

SWEET GRASS COUNTY, MONTANA

Fiscal Year Ended June 30, 2012

**AUDIT REPORT**

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

SWEET GRASS COUNTY, MONTANA

Fiscal Year Ended June 30, 2012

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SWEET GRASS COUNTY, MONTANA

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SWEET GRASS COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2012

**BOARD OF COUNTY COMMISSIONERS**

Susan Mosness  
Rick Reed  
Bill Wallace

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Pat Dringman  
Jane Stene  
Sherry Bjorndal  
Deanna Novotny  
Jessie Connolly  
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**  
**FY 2012**  
**Management Discussion and Analysis**

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 ended June 30, 2012. 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 assets from the governmental activities of Sweet Grass County exceeded its liabilities at the close of the fiscal year ending June 30, 2012 by \$11,761,960 (total net assets). Included in total net assets is \$6,124,685 invested, net of debt, in capital assets. Capital assets are buildings, land, and machinery and equipment, valued in excess of five thousand dollars. Capital assets comprise 52% of the total net assets. Also included in net assets is \$1,131,513 of unrestricted net assets. This may be used to meet the general government's ongoing obligations to citizens and creditors. The remaining \$4,505,762 is restricted for use by funds whose resources are designated by law, contractual agreement or administrative regulation not allowing the money to be used for any other purpose.

Sweet Grass County operates a medical facility, Pioneer Medical Center (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, accounting, software, and information technology services. The PMC is accounted for on the County books as a business-type activity (proprietary or enterprise fund). The PMC assets for FY2012 exceeded its liabilities by \$2,607,201 (total net assets). Included in total net assets is \$1,017,535 for capital assets, net of related debt. This is an important distinction for the PMC as it incurred debt to remodel the building to accommodate all its various uses. The PMC capital assets comprise just 39% of total net assets. This percentage is lower than the governmental unit due to the \$3,170,235 debt obligation. Pioneer Medical Center has \$1,347,948 in unrestricted assets and \$241,718 in restricted assets. Unrestricted assets may be used to meet the PMC ongoing obligations to citizens and creditors. Restricted assets are the reserves required to be held for the bond debt.

The PMC is currently operating with a county-wide 25 mills tax levy voted on in the spring of 2009 and went into effect on real estate taxes billed out November 2009. While the levy was voted on in FY 2009 it was not effective until FY 2010. In FY 2010, a previously voted on 25 mill levy ended. These dual levies for one year allowed the PMC to collect two separate mill levies in one year to re-establish itself after a sharply declining economy left them financially strapped. The last year the levy will be in effect will be with the billing of taxes in November 2013 (fiscal year 2014).

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 41% of the total real estate taxes collected by Sweet Grass County. This gives the mine the distinction of being the largest taxpayer in the county.

## Overview of the Financial Statements

This discussion and analysis are intended to serve as an 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 *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 *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).

Both 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, and public works. The only business-type activity of Sweet Grass County is the Pioneer Medical Center which includes the nursing home, the medical clinic, the ambulance service, and Boulder Meadows Assisted Living Facility.

The government-wide financial statements are 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. Sweet Grass County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with Montana Code Annotated finance-related legal requirements. All the funds used by the County 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.

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 (which includes payment in lieu of taxes or PILT), road, law enforcement, and disaster (flood-related) which are considered major funds in FY 2012. Data from the remaining funds are combined into a single, aggregated presentation. Sweet Grass County maintains approximately 60 individual non-major governmental funds.

***Proprietary funds.*** Sweet Grass County maintains one proprietary fund (also known as an 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.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Sweet Grass County's own programs.

**Notes to the financial statements.** The notes provide additional information that is essential to a full 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 \$11,761,960 at June 30, 2012 as compared to \$11,633,726 at June 30, 2011; an increase of \$128,234.

A large portion of Sweet Grass County's net assets, approximately 52%, reflect its investment in capital assets (e.g. land, building, machinery, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently these 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. Total debt of the county is \$780,706. Of this amount \$137,209 is bank-related debt for capital assets, \$175,236 is compensated absences and \$468, 261 is Other Post-Employment benefits.

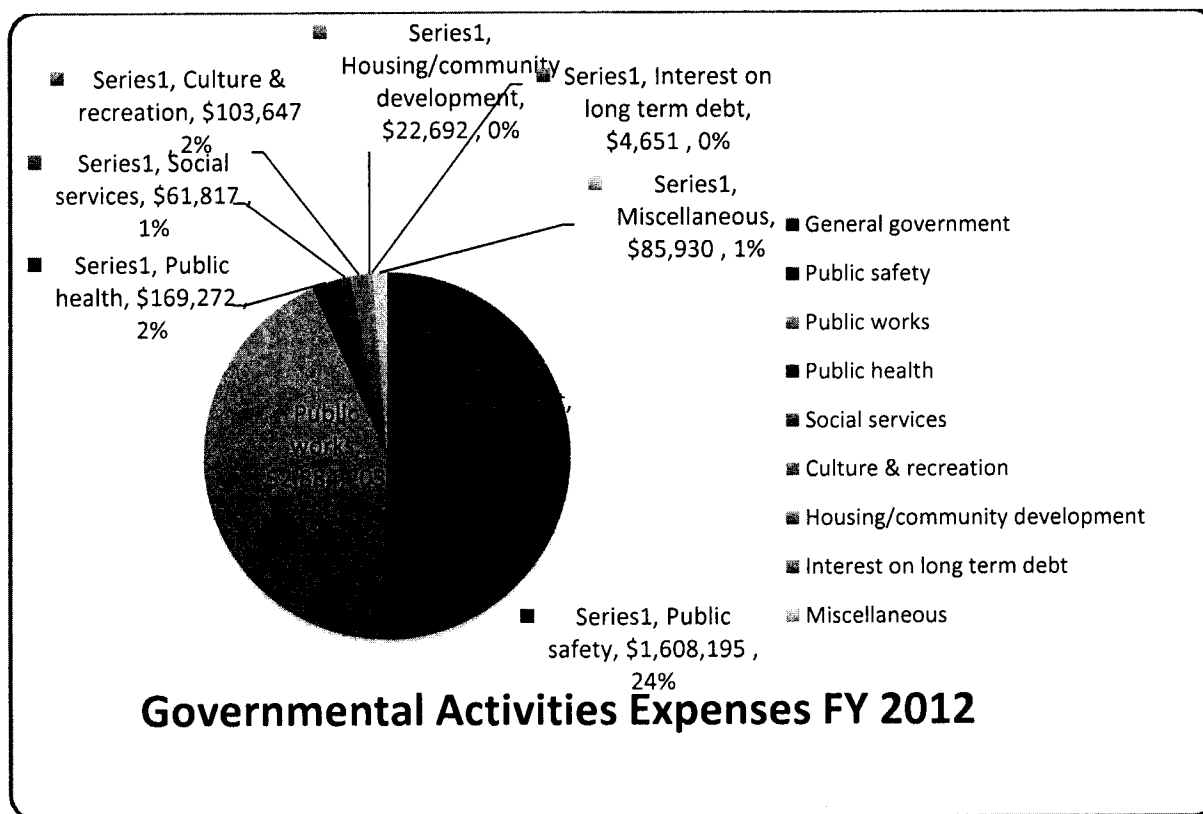
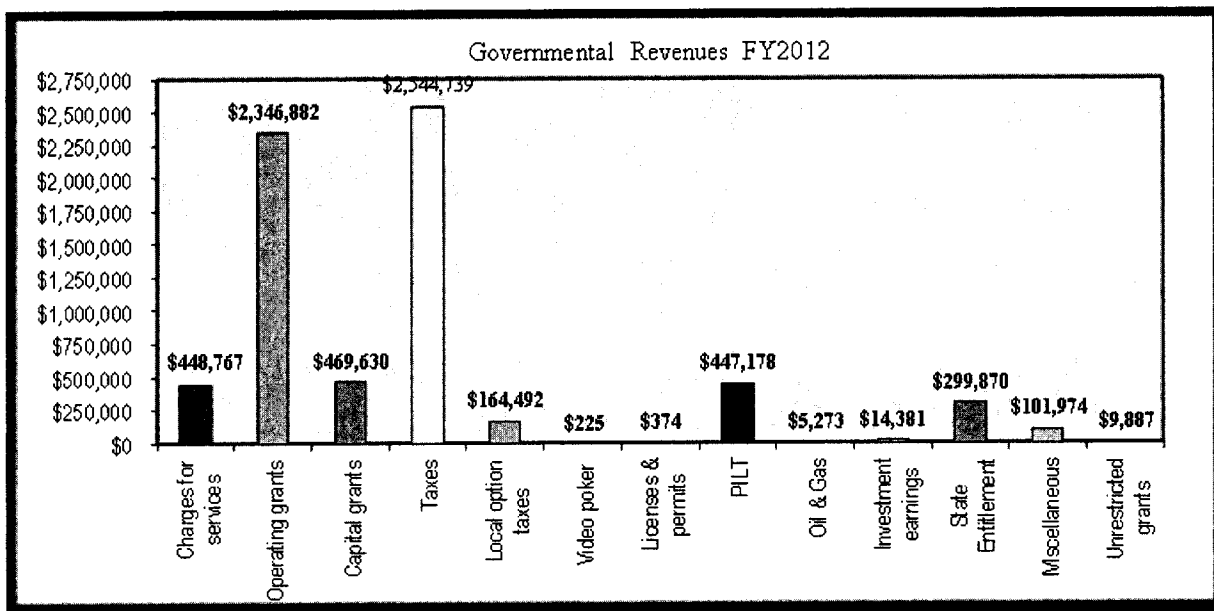
SWEET GRASS COUNTY						
Net Assets *						
Governmental Activities				Business-type Activities (PMC)		
	FY2012	FY2011	change from FY11 to FY12		FY2012	FY2011 change from FY11 to FY12
Current & other assets	\$ 6,636,840	\$ 5,910,855	\$ 725,985		\$ 2,824,888	\$2,552,970 \$ 271,918
Capital assets	\$ 6,261,894	\$ 6,493,102	\$ (231,206)		\$ 3,240,872	\$2,667,895 \$ 572,977
Total assets	\$12,898,734	\$12,403,957	\$ 494,777		\$ 6,065,760	\$5,220,865 \$ 844,895
Long-term debt outstanding	\$ 780,706	\$ 640,757	\$ 139,949		\$ 3,170,235	\$2,545,701 \$ 624,534
Other liabilities	\$ 356,068	\$ 129,474	\$ 226,594		\$ 288,324	\$ 313,363 \$ (25,039)
Total liabilities	\$ 1,136,774	\$ 770,231	\$ 366,543		\$ 3,458,559	\$2,859,064 \$ 599,495
Invested in capital assets (net of debt)	\$ 6,124,685	\$ 6,327,301	\$ (202,616)		\$ 1,017,535	\$ 846,057 \$ 171,478
Restricted	\$ 4,505,762	\$ 3,800,220	\$ 705,542		\$ 241,718	\$ 255,137 \$ (13,419)
Unrestricted	\$ 1,131,513	\$ 1,506,205	\$ (374,692)		\$ 1,347,948	\$1,260,607 \$ 87,341
Total net assets	\$11,761,960	\$11,633,726	\$ 128,234		\$ 2,607,201	\$2,361,801 \$ 245,400
* Detailed findings on Statement of Net Assets						

At the end of FY12, Sweet Grass County is able to report positive balances in all three categories of net assets, 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, \$4,505,762 represents resources that are subject to external restrictions on how they may be used. Restricted assets are made up primarily of special revenue funds, which by state law are levied for specific purposes and are, therefore, restricted in their usage. For example, a mill levy is set for the cemetery (fund 2240). Taxes collected for the cemetery may only be used for the cemetery, thus restricting the usage of this money. Unrestricted net assets are primarily comprised of general fund monies, which are used to finance the general overall function of the County. The remaining balance of unrestricted net assets, \$1,131,513, may be used to meet the government's ongoing obligations to citizens and creditors.

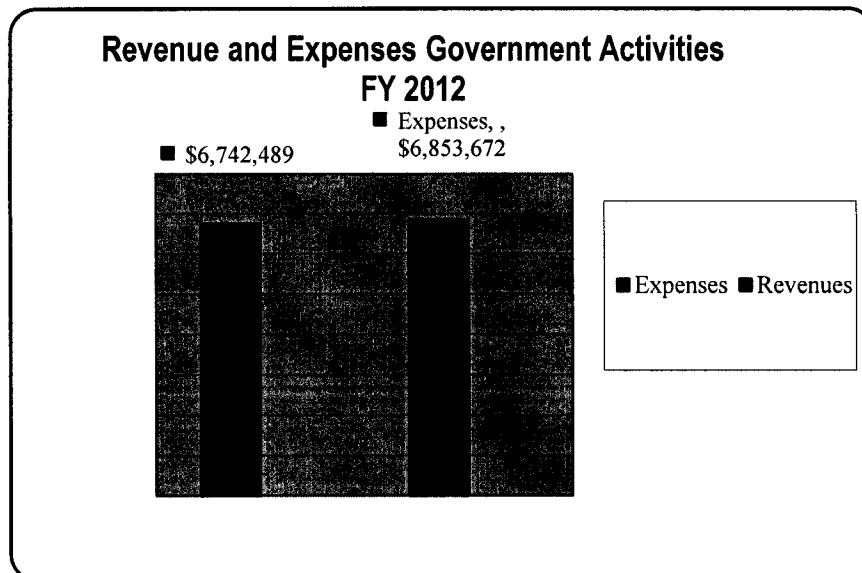
The PMC has 39% of its net assets invested in net capital assets (land, buildings and machinery less accumulated depreciation and related debt balances). A small percentage (9%) of PMC net assets are restricted by bond agreements. PMC assets exceeded its liabilities by \$2,607,201. A memorial fund (fund 2700) is accounted for on county books for the benefit of the PMC. Money in the memorial fund is from donations, grants, loans, and interest earned. It is overseen by a board of appointed citizens who determine what the donations will be used for (unless they are restricted in use). This fund is used solely for the benefit of the PMC. Cash balance in the memorial fund at the end of FY12 was \$495,369.





		Sweet Grass County		
		Change in Net Assets		
		*		
	2012	2011	change from FY 11 to FY 12	
<b>REVENUES</b>				
Charges for services/fines/fees	\$ 448,767.00	\$ 456,142	\$ (7,375)	-1.62%
Operating grants/contributions	\$ 2,346,882.00	\$ 1,563,073	\$ 783,809	50.15%
Capital grants/contributions	\$ 469,630.00	\$ 391,328	\$ 78,302	20.01%
Taxes	\$ 2,544,739.00	\$ 2,588,671	\$ (43,932)	-1.70%
Local Option Tax	\$ 164,492.00	\$ 174,847	\$ (10,355)	-5.92%
Video Poker Apportionment	\$ 225.00	\$ 200	\$ 25	12.50%
Misc	\$ 101,974.00	\$ 109,065	\$ (7,091)	-6.50%
Interest earnings	\$ 14,381.00	\$ 46,342	\$ (31,961)	-54.72%
PILT	\$ 447,178.00	\$ 403,864	\$ 43,314	6.87%
Oil & Gas Production	\$ 5,273.00	\$ 28,088	\$ (22,815)	-81.23%
State Entitlement	\$ 299,870.00	\$ 283,888	\$ 15,982	5.63%
Unrestricted grants	\$ 9,887.00	\$ -	\$ 9,887	100.00%
Licenses & Permits	\$ 374.00	\$ 311	\$ 63	20.26%
Total revenues	\$ 6,853,672	\$ 6,045,819	\$ 807,853	13.36%
<b>EXPENSES</b>				
General government	\$ 1,802,082.00	\$ 1,563,617	\$ 238,465	15.28%
Public safety	\$ 1,608,195.00	\$ 1,413,758	\$ 194,437	13.75%
Public works	\$ 2,884,203.00	\$ 1,525,521	\$ 1,358,682	88.92%
Public health	\$ 169,272.00	\$ 422,733	\$ (253,461)	-59.96%
Social services	\$ 61,817.00	\$ 61,439	\$ 378	0.62%
Culture & recreation	\$ 103,647.00	\$ 110,562	\$ (6,915)	-6.25%
Housing/community development	\$ 22,692.00	\$ 117,250	\$ (94,558)	-80.65%
Interest on long term debt	\$ 4,651.00	\$ 4,211	\$ 440	10.45%
Miscellaneous	\$ 85,930.00	\$ 38,321	\$ 47,609	124.24%
Total expenses	\$ 6,742,489	\$ 5,257,412	\$ 1,485,077	
Change in net assets	\$ 111,183	\$ 788,407	\$ (677,224)	
Transfers - Net		\$ -		
Inc/dec net assets	\$ 111,183	\$ 788,407	\$ (677,224)	
* Detail information may be found in Statement of Activities.				

Note: Highlighted percentages are explained in further detail on the following pages.



**Governmental Activities.** Governmental activities increased Sweet Grass County net assets by \$111,183.

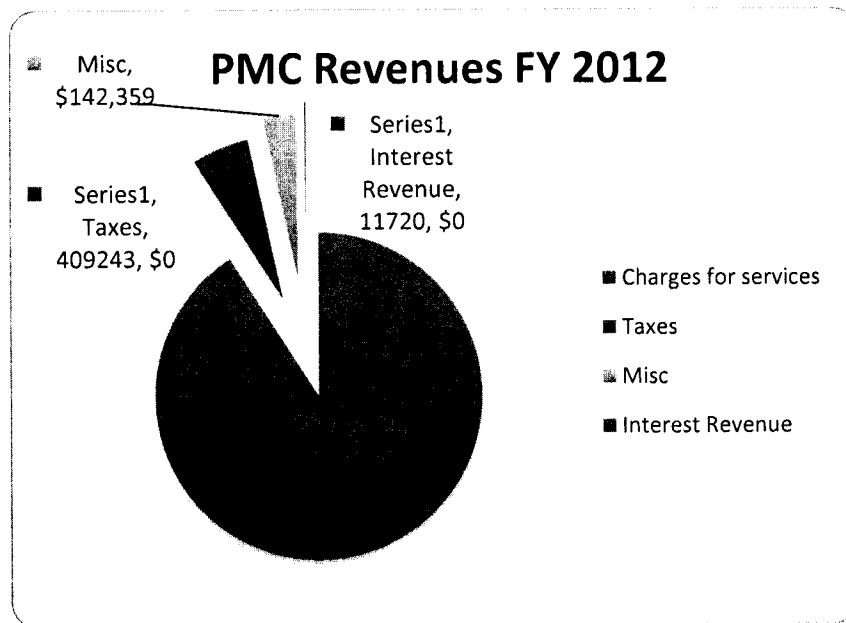
Governmental revenues increased from FY 11 to FY 12 by \$807,853. Despite massive flooding at the end of FY 11 and the receipt of \$1.4 million in FEMA (state and federal) funds in FY 12 the overall change in revenues collected in FY 12 was just an increase of 13%. However, the funds that did change were by large percentages and require further explanation as follows:

1. Oil and gas revenues decreased by 81%. These revenues tend to fluctuate every year based on the very small amount of production in the county. These revenues are sent to the state by the producers and then dispersed back to the county. It is not revenue that we depend on to any great extent due to the variability every year and the inability to predict what it will be from year to year.
2. Operating grant revenue increased by 50% primarily due to the flood that occurred in May 2011. Even though the flood occurred in FY 2011 we did not start receiving FEMA funds until FY 2012. We received nearly \$1.5 million in funding from FEMA and the State of Montana to repair flood damage. We had 55 recognized flood-damaged sites. Fifty-one of those were repaired by the end of FY 12.
3. Unrestricted grants increased from zero in FY 11 to \$9,887 in FY 12. This was the result of 2 grants. One for Taylor Grazing for \$887 and \$9000 from DNRC for the Fire Department.
4. Interest earnings decreased from FY 11 because we had three certificates of deposit (CD) valued at \$908,476 that were paying 3.51% in interest which matured in December 2010 and falling interest rates. A CD that had been paying 1.06% now pays .47% for one year.

Expenditures, like revenues, overall only increased by 28%. Changes in expenses from FY 2011 to FY 2012 came from the following sources:

1. Public Works (includes road, bridge, cemetery, weed and airport) increased from FY11 by 89%.
  - ♦ The number one reason for the increase in public works expenditures was the flood in May 2011. The county spent almost \$1.5 million in flood repairs. We put many of the roads out for bid for the repairs. The county road crew did some of the flood repair work. It was also necessary to maintain the undamaged roads while needing to repair the damaged roads. The county commissioners and county road supervisor decided that it was more cost effective to contract many of these repairs. Flooding in May 2011 destroyed Upper Deer Creek Road, most of Bridger Creek, much of West Bridger Creek, and parts of some of the following roads: Wormser Loop, Lower Sweet Grass, Susie Creek, Main Boulder and Mendenhall. Flood repairs that were bid out were accounted in a separate fund, 2958. Two roads that were contracted out for flood repair and being paid for by FEMA needed further repairs that FEMA did not cover. While the contractor was in place the county had additional work done on the west side of Terland Bridge and an additional culvert at Blind Bridger. Expenditures on contracts in the road fund for these repairs went from \$1000 in FY 11 to \$14,700 in FY 12.
  - ♦The airport NAVAIDS system is up and running and decreased these expenditures in the airport budget. On the flip side because the projects are completed insurance for airport buildings increased by almost \$2800.

2. Public Health decreased by 60% because alcohol rehab fund 2800 had put \$27,635 towards the renovation of the annex building in FY 11 and that expense was no longer there in FY 12.
3. There was an 81% decrease in expenditures in housing because the annex and courthouse remodeling jobs were completed by the end of FY 11.
4. Miscellaneous expenditures increased by 124%.
  - ♦ Transfers were made from general, road, bridge, weed, and fair funds to capital improvement funds to save money for future projects.
  - ♦ There were numerous grant funds that were awaiting reimbursement and their cash balances were negative. Loans were made to these funds to cover the negative cash balances until the reimbursements were received.
  - ♦ The county traded in several vehicles at a loss and we wrote off some equipment that was no longer in use and scrapped.



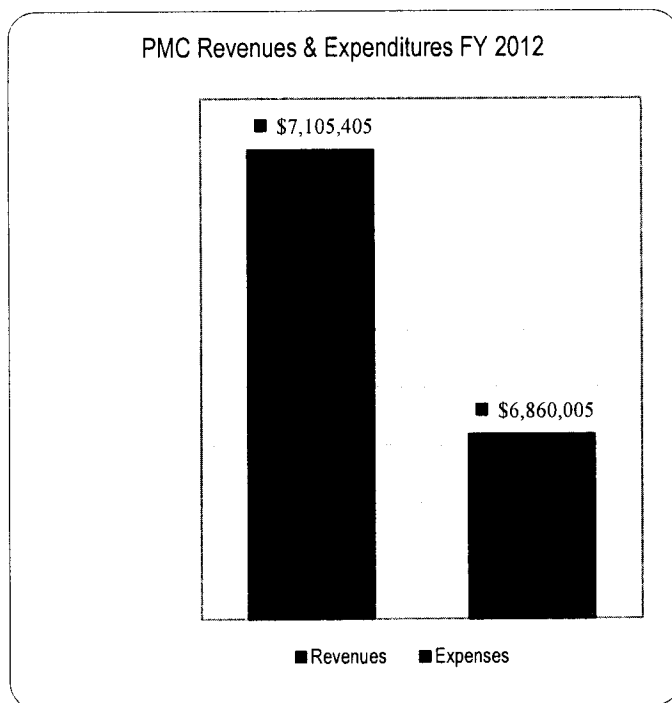
## PMC Expenditures FY 2012

■ Personnel Services,  
\$3,545,534

■ Personnel Services

Sweet Grass County				
Change in Net Assets *				
Business-type Activities (PMC)				
	2012	2011	change from FY 11 to FY 12	
<b>REVENUES</b>				
Charges for services/fines/fees	\$ 6,542,083.00	\$ 7,055,924.00	\$ (513,841)	-7.28%
Taxes	\$ 409,243.00	\$ 406,636.00	\$ 2,607	0.64%
Misc	\$ 142,359.00	\$ 7,145.00	\$ 135,214	1892.43%
Interest earnings	\$ 11,720.00	\$ 18,368.00	\$ (6,648)	-36.19%
Unrestricted grants	\$ -	\$ 810.00	\$ (810)	-100.00%
Total revenues	\$ 7,105,405.00	\$ 7,488,883.00	\$ (383,478.00)	
<b>EXPENSES</b>				
PMC/Ambulance	\$ 6,860,005.00	\$ 7,276,746	\$ (416,741)	-5.74%
Total expenses	\$ 6,860,005.00	\$ 7,276,746	\$ (416,741)	
Change in net assets	\$ 245,400	\$ 212,137	\$ 33,263	
Transfers - Net		\$ -		
Inc/dec net assets	\$ 245,400	\$ 212,137	\$ 33,263	
* Detail information may be found in Statement of Activities.				

Note: Highlighted percentages are explained in further detail on the following pages.



## CHANGES IN ENTERPRISE FUND NET ASSETS

There were two changes in PMC revenues that require further explanation. Miscellaneous revenue in the PMC increased from reimbursements from the memorial fund for expenditures paid on their behalf by the PMC. The other change was a decrease in interest. As explained in the change to governmental interest, this was due to 3 large CD's coming due in FY 11 and a drop in interest rates for a one year CD from 1.06% to approximately .47%.

### General Fund Budgetary Highlights

Total revenues budgeted in the general fund were \$1,185,714 and collected were \$1,195,795. Actual collections for the general fund were \$7,602 more than anticipated. Total expenditures budgeted in the general fund were \$1,322,843 and spent were \$1,235,766. Actual expenditures from the general fund were \$87,077 less than budgeted. Expenditures exceeded revenues by \$22,277 in the general fund. The County always strives to be fiscally conservative.

The County suffered from devastating flooding in May 2011. Upper Deer Creek, Bridger Creek and West Bridger Creek roads suffered heavy damage from the flooding. Numerous other roads and bridges also suffered damages. Road crews worked non-stop to repair roads where they could to get access for residents. In FY 12 as things slowed and the rain stopped FEMA came on site to inspect and prepare damage estimates at just over \$2 million. The county received federal assistance through FEMA and the State of Montana. FEMA requires a 25% match in addition to a 2-mill levy being imposed from the county. The state covered the 25% match and the county milled on November 2011 tax bills for the 2 mills. We have been approved for \$2,088,425.38 in federal and state assistance. As of June 30, 2012 we have received \$1,383,291.26. Of the fifty-five sites identified work has been completed on fifty-one.

## Capital Asset and Debt Administration

**Capital assets.** Sweet Grass County's investment in capital assets (net of accumulated depreciation) is \$6,124,687. 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 2012:

- ✓ There are several construction in progress projects (CIPP). CIPP are not depreciated until they are completed and, therefore, are accounted for separately from depreciable fixed assets
  - 2. Remodel of annex – completed in FY12 for \$1,156,666.80
  - 3. CIPP - De-Construction and re-construction of community events center – is still listed as construction in progress but a decision was made by the commissioners to sell the tin from the building. This occurred in October 2012 and was sold for \$25,000.
  - 4. CIPP - TSEP funded bridges 08-411 and 10-523 – both completed in FY 2013
  - 5. CIPP – TSEP funded bridge 12-700 on Otter Creek – should be completed in FY 2013
  - 6. Courthouse remodel – completed in FY12 for \$122,281.58
  - 7. FIRE 7 – command truck – completed in FY12 for \$38,244.95; and old fire seven was moved to the McLeod area.
  - 8. Courthouse communications tower – completed in FY12 for \$170,245.21
- ✓ 2009 Ford F150 for sheriff - \$28,181.87
- ✓ 2011 Polaris ATV with trac system for sheriff search and rescue team - \$12,270 (\$10,000 paid for with grant funds)
- ✓ 2001 Freightliner Truck for road - \$22,500
- ✓ 2000 Freightliner Truck for road - \$19,500
- ✓ 2006 Ford F250 for road - \$11,990
- ✓ 2003 Cat 312 CL Excavator for road - \$30,000
- ✓ 2008 Ford F150 pickup for weed - \$26,225 (purchased in part with grant funds)

The county cleared of and disposed of assets in FY 2012:

- ✓ 1965 Ford pickup – road – sold for \$505
- ✓ 1965 Ford pickup –road - sold for \$400
- ✓ Old truck – road – sold for \$513
- ✓ 1998 Chevy 1 ton – road – scrapped – original cost \$21,997
- ✓ 1994 Chevy pickup – road – sold for \$7,500
- ✓ 1996 Peterbilt – road – sold for salvage original cost \$12,500
- ✓ Riding mower – cemetery – scrapped – original cost \$6,800
- ✓ Leaf machine – cemetery – scrapped – original cost \$11,892
- ✓ Copier – county courthouse – scrapped – original cost \$5,527
- ✓ Copier – county annex – scrapped – original cost \$8,767
- ✓ Logging recorder – sheriff – scrapped – original cost \$19,013.51
- ✓ 2006 Dodge Durango – weed – traded in on 2008 Ford F150 – original cost \$22,750

**Long-term debt.** As of June 30, 2012 the County had total outstanding debt of \$137,209.88. Compensated Absences was \$175,235.84. Other Post-Employment Benefits (OPEB) were \$468,261. New debts incurred in FY 12 were two copier leases, one at the courthouse and one at the annex.

The PMC total outstanding debt was \$2,222,360.56. Compensated Absence liability is \$295,540.69. Other Post-Employment Benefits (OPEB) were \$652,332. New debt incurred was the construction loan for the ambulance station and the remodeling of the PMC for the ct scanner room.

SWEET GRASS COUNTY							
FY 2012 DEBT							
Governmental Activities				Business-type Activities (PMC)			
	2012 loan balance	2011 loan balance	amt debt reduced by in fy 2012		2012 loan balance	2011 loan balance	amt debt reduced by in fy 2012
Airport Runway 2	\$0.00	\$4,610.30	(\$4,610.30)	Construction loan	548,284.66	\$0.00	\$0.00
Copier lease - courthouse	\$6,071.42	\$0.00	\$1,223.58	ALF Revenue Bond	495,000.00	\$545,000.00	(\$50,000.00)
Copier lease - annex	\$9,173.22	\$0.00	\$1,225.78	ALF Revenue Bond	388,782.87	\$401,311.02	(\$12,528.15)
Skidsteer/Grader/Mower	\$121,965.24	\$161,190.22	(\$39,224.98)	1996 PMC Rev Bond	775,806.55	\$843,596.61	(\$67,790.06)
				Capital Lease	6,200.85	\$15,731.86	(\$9,531.01)
				Ambulance	8,285.63	\$16,198.02	(\$7,912.39)
Total assets	\$137,209.88	\$165,800.52	(\$41,385.92)		2,222,360.56	1,821,837.51	(\$147,761.61)

County & PMC Summary FY 2012 Debt			
	County	PMC	Total
Total Bank-Related Debt	\$ 137,209.88	\$ 2,222,360.56	\$ 2,359,570.44
Total Compensated Absences	\$ 175,235.74	\$ 295,540.69	\$ 470,776.43
Total OPEB	\$ 468,261.00	\$ 652,332.00	\$ 1,120,593.00
	\$ 780,706.62	\$ 3,170,233.25	\$ 3,950,939.87

- The following statistics are based on the latest census information and the Sweet Grass County Growth Policy adopted June 2009 (a new growth policy is being prepared by the planning office in FY 2013). 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 is \$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 2012 fiscal year.

The FY 2012 budget reflects 2012 mills and the inflationary increases allowed by statute.



### **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**

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, 2012, 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, business-type activities, each major fund, and the aggregate remaining fund information of the Sweet Grass County, Montana, as of June 30, 2012, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013, 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 14, 49 through 51, and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

March 27, 2013

**Sweet Grass County, Montana**  
**Statement of Net Assets**  
**June 30, 2012**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 5,431,066	\$ 1,552,194	\$ 6,983,260
Taxes and assessments receivable, net	161,741	31,857	193,598
Accounts receivable - net	-	777,257	777,257
Employee advances receivable	885	-	885
Interest receivable	-	113	113
Due from other governments	713,491	95,000	808,491
Prepaid expenses	-	26,857	26,857
Inventories	329,657	81,469	411,126
Total current assets	<u>\$ 6,636,840</u>	<u>\$ 2,564,747</u>	<u>\$ 9,201,587</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 260,141	\$ 260,141
Capital assets - land	61,056	2,500	63,556
Capital assets - construction in progress	332,931	615,915	948,846
Capital assets - depreciable, net	5,867,907	2,622,457	8,490,364
Total noncurrent assets	<u>\$ 6,261,894</u>	<u>\$ 3,501,013</u>	<u>\$ 9,762,907</u>
Total assets	<u>\$ 12,898,734</u>	<u>\$ 6,065,760</u>	<u>\$ 18,964,494</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 3,438	\$ 129,359	\$ 132,797
Accrued payables	5,547	102,559	108,106
Accrued interest payable	-	706	706
Accrued payroll	46,628	48,200	94,828
Deferred revenue	300,455	-	300,455
Current portion of long-term capital liabilities	43,050	179,995	223,045
Current portion of compensated absences payable	133,572	225,423	358,995
Total current liabilities	<u>\$ 532,690</u>	<u>\$ 686,242</u>	<u>\$ 1,218,932</u>
Noncurrent liabilities			
Deposits payable	\$ -	\$ 7,500	\$ 7,500
Noncurrent portion of long-term liabilities	468,261	652,332	1,120,593
Noncurrent portion of long-term capital liabilities	94,159	2,042,367	2,136,526
Noncurrent portion of compensated absences	41,664	70,118	111,782
Total noncurrent liabilities	<u>\$ 604,084</u>	<u>\$ 2,772,317</u>	<u>\$ 3,376,401</u>
Total liabilities	<u>\$ 1,136,774</u>	<u>\$ 3,458,559</u>	<u>\$ 4,595,333</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 6,124,685	\$ 1,018,510	\$ 7,143,195
Restricted for capital projects	614,862	-	614,862
Restricted for debt service	274	236,889	237,163
Restricted for special projects	3,890,626	-	3,890,626
Restricted for other purposes	-	4,829	4,829
Unrestricted	1,131,513	1,346,973	2,478,486
Total net assets	<u>\$ 11,761,960</u>	<u>\$ 2,607,201</u>	<u>\$ 14,369,161</u>
Total liabilities and net assets	<u>\$ 12,898,734</u>	<u>\$ 6,065,760</u>	<u>\$ 18,964,494</u>

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana  
Statement of Activities  
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 1,802,082	\$ 174,881	\$ 196,653	\$ 281,314	\$ (1,149,234)	\$ -	\$ (1,149,234)
Public safety	1,608,195	197,015	215,019	170,245	(1,025,916)	-	(1,025,916)
Public works	2,884,203	57,273	1,841,377	18,015	(967,538)	-	(967,538)
Public health	169,272	12,866	7,500	56	(148,850)	-	(148,850)
Social and economic services	61,817	2,332	-	-	(59,485)	-	(59,485)
Culture and recreation	103,647	4,400	500	-	(98,747)	-	(98,747)
Housing and community development	22,692	-	85,833	-	63,141	-	63,141
Debt service - interest	4,651	-	-	-	(4,651)	-	(4,651)
Miscellaneous	85,930	-	-	-	(85,930)	-	(85,930)
Total governmental activities	\$ 6,742,489	\$ 448,767	\$ 2,346,882	\$ 469,630	\$ (3,477,210)	\$ -	\$ (3,477,210)
<b>Business-type activities:</b>							
Pioneer Medical Center	\$ 6,860,005	\$ 6,542,083	\$ -	\$ -	\$ -	\$ (317,922)	\$ (317,922)
Total business-type activities	\$ 6,860,005	\$ 6,542,083	\$ -	\$ -	\$ -	\$ (317,922)	\$ (317,922)
Total primary government	\$ 13,602,494	\$ 6,990,850	\$ 2,346,882	\$ 469,630	\$ (3,477,210)	\$ (317,922)	\$ (3,795,132)
<b>General Revenues:</b>							
Property taxes for general purposes			\$		\$ 2,544,739	\$ 409,243	\$ 2,953,982
Local option tax					164,492	-	164,492
Video poker apportionment					225	-	225
Miscellaneous					101,974	142,359	244,333
Interest/investment earnings					14,381	11,720	26,101
PILT					447,178	-	447,178
Montana oil and gas production tax					5,273	-	5,273
State entitlement					299,870	-	299,870
Grants and entitlements not restricted to specific programs					9,887	-	9,887
Licenses and permits					374	-	374
Total general revenues, special items and transfers					\$ 3,588,393	\$ 563,322	\$ 4,151,715
Change in net assets					\$ 111,183	\$ 245,400	\$ 356,583
Net assets - beginning					\$ 11,633,726	\$ 2,361,801	\$ 13,995,527
Restatements					17,051	-	17,051
Net assets - beginning - restated					\$ 11,650,777	\$ 2,361,801	\$ 14,012,578
Net assets - end					\$ 11,761,960	\$ 2,607,201	\$ 14,369,161

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana  
Balance Sheet  
Governmental Funds  
June 30, 2012

	General	Road	Law Enforcement	Disaster (State/Federal)	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 1,296,441	\$ 526,131	\$ 281,971	\$ 1	\$ 3,326,522	\$ 5,431,066
Taxes and assessments receivable, net	41,578	23,901	31,216	-	65,046	161,741
Employee advances receivable	885	-	-	-	-	885
Due from other funds	316,474	-	-	-	-	316,474
Due from other governments	15,843	2,315	13,699	386,172	295,462	713,491
Inventories	-	329,657	-	-	-	329,657
Total current assets	\$ 1,671,221	\$ 882,004	\$ 326,886	\$ 386,173	\$ 3,687,030	\$ 6,953,314
Total assets	\$ 1,671,221	\$ 882,004	\$ 326,886	\$ 386,173	\$ 3,687,030	\$ 6,953,314
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ (400)	\$ -	\$ -	\$ -	\$ 3,838	\$ 3,438
Accrued payables	162	4,431	-	-	954	5,547
Accrued payroll	16,612	3,624	11,700	124	14,568	46,628
Due to other funds	-	-	-	104,921	211,553	316,474
Deferred revenue	41,578	23,901	31,216	300,455	65,046	462,196
Total current liabilities	\$ 57,952	\$ 31,956	\$ 42,916	\$ 405,500	\$ 295,959	\$ 834,283
Total liabilities	\$ 57,952	\$ 31,956	\$ 42,916	\$ 405,500	\$ 295,959	\$ 834,283
<b>FUND BALANCES</b>						
Nonspendable	\$ -	\$ 329,657	\$ -	\$ -	\$ -	\$ 329,657
Restricted	-	520,391	283,970	-	3,405,695	4,210,056
Unassigned fund balance	1,613,269	-	-	(19,327)	(14,624)	1,579,318
Total fund balance	\$ 1,613,269	\$ 850,048	\$ 283,970	\$ (19,327)	\$ 3,391,071	\$ 6,119,031
Total liabilities and fund balance	\$ 1,671,221	\$ 882,004	\$ 326,886	\$ 386,173	\$ 3,687,030	\$ 6,953,314

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, 2012**

<b>Total fund balances - governmental funds</b>	\$ 6,119,031
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,261,894
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.	161,741
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(780,706)
<b>Total net assets - governmental activities</b>	<b>\$ <u>11,761,960</u></b>

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, 2012

	General	Road	Law Enforcement	Disaster (State/Federal)	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes and assessments	\$ 810,181	\$ 367,972	\$ 515,267	\$ -	\$ 1,023,768	\$ 2,717,188
Licenses and permits	374	300	-	-	1,680	2,354
Intergovernmental	532,110	286,733	89,972	1,476,196	822,071	3,207,082
Charges for services	122,146	-	178,723	-	89,920	390,789
Fines and forfeitures	48,962	-	-	-	8,259	57,221
Miscellaneous	107,235	3,508	682	-	295,886	407,311
Investment earnings	19,486	-	1,019	-	25,423	45,928
Total revenues	\$ 1,640,494	\$ 658,513	\$ 785,663	\$ 1,476,196	\$ 2,267,007	\$ 6,827,873
<b>EXPENDITURES</b>						
General government	\$ 1,264,873	\$ -	\$ -	\$ -	\$ 240,453	\$ 1,505,326
Public safety	77,393	-	782,713	-	479,376	1,339,482
Public works	100,285	355,848	-	1,489,586	591,213	2,536,932
Public health	33,534	-	-	-	135,738	169,272
Social and economic services	1,750	-	-	-	60,067	61,817
Culture and recreation	-	-	-	-	86,396	86,396
Housing and community development	-	-	-	-	22,692	22,692
Debt service - principal	2,450	34,126	-	-	9,710	46,286
Debt service - interest	1,601	2,568	-	-	482	4,651
Miscellaneous	44,833	-	-	-	365	45,198
Capital outlay	90,912	25,000	28,182	-	401,829	545,923
Total expenditures	\$ 1,617,631	\$ 417,542	\$ 810,895	\$ 1,489,586	\$ 2,028,321	\$ 6,363,975
Excess (deficiency) of revenues over expenditures	\$ 22,863	\$ 240,971	\$ (25,232)	\$ (13,390)	\$ 238,686	\$ 463,898
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds of general long term debt	\$ 17,694	\$ -	\$ -	\$ -	\$ -	\$ 17,694
Proceeds from the sale of general capital asset disposition	-	-	4,752	-	-	4,752
Transfers in	2,479	-	27,830	-	454,016	484,325
Transfers out	(337,007)	-	-	(5,937)	(141,381)	(484,325)
Total other financing sources (uses)	\$ (316,834)	\$ -	\$ 32,582	\$ (5,937)	\$ 312,635	\$ 22,446
Net Change in Fund Balance	\$ (293,971)	\$ 240,971	\$ 7,350	\$ (19,327)	\$ 551,321	\$ 486,344
Fund balances - beginning	\$ 1,907,240	\$ 609,077	\$ 276,620	\$ -	\$ 2,839,750	\$ 5,632,687
Fund balance - ending	\$ 1,613,269	\$ 850,048	\$ 283,970	\$ (19,327)	\$ 3,391,071	\$ 6,119,031

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, 2012**

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

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 486,344</b>
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	545,923
- Depreciation expense	(761,450)
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:	
- Proceeds from the sale of capital assets	(4,752)
- Gain on the sale of capital assets	(27,980)
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)	13,047
The change in compensated absences is shown as an expense in the Statement of Activities	(12,454)
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	46,286
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets:	
- Proceeds from the sale of long-term debt	(17,694)
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)
<b>Change in net assets - Statement of Activities</b>	<b>\$ <u>111,183</u></b>

See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2012**

		<b>Business-Type Activities - Enterprise Funds</b>
		<b>Pioneer Medical Center</b>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	1,552,194
Taxes and assessments receivable, net		31,857
Accounts receivable - net		777,257
Interest receivable		113
Due from other governments		95,000
Prepaid expenses		26,857
Inventories		81,469
Total current assets	\$	<u>2,564,747</u>
Noncurrent assets:		
Restricted cash and investments	\$	260,141
Capital assets - land		2,500
Capital assets - construction in progress		615,915
Capital assets - depreciable, net		2,622,457
Total noncurrent assets	\$	<u>3,501,013</u>
Total assets	\$	<u><u>6,065,760</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$	129,359
Accrued payables		102,559
Accrued interest payable		706
Accrued payroll		48,200
Current portion of long-term capital liabilities		179,995
Current portion of compensated absences payable		225,423
Total current liabilities	\$	<u>686,242</u>
Noncurrent liabilities:		
Deposits payable	\$	7,500
Noncurrent portion of long-term liabilities		652,332
Noncurrent portion of long-term capital liabilities		2,042,367
Noncurrent portion of compensated absences		70,118
Total noncurrent liabilities	\$	<u>2,772,317</u>
Total liabilities	\$	<u><u>3,458,559</u></u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$	1,018,510
Restricted for debt service		236,889
Restricted for other purposes		4,829
Unrestricted		1,346,973
Total net assets	\$	<u>2,607,201</u>
Total liabilities and net assets	\$	<u><u>6,065,760</u></u>

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, 2012

		<b>Business-Type Activities - Enterprise Funds</b>
		<b>Pioneer Medical Center</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$	6,542,083
Miscellaneous revenues		142,359
Total operating revenues	\$	<u>6,684,442</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$	3,545,534
Supplies		386,838
Purchased services		1,595,665
Fixed charges		236,774
Loss/bad debt expense		705,625
Depreciation		296,622
Total operating expenses	\$	<u>6,767,058</u>
Operating income (loss)	\$	<u>(82,616)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Taxes/assessments revenue	\$	409,243
Interest revenue		11,720
Debt service interest expense		(92,947)
Total non-operating revenues (expenses)	\$	<u>328,016</u>
Income (loss) before contributions and transfers	\$	<u>245,400</u>
Change in net assets	\$	<u>245,400</u>
Net Assets - Beginning of the year	\$	2,361,801
Net Assets - End of the year	\$	<u><u>2,607,201</u></u>

See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2012**

		<b>Business - Type Activities - Enterprise Funds</b>
		<b>Pioneer Medical Center</b>
<b>Cash flows from operating activities:</b>		
Cash received from providing services	\$	5,860,056
Cash received from miscellaneous sources		142,359
Cash payments to suppliers		(2,228,615)
Cash payments to employees		(3,323,127)
Net cash provided (used) by operating activities	\$	450,673
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	\$	(869,599)
Capital contributions from other governments		(98,716)
Principal paid on debt		(150,476)
Interest paid on debt		(92,241)
Proceeds from bonds, loans and advances		551,000
Net cash provided (used) by capital and related financing activities	\$	(660,032)
<b>Cash flows from non-capital financing activities:</b>		
Tax levies and contributions from the County	\$	409,583
Cash received for patient trust fund		500
Net cash provided (used) from non-capital financing activities	\$	410,083
<b>Cash flows from investing activities:</b>		
Interest on investments	\$	12,056
Net cash provided (used) by investing activities	\$	12,056
<b>Net increase (decrease) in cash and cash equivalents</b>	\$	212,780
<b>Cash and cash equivalents at beginning</b>		1,599,555
<b>Cash and cash equivalents at end</b>	\$	1,812,335
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$	(82,616)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		296,622
Other post-employment benefits		217,444
Changes in assets and liabilities:		
Account's Recievable		23,598
Inventory		7,463
Prepaid expenses		2,841
Accounts payable		(19,642)
Compensated absences		6,566
Accrued wages		(1,603)
Net cash provided (used) by operating activities	\$	450,673

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2012

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 2,514,372	\$ 1,071,807
Interest and dividends receivable	-	2,202
Taxes receivable	-	290,405
Total assets	\$ <u>2,514,372</u>	\$ <u>1,364,414</u>
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 379,044
Due to others	-	985,370
Total liabilities	\$ <u>-</u>	\$ <u>1,364,414</u>
<b>NET ASSETS</b>		
Assets held in trust	\$ <u>2,514,372</u>	

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, 2012**

	<u><b>Investment Trust Funds</b></u>
<b>ADDITIONS</b>	
Contributions:	
Contributions	\$ 1,203,895
Interest and change in fair value of investments	<u>15,853</u>
Total additions	<u>\$ 1,219,748</u>
 <b>DEDUCTIONS</b>	
Distributions from investment trust fund	\$ <u>1,227,227</u>
Total deductions	<u>\$ 1,227,227</u>
Change in net assets	<u>\$ (7,479)</u>
 Net Assets - Beginning of the year	 \$ 2,521,851
 Net Assets - End of the year	 \$ <u><u>2,514,372</u></u>

See accompanying Notes to the Financial Statements

SWEET GRASS COUNTY, MONTANA  
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**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.

**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 component units' board; the County is either able to impose its will on the unit or a financial benefit or burden relationship exists. In addition, the County complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the County.

*Primary Government*

The County is a political subdivision of the State of Montana governed by a three member Board of County Commissioners duly elected by the registered voters of the County. 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. 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 in the consolidation 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

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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*

**Government-Wide Financial Statements**

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 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:



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- 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***

Modified Accrual

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 upon receipt. 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 fund:

*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.

*Road Fund* – A special revenue fund that was created to account for activities relating to road work.

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*Law Enforcement Fund* – A special revenue fund to account for the activities related to law enforcement services.

*Disaster (State/Federal) Fund* – A special revenue fund used to account for the activities related to presidentially declared disaster repair and recovery.

***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 funds:

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

***Fiduciary Funds***

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets. The fiduciary funds are:

*Investment Trust Funds* – To report the external portion of investment pools reported by the sponsoring government.

*Agency Funds* – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the County as an agent for individuals, private organizations, other local governmental entities and the County's claims and payroll clearing funds

SWEET GRASS COUNTY, MONTANA  
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**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2012, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash on hand	\$ 47,411
Cash in banks:	
Demand deposits	2,056,872
Savings deposits	71,273
Time deposits	6,294,553
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	<u>2,359,471</u>
Total	<u>\$10,829,580</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 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.

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

Short Term Investment Pool (STIP) Credit Quality ratings by the NRSRO as of June 30, 2012:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 579,229,187	A1	29
Corporate Commercial Paper	68,067,209	A1	116
Corporate Fixed Rate	23,609,565	B	214
Corporate Variable-Rate	419,480,034	A3	39
Certificates of Deposit Fixed Rate	30,064,940	A1	66
Certificates of Deposit Variable-Rate	416,232,894	A3	37
Other Asset Backed	21,507,129	BBB-	NA
U.S. Government Agency Fixed	124,991,596	A1	352
U.S. Government Agency Variable -Rate	502,707,759	A1	19
Money Market Funds (Unrated)	147,931,122	NR	1
Money Market Funds (Rated)	24,000,000	A1	1
Structured Investment Vehicles (SIV)	37,566,658	NR	6
Total Investments	<u>\$ 2,395,388,093</u>		<u>49</u>
Securities Lending Collateral Investment Pool	<u>\$ 4,930,327</u>	NR	*

“\*As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of 25 days and an average weighted final maturity of 61 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 606 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, 2012 the government’s bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>Balance</u>
Insured	\$3,568,693
- Collateral held by the pledging bank’s trust department in the County’s name. (Bank’s trust department hold’s collateral)	3,985,384
Uninsured and uncollateralized	<u>1,001,293</u>
Total deposits and investments	<u>\$8,555,370</u>

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**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 ratio of less than 6%.

The amount of collateral held for County deposits at June 30, 2012, equaled or exceeded 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 and they 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, 2012 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.

**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, 2012.

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**Statement of Net Assets**

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$ 5,526,470
Equity of external pool participants	<u>2,514,372</u>
Total equity	<u>\$ 8,040,842</u>

**Condensed Statement of Changes in Net Assets**

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 15,853	\$ 34,844
Contributions to trust	1,203,895	2,799,839
Distributions paid	<u>(1,227,227)</u>	<u>(2,359,487)</u>
Net change in net assets	\$ (7,479)	\$ 475,196
Net assets at beginning of year	<u>2,521,851</u>	<u>5,051,274</u>
Net assets at end of year	<u>\$ 2,514,372</u>	<u>\$ 5,526,470</u>

**Cash equivalents**

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

**NOTE 3. RECEIVABLES**

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the County. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

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.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

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**NOTE 4. INVENTORIES**

Inventories recorded in the proprietary fund statements are recorded using the First in First out inventory method. The cost of inventories are recorded as an expenditure when purchased.

Governmental fund inventories are recorded as an expenditure when purchased. A 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 fixed 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 in the 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 June 30, 2011	Additions/ Adjustments	Retirements/ Transfers	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 61,056	\$ -	\$ -	\$ 61,056
Construction in progress	<u>1,430,355</u>	<u>390,463</u>	<u>(1,487,889)</u>	<u>332,929</u>
Total capital assets not being depreciated	<u>\$ 1,491,411</u>	<u>\$ 390,463</u>	<u>\$(1,487,889)</u>	<u>\$ 393,985</u>
Other capital assets:				
Buildings	\$ 2,819,664	\$ -	\$ 1,279,399	\$ 4,099,063
Machinery and equipment	4,184,316	180,509	90,327	4,455,152
Infrastructure	<u>1,689,847</u>	<u>-</u>	<u>-</u>	<u>1,689,847</u>
Total other capital assets at historical cost	<u>\$ 8,693,827</u>	<u>\$ 180,509</u>	<u>\$ 1,369,726</u>	<u>\$ 10,244,062</u>
Less accumulated depreciation	<u>\$(3,692,136)</u>	<u>\$(761,450)</u>	<u>\$ 77,433</u>	<u>\$(4,376,153)</u>
Total	<u>\$ 6,493,102</u>	<u>\$(190,478)</u>	<u>\$ (40,730)</u>	<u>\$ 6,261,894</u>

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Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 128,215
Public safety	268,713
Public works	347,271
Culture and recreation	<u>17,251</u>
Total governmental activities depreciation expense	<u>\$761,450</u>

A summary of changes in business-type capital assets was as follows:

	Balance June 30, 2011	Additions	Balance June 30, 2012
Capital assets not being depreciated:			
Land	\$ 2,500	\$ -	\$ 2,500
Construction in progress	<u>4,475</u>	<u>611,440</u>	<u>615,915</u>
Total capital assets not being depreciated	<u>\$ 6,975</u>	<u>\$ 611,440</u>	<u>\$ 618,415</u>
Other capital assets:			
Buildings	\$ 5,916,273	\$ 5,110	\$ 5,921,383
Machinery and equipment	<u>1,448,500</u>	<u>253,049</u>	<u>1,701,549</u>
Total other capital assets at historical cost	<u>\$ 7,364,773</u>	<u>\$ 258,159</u>	<u>\$ 7,622,932</u>
Less accumulated depreciation	<u>\$(4,703,853)</u>	<u>\$(296,622)</u>	<u>\$(5,000,475)</u>
Total	<u>\$ 2,667,895</u>	<u>\$ 572,977</u>	<u>\$ 3,240,872</u>

**NOTE 6. LONG TERM DEBT OBLIGATIONS**

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, (are expensed at the date of sale.

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, 2012, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:					
	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Loans/contracted debt	\$ 4,611	\$ -	\$ (4,611)	\$ -	\$ -
Compensated absences	162,782	12,454	-	175,236	133,572
Intercap loans	161,190	-	(39,225)	121,965	39,972
Capital leases	-	17,694	(2,450)	15,244	3,078
Other post-employment benefits *	<u>312,174</u>	<u>156,087</u>	<u>-</u>	<u>468,261</u>	<u>-</u>
Total	<u>\$ 640,757</u>	<u>\$186,235</u>	<u>\$(46,286)</u>	<u>\$780,706</u>	<u>\$176,622</u>

\*See Note 9



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 July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Revenue bonds	\$1,789,908	\$ -	\$(130,318)	\$1,659,590	\$134,314
Loans/contracted debt	16,198	551,000	(10,627)	556,571	39,480
Compensated absences	288,975	6,566	-	295,541	225,423
Capital leases	15,732	-	(9,531)	6,201	6,201
Other post-employment benefits *	434,888	217,444	-	652,332	-
Total	<u>\$2,545,701</u>	<u>\$775,010</u>	<u>\$(150,476)</u>	<u>\$3,170,235</u>	<u>\$405,418</u>

\* See Note 9

*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, 2012</u>
2001 Assisted Living Facility Bond #1	05/01/2001	6.15%	20 yrs	07/01/2020	935,000	Varies	\$ 495,000
2001 Assisted Living Facility Bond #2	05/01/2001	4.75%	30 yrs	05/14/2031	500,000	31,320	388,783
1996 Pioneer Medical Center	07/02/1996	4.89%	25 yrs	05/31/2021	1,500,000	107,508	<u>775,807</u>
							<u>\$1,659,590</u>

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, 2012.

Annual requirement to amortize debt:

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

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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>\$1,659,590</u>	<u>\$527,539</u>

**Loans/Contracted Debt**

Loans/contracted debts outstanding as of June 30, 2012 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, 2012</u>
Ambulance	12/01/2009	4.25%	5 yrs	06/10/2013	38,024	\$ 8,286
Triangle Telephone Loan	10/15/2012	1.00%	8.8 yrs	01/15/2023	551,000	<u>548,285</u>
Total						<u>\$556,571</u>

Reported in business-type activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 39,480	\$ 7,047
2014	62,388	6,464
2015	62,388	5,684
2016	62,388	4,904
2017	62,388	4,124
2018	62,388	3,344
2019	62,388	2,564
2020	62,388	1,785
2021	62,388	1,005
2022	<u>17,987</u>	<u>225</u>
Total	<u>\$556,571</u>	<u>\$37,146</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.

Intercap loans outstanding as of June 30, 2012 were as follows:

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<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, 2012</u>
Equipment	03/05/2010	1.25-4.75%	5 yrs	2015/2015	<u>\$200,000</u>	<u>\$121,965</u>

Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 39,972	\$ 1,525
2014	41,282	1,025
2015	<u>40,711</u>	<u>509</u>
Total	<u>\$121,965</u>	<u>\$ 3,059</u>

**Capital Leases**

The County has entered into a several leases which meet 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, 2012 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Remaining Payments as of June 30, 2012</u>
(1) Courthouse copier lease	7/1/2011	12%	\$ 6,071
(1) Annex copier lease	11/1/2011	10%	9,173
(2) Fuji Carbon CF machine	6/21/2007	8.68%	<u>6,201</u>
			<u>\$21,445</u>

(1) Reported in the governmental activities.

(2) Reported in business-type activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 9,279	\$ 1,699
2014	3,428	1,168
2015	3,817	779
2016	4,162	345
2017	<u>759</u>	<u>19</u>
Total	<u>\$ 21,445</u>	<u>\$ 4,010</u>

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

**Compensated Absences**

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. 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 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 proprietary fund.

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How it will be eliminated</u>
Pred Animal Sheep	\$ 78	Excess expenditures	Future tax revenue
Emergency Disaster	1,282	Excess expenditures	Future tax revenue
Permissive Insurance levy	4,748	Excess insurance cost	Future tax revenue
Fire Fuels Reduction Grant	8,516	Overspent grant	Fund closeout
Disaster (State/Federal)	<u>19,327</u>	Overspent grant	Apply for more grant funding
	<u>\$ 33,951</u>		

**NOTE 8. INTERFUND RECEIVABLES AND PAYABLES**

**Interfund receivables and payables**

The composition of interfund balances as of June 30, 2012, were as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Temporarily cover negative cash	General	Predatory Animal Sheep	\$ 78
Temporarily cover negative cash	General	Emergency Disaster	1,282
Temporarily cover negative cash	General	Permissive Medical Levy	910
Temporarily cover negative cash	General	Fire fuels reduction grant	19,645
Temporarily cover negative cash	General	State Disaster Aid	104,921
Temporarily cover negative cash	General	2010 HGSP	170,246
Temporarily cover negative cash	General	Weed Upper Boulder	604
Temporarily cover negative cash	General	Weed RAC	251
Temporarily cover negative cash	General	DNRC RRGL	1,750
Temporarily cover negative cash	General	RAC	14,506
Temporarily cover negative cash	General	STEP Program	1,731
Temporarily cover negative cash	General	TSET PER	<u>550</u>
		Total	<u>\$ 316,474</u>

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2012:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Local match requirement	PER 2012 TSEP Grant – Nonmajor Governmental	General – Major Governmental	\$ 125,000
Local match requirement	PER 2012 TSEP Grant – Nonmajor Governmental	TSEP – Nonmajor Governmental	2,334
Local match requirement	PER 2012 TSEP Grant – Nonmajor Governmental	06-308 TSEP Grant – Nonmajor Governmental	14,466
Local match requirement	TSEP PER – Nonmajor Governmental	General – Major Governmental	15,000
Residual revenue transfer	General – Major Governmental	DUI Task Force – Nonmajor Governmental	2,479
Yearly funding for fair	Fair – Nonmajor Governmental	General – Major Governmental	1,000
Yearly funding for Law Enforcement	Law Enforcement – Major Governmental	General – Major Governmental	21,630
Yearly transfer from 911	Law Enforcement – Major Governmental	911 Emergency – Nonmajor Governmental	6,200
Reimbursement of Fire expenditures	Fire Fund – Nonmajor Governmental	Disaster State/Federal – Major Governmental	5,937
Residual transfer of funds	Fire Fund – Nonmajor Governmental	Fire Fuels Reduction Grant – Nonmajor Governmental	727
Residual transfer of funds	Fire Fund – Nonmajor Governmental	Capital Project Fire – Nonmajor Governmental	33
Operating transfer	Information Services – Nonmajor Governmental	General – Major Governmental	2,534
Operating transfer	Released Metal Mines Trust – Nonmajor Governmental	General – Major Governmental	157,210
Residual transfer of funds	Released Metal Mines Trust – Nonmajor Governmental	Capital Improvement Planning – Nonmajor Governmental	142
Operating transfer	Bank Stabilization Grant – Nonmajor Governmental	General – Major Governmental	4,633
Future capital projects	Capital Improvement Building – Nonmajor Governmental	General – Major Governmental	10,000
Future capital projects	Capital Project Bridge – Nonmajor Governmental	Bridge – Nonmajor Governmental	20,000
Future capital equipment	Road Machinery and Equipment – Nonmajor Governmental	Capital Improvement Road Shop – Nonmajor Governmental	50,000
Future capital equipment	Fair Capital Improvement Project Fund – Nonmajor Governmental	Fair – Nonmajor Governmental	<u>45,000</u>
			<u>\$484,325</u>

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 9. 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. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2012 for the defined benefit plans, were:

	<u>PERS**</u>	<u>SRS</u>
Employer	7.07%	10.115%
Employee	6.90%*	9.425%
State	0.10%	-

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: Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

The County's contributions for the years ended June 30, 2010, 2011, and 2012, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2010	\$233,483	\$25,113
2011	\$243,789	\$27,821
2012	\$245,943	\$29,434

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 10. 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 pay 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.

*Funding Status and funding Progress.* As of July 1, 2010, the most recent actuarial valuation date, the funding status was as follows:

Actuarial Accrued Liability (AAL)	\$2,278,260
Actuarial value of plan assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$2,278,260</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$5,880,596
UAAL as a percentage of covered payroll	39%

*Annual OPEB Cost and Net OPEB Obligation.* The County's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter 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 (30) 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 (ARC)	\$373,531
Interest on net OPEB obligation	\$ -
Adjustment to ARC	<u>\$ -</u>
Annual OPEB cost (expense)	\$373,531
Contributions made	<u>\$ -</u>
Increase in net OPEB obligation	\$373,531
Net OPEB obligation - beginning of year	<u>\$747,062</u>
Net OPEB obligation - end of year	<u><u>\$1,120,593</u></u>

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

SWEET GRASS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

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 are:

4.25%	Investment/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

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



SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 11. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the County as of June 30, 2012. These amounts are reported within the cash/investment account on the Statement of Net Assets.

<u>Description</u>	<u>Amount</u>
Debt service	\$ 255,312
Patient accounts	<u>4,829</u>
Total	<u>\$260,141</u>

**NOTE 12. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

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>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	<u>\$329,657</u>	Inventory

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$520,391	Public works
Law Enforcement	283,970	Public safety
All other aggregate funds	131,866	General government
	431,255	Public safety
	402,137	Public works
	552,376	Public health
	39,336	Social and economic services
	490,850	Culture and recreation
	114,370	Housing and community development
	586,039	Miscellaneous
	<u>657,466</u>	Capital outlay
	<u>4,210,056</u>	

**NOTE 13. 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>
Government Wide	\$17,051	Prior year asset value correction

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 14. 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, 2012. Sweet Grass County received \$154,148 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, 2012. Sweet Grass County received \$23,360 from the City for providing law enforcement services.

**Sanitarian Services**

The County entered into an agreement with Park County beginning May 1, 2012 for temporary sanitarian permitting and inspection services for Sweet Grass County. Sweet Grass County will reimburse Park County the sum of \$12,000 for services provided by the Park County Sanitarian as well as for use of County vehicles.

**NOTE 15. 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 16. 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

SWEET GRASS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

carrier. And, given the lack of coverage available, the County has no coverage for potential losses from environmental damages.

**NOTE 17. PENDING LITIGATION**

The following is a list of litigation pending against the County and the amount of damages claimed by the Plaintiff.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
<i>United Bank N .A. vs. Cain Ranch Company, A. Bruce Cain, Marian Cain, and Sweet Grass County Treasurer. DV2010-29. Litigation over unpaid loan by Cain Ranch C Company and lien for unpaid taxes by Sweet Grass County</i>	Unknown	Unknown

**NOTE 18. SUBSEQUENT EVENTS**

Sweet Grass County was awarded a 2012 Homeland Security Grant for \$110,000. The grant will pay for coats and pants for the fire department, a security system for the courthouse, emergency operation center equipment, satellite communication system, tactical vests, and a ballistic shield.

On September 18, 2012 the Search and Rescue team was awarded a Southern Montana Resource Advisory Committee (RAC) grant for \$6,500 for the purchase of water rescue equipment.

The county advertised and sold the tin from the building formerly known as the Carriage House. It had been donated by a landowner in the hopes that it could be put back up at the fairgrounds and used. The tin was sold in November 2012 for \$25,000.

The weed department purchased the old ambulance barn for \$103,000 in August 2012.

**NOTE 19. SIGNIFICANT TAXPAYER**

The Stillwater Mining Company taxes to the county represent approximately 41% of the total taxes paid. As of June 30, 2012 the Company's taxes are current.

# **REQUIRED SUPPLEMENTAL INFORMATION**

Sweet Grass County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2012

	General				Road			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	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	\$ 817,805	\$ 817,805	\$ 810,181	\$ (7,624)	\$ 369,312	\$ 369,312	\$ 367,972	\$ (1,340)
Licenses and permits	300	300	374	74	400	400	300	(100)
Intergovernmental	183,104	154,744	152,137	(2,607)	284,054	284,054	286,733	2,679
Charges for services	93,955	122,315	122,146	(169)	-	-	-	-
Fines and forfeitures	43,450	43,450	48,962	5,512	-	-	-	-
Miscellaneous	32,100	32,100	49,842	17,742	1,500	1,500	3,508	2,008
Investment earnings	15,000	15,000	9,674	(5,326)	-	-	-	-
Amounts available for appropriation	\$ 1,185,714	\$ 1,185,714	\$ 1,193,316	\$ 7,602	\$ 655,266	\$ 655,266	\$ 658,513	\$ 3,247
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>								
General government	\$ 1,131,411	\$ 1,089,634	\$ 1,034,362	\$ 55,272	\$ -	\$ -	\$ -	\$ -
Public safety	89,300	98,300	77,393	20,907	-	-	-	-
Public works	-	-	-	-	732,608	695,358	355,848	339,510
Public health	40,750	40,750	33,534	7,216	-	-	-	-
Social and economic services	5,000	5,000	1,750	3,250	-	-	-	-
Debt service - principal	-	2,635	2,450	185	-	34,250	34,126	124
Debt service - interest	-	1,686	1,601	85	-	3,000	2,568	432
Miscellaneous	-	44,838	44,833	5	-	-	-	-
Capital outlay	57,000	30,000	31,922	(1,922)	50,000	50,000	25,000	25,000
Total charges to appropriations	\$ 1,323,461	\$ 1,312,843	\$ 1,227,845	\$ 84,998	\$ 782,608	\$ 782,608	\$ 417,542	\$ 365,066
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds of general long term debt	\$ -	\$ -	\$ 17,694	\$ 17,694	\$ -	\$ -	\$ -	\$ -
Transfers in	-	-	2,479	2,479	-	-	-	-
Transfers out	-	(10,000)	(7,921)	2,079	-	-	-	-
Total other financing sources (uses)	\$ -	\$ (10,000)	\$ 12,252	\$ 22,252	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ (22,277)				\$ 240,971	
Fund balance - beginning of the year			\$ 443,919				\$ 609,077	
Fund balance - beginning of the year - restated			\$ 443,919				\$ 609,077	
<b>Fund balance - end of the year</b>			\$ 421,642				\$ 850,048	

Sweet Grass County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2012

	Law Enforcement				Disaster (State/Federal)			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A		BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	
	ORIGINAL		FINAL		ORIGINAL		FINAL	
<b>RESOURCES (INFLOWS):</b>								
Taxes and assessments	\$ 522,127	\$ 522,127	\$ 515,267	\$ (6,860)	\$ -	\$ -	\$ -	\$ -
Intergovernmental	105,483	105,483	89,972	(15,511)	-	-	672,049	1,476,196
Charges for services	173,148	173,148	178,723	5,575	-	-	-	-
Miscellaneous	1,000	5,753	682	(5,071)	-	-	-	-
Investment earnings	1,500	1,500	1,019	(481)	-	-	-	-
Amounts available for appropriation	\$ 803,258	\$ 808,011	\$ 785,663	\$ (22,348)	\$ -	\$ 672,049	\$ 1,476,196	\$ 804,147
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	849,905	841,595	782,713	58,882	-	-	-	-
Public works	-	-	-	-	-	-	1,489,586	(1,489,586)
Public health	-	-	-	-	477,532	1,025,817	-	1,025,817
Capital outlay	-	34,693	28,182	6,511	-	-	-	-
Total charges to appropriations	\$ 849,905	\$ 876,288	\$ 810,895	\$ 65,393	\$ 477,532	\$ 1,025,817	\$ 1,489,586	\$ (463,769)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	\$ 6,200	\$ 27,830	\$ 27,830	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-	-	-	(5,937)	(5,937)
Total other financing sources (uses)	\$ 6,200	\$ 27,830	\$ 32,582	\$ 4,752	\$ -	\$ -	\$ (5,937)	\$ (5,937)
Net change in fund balance			\$ 7,350				\$ (19,327)	
Fund balance - beginning of the year			\$ 276,620				\$ -	
Fund balance - beginning of the year - restated			\$ 276,620				\$ -	
<b>Fund balance - end of the year</b>			\$ 283,970				\$ (19,327)	

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**

	General	Road	Law Enforcement	Disaster (State/Federal)
<b>Sources/Inflows of resources</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,193,316	\$ 658,513	\$ 785,663	\$ 1,476,196
Combined funds (GASBS 54) revenues	447,178			
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 1,640,494	\$ 658,513	\$ 785,663	\$ 1,476,196
<b>Uses/Outflows of resources</b>				
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,227,845	\$ 417,542	\$ 810,895	\$ 1,489,586
Combined funds (GASBS 54) expenditures	389,786			
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 1,617,631	\$ 417,542	\$ 810,895	\$ 1,489,586

**Sweet Grass County, Montana**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress**  
**For Fiscal Year Ended June 30, 2012**

**Post Employment Health Care Plan**

Schedule of funding progress:

Actuarial Valuation <u>Date</u>	(AAL) Actuarial Accrued	(UAAL) Unfunded <u>AAL</u>	Funded <u>Ratio</u>
12/8/2011 for 7/1/2010	<u>\$2,278,260</u>	<u>\$2,278,260</u>	0%

Annual Covered Payrol \$ 5,880,596

Ratio of Unfunded Actuarial Liability (or Funding Excess) to Annual Covered Payroll 39%



## **SINGLE AUDIT SECTION**

Sweet Grass County, Montana  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For Fiscal Year Ended June 30, 2012

<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, 2012</b>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Direct:</i>			
Schools and Roads - Grants to States	10.665	12-DG-11011100-009	\$ 10,000
Schools and Roads - Grants to States	10.665	12-DG-11011100-005	250
Schools and Roads - Grants to States	10.665	12-DG-11011100-004	11,500
Environmental Quality Incentives Program	10.912	65-0325-12-039	12,237
Emergency Watershed Protection Program	10.923	69-0325-12-032	20,828
<i>Passed through Montana Department of Natural Resources:</i>			
Volunteer Fire Assistance program	10.664	VFA-12-490	9,000
<i>Passed through Montana Department of Agriculture:</i>			
Cooperative Weed Management Cost Share	10.664	MDA 2011-723X	27,902
<i>Passed through Montana Department of Administration:</i>			
Schools and Roads - Grants to States	10.665	N/A	211,064
<i>Passed through Triangle Telephone Cooperative:</i>			
Rural Economic Development Grants and Loans	10.854	N/A	548,285
<b>Total U.S. Department of Agriculture</b>			<b>\$ 851,066</b>
<b><u>U.S. Department of Housing &amp; Urban Development</u></b>			
<i>Passed through Department of Commerce:</i>			
Community Development Block Grant	14.228	MT-CDBG-ED10-07	\$ 166,706
<b>Total U.S. Department of Housing &amp; Urban Development</b>			<b>\$ 166,706</b>
<b><u>U.S. Department of the Interior:</u></b>			
<i>Passed through Sweet Grass Conservation District:</i>			
National Fire Plan - Wildland Urban Interface Fire Assistance	15.228	BLM-MT-RFA09-0801	\$ 32,498
<b>Total Department of the Interior</b>			<b>\$ 32,498</b>
<b><u>U.S. Department of Justice</u></b>			
<i>Direct:</i>			
Community Oriented Policing Services	16.710	2010UMWX0188	\$ 41,690
<b>Total U.S. Department of Justice</b>			<b>\$ 41,690</b>
<b><u>U.S. Department of Transportation</u></b>			
<i>Direct:</i>			
Airport Improvement Program	20.106	3-30-0007-007-2010	\$ 11,341
<i>Passed through Montana Sheriff and Peace Officers Association:</i>			
Alcohol Impaired Driving Countermeasures Incentive Grant	20.601	N/A	2,470
<b>Total U.S. Department of Transportation</b>			<b>\$ 13,811</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through Montana Department of Health &amp; Human Services:</i>			
Public Health Emergency Preparedness	93.069	N/A	\$ 44,643
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 44,643</b>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed through Montana Department of Military Affairs:</i>			
Disaster Grants - Public Assistance (Presidentially declared disasters)	97.036	N/A	\$ 927,442
Emergency Management Performance Grants	97.042	EMW-2011-EP-00035	16,172
Homeland Security Grant Program	97.067	2010-SS-T0-0089	141,289
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 1,084,903</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 2,235,317</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, 2012

*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***

County Commissioners  
Sweet Grass County  
Big Timber, Montana

We have audited the 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, 2012, which collectively comprise the Sweet Grass County's basic financial statements and have issued our report thereon dated March 27, 2013. Except as discussed in the previous sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Sweet Grass County is responsible for establishing and maintaining effective 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness as item 12-1.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 12-2 and 12-3 to be significant deficiencies.

#### 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sweet Grass County's response to the findings identified in our audit is described in the Auditee's Response 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 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 27, 2013

***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**

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

Compliance

We have audited Sweet Grass County, 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, 2012. 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, 2012.

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 our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 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 27, 2013

SWEET GRASS COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2012

**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?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

**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>
10.854	Rural Economic Development Grants and Loans
97.036	Disaster Grants – Public Assistance (Presidentially declared disasters)

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes



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

### **Section II – Financial Statement Findings**

#### **12-1 Internal Activity**

**Condition:**

The County has reported internal activity in the form of reimbursements between the PMC Memorial Fund and the Pioneer Medical Center Fund. Management has corrected this for financial reporting.

**Criteria:**

Governmental Accounting Standards Board statement number 34 (GASB-34) states that reimbursements between funds should not be reported.

**Effect:**

Revenues and expenses in the PMC Memorial Fund and the Pioneer Medical Center Fund were double reported for reimbursement situations. Management has corrected this for financial reporting.

**Recommendation:**

We recommend that the County monitor reimbursement activity between funds and eliminate the duplicated activity for financial reporting each year.

**Auditee Response:**

Management concurs. The finance officer will continue to account for the internal activity between the Pioneer Medical Center (PMC) fund and the PMC Memorial fund as has been done in the past but will eliminate this internal activity on the annual financial report.

#### **12-2 Outstanding Warrants (repeat of prior year finding 11-1)**

**Condition:**

The County has warrants outstanding greater than one year totaling \$7,137 (this is a repeat of prior year finding 11-1 in which the total was \$3,655).

**Criteria:**

Montana Code Annotated (MCA) 7-6-2607 indicates that all warrants outstanding for more than one year should be cancelled.

**Effect:**

No review of outstanding warrants greater than one year is deemed to be a control deficiency and is contrary to MCA 7-6-2607 which indicates the board shall cause to be canceled all county warrants that have remained uncalled for one year or more.

**Recommendation:**

We recommend that the County investigate all warrants outstanding for greater than one year and cancel all warrants necessary through the use of State disbursement agencies or other means.

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

### **Auditee Response:**

Management concurs. We will develop a procedure that allows for outstanding warrants to be researched and acted on as necessary.

### **12-3 Expenditures Incurred Without an Appropriation (repeat of prior year finding 11-2)**

#### **Condition:**

The County's final budget document did not show spending authority for fund 2950 – DUI Task Force. In the County's financial system the budget for this fund was increased to cover expenditures without authorization. Expenditures were \$2,698 with no authorized budget.

#### **Criteria:**

Montana code annotated (MCA) 7-6-4005 (1) 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:**

The County is not in compliance with Montana Code Annotated, and there is potential personal liability of county officials for the amount of the excess expenditures.

#### **Cause:**

Budgets were not properly reconciled between the accounting system and the approved budget documentation. Resolutions were not obtained for all budgetary amendments.

#### **Recommendation:**

Once the budget is adopted, those budgetary 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, the budget should not be changed during the year without proper authorizing documentation to support the changes made to the budget.

#### **Auditee Response:**

Management concurs. The clerk and recorder and finance officer will work together to resolve this audit point. They will insure that the original budget agrees with the budget report submitted to the state. Any changes to this budget, whether it is a correction to a budget or an actual change in the amount budgeted, will be done with a resolution signed by the commissioners.

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

There were no federal award findings or questioned costs reported.

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

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

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

<u>Recommendation</u>	<u>Action Taken</u>
Internal Control Risk Assessments	Repeated
Expenditures Incurred Without an Appropriation	Repeated

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

March 27, 2013