010-EP-EO-0015	18,359
Homeland Security Grant Program	97.067	2010-SS-T0-0089	42,604
Homeland Security Grant Program	97.067	2009-SS-T9-005	12,579
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 90,354</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 860,819</b>

N/A = Not Applicable or Not Available

SWEET GRASS COUNTY, MONTANA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2011

*Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Sweet Grass County, Sweet Grass County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.



**Denning, Downey & Associates, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

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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***

Board of County Commissioners  
Sweet Grass County  
Big Timber, Montana

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sweet Grass County, Montana, as of and for the year ended June 30, 2011, which collectively comprise the Sweet Grass County's basic financial statements and have issued our report thereon dated March 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sweet Grass County 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 Sweet Grass County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sweet Grass County's internal control over financial reporting.

*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 statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting as item 11-1. *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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sweet Grass County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which is described in the accompanying schedule of findings and questions costs as item 11-2.

Sweet Grass County's response to the findings identified in our audit is described in the Schedule of Findings and Questioned Costs. We did not audit Sweet Grass County's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of County Commissioners, 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.

*Denning, Downey and Associates, CPAs, P.C.*

March 29, 2012

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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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**

Board of County Commissioners  
Sweet Grass County  
Big Timber, Montana

Compliance

We have audited Sweet Grass County, Montana, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Sweet Grass County's major federal programs for the year ended June 30, 2011. The County'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 County's management. Our responsibility is to express an opinion of the County'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 County'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 on the County's compliance with those requirements.

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

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance 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 County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of County Commissioners, 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.

*Derring, Downey and Associates, CPA's, P.C.*

March 29, 2012

Sweet Grass County

Sweet Grass COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal year Ended June 30, 2011

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued	<i>Unqualified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	Yes

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
10.665	Schools and Roads – Grants to States – Forest Reserve

Dollar threshold used to distinguish  
between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? No

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section II – Financial Statement Findings

#### 11-1 Internal Control Risk Assessments

**Condition:**

The following internal control deficiencies were noted during the audit of Sweet Grass County:

1. The County has warrants outstanding greater than one year totaling \$3,655 (This is a repeat of prior year finding 10-1 in which the total was \$3,273). There is no evidence that the County has investigated to determine if an adjustment is necessary.
2. The County maintains a signature stamp for a board member and the clerk and recorder at the Pioneer Medical Center (PMC) for use in signing all payments. Only one employee is involved with running checks and using the signature stamps.
3. The County maintains credit cards for the Finance officer and the Deputy Clerk and Recorder. The Finance officer is in charge of raising and lowering limits and issuing new cards, and the Deputy Clerk and Recorder is in charge of initiating payment of the credit cards and reviewing supporting receipts.

**Criteria:**

1. Montana Code Annotated (MCA) 7-6-2607 indicates that all warrants outstanding for more than one year should be canceled.
2. Strong internal controls require two signatures on all check disbursements. Having signature stamps available for a single employee allows for a bypassing of the internal controls that require two signatures on all transactions.
3. Internal control over credit cards should be such that the person in charge of issuing cards or reviewing transactions cannot also initiate the transactions.

**Effect:**

1. No review of outstanding warrants greater than one year is deemed to be a control deficiency and is contrary to MCA (Montana code annotated) 7-6-2607 which indicates the board shall cause to be canceled all county warrants that have remained uncalled for one year or more.
2. Allowing a single employee through the use of signature stamps to cut and sign checks allows for a bypass of internal controls over cash disbursements.
3. Allowing credit cards for the employees involved with accounting for the payments allows for a bypass of internal controls over cash disbursements.

**Recommendation:**

1. We recommend that all warrants outstanding for greater than one year be reviewed and written off per MCA 7-6-2607.
2. We recommend that two signature stamps not be used at the PMC. Checks should be run for the board meeting at which the checks are approved and should be signed by the board member at that time. This will prevent one individual from both producing and signing checks.
3. We recommend that the Finance officer and the Deputy Clerk and Recorder not have the ability to initiate purchases with credit cards.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### **Auditee Response:**

1. Management concurs. We will develop a procedure that allows for outstanding warrants to be researched and acted on as necessary.
2. Management concurs. Signature stamps currently held at the PMC will be removed and stored in a locked drawer with the owner of the stamp. All warrants will be brought to the annex to allow the commissioner and the clerk and recorder to stamp them.
3. Management concurs. The finance officer will relinquish her credit card and the deputy clerk and recorder will have her card kept in the County Treasurer's office and check it out when needed.
- 4.

### **11-2 Expenditures Incurred Without an Appropriation**

#### **Condition:**

The County's final budget document did not show spending authority for fund 2386 – Info Services, fund 2958 – Disaster (State/Fed), or fund 4002 – Capital Imp Planning. In the County's financial system, budgets for these three funds as well as for 2865 – Bank Stabilization Grant and 4310 – 10-523 TSEP Grant were increased to cover expenditures without authorization. Funds 2220 – Library and 2260 – Emergency Disaster incurred expenditures over the authorized budget without authorized or unauthorized budgetary increases.

Expenditures incurred over authorized budgets:

Fund 2386 – \$866  
Fund 2958 – \$16,812  
Fund 4002 – \$11,470  
Fund 2220 – \$854  
Fund 2260 – \$827  
Fund 2865 – \$1,633  
Fund 4310 – \$1,686

#### **Criteria:**

7-6-4005(1) MCA states "Local government officials may not make a disbursement or expenditure or incur an obligation in excess of the total appropriations for a fund. (2) A local government official who violates subsection (1) is liable for the amount of the excess disbursement, expenditure, or obligation personally."

#### **Effect:**

Non-compliance with Montana Code Annotated, and the potential personal liability of the official for the amount of the excess expenditures.

#### **Cause:**

Not reconciling the accounting system to the approved budget document.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

### **Recommendation:**

Once the budget is adopted, those amounts should be entered into the accounting system and someone other than the person entering the data into the accounting system should reconcile the amounts in the accounting system to the budget document. Any differences noted should be immediately corrected. In addition, if any changes are made to the budget throughout the year, proper authorizing documentation should be maintained to support the changes to the budget.

### **Auditee Response:**

Management concurs and will endeavor to correct this finding. Every budget amendment is approved by the commissioners at a monthly cash meeting. The finance officer and the clerk and recorder will insure there is a resolution for each amendment.

The finance officer will compare clerk and recorder's final budget input to original documents used to prepare state budget report. No budget was intentionally overspent. Budget corrections were made that differed from the budget that was submitted to the state.

### **Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings or questioned costs reported.



***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Sweet Grass County  
Sweet Grass County  
Big Timber, Montana

The prior audit report contained five recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Internal Control Risk Assessments	Repeated
Other Post Employment Benefits Liability	Implemented
Sheriff's Office – Internal Control	Implemented
Roads Inventory Not Recorded at Proper Amount	Implemented
Expenditures Incurred Without an Appropriation	Repeated
Forest Reserve Distribution	Implemented

*Denning, Downey and Associates, CPAs, P.C.*

March 29, 2012