

SWEET GRASS COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

AUDIT REPORT

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

SWEET GRASS COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

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SWEET GRASS COUNTY, MONTANA

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SWEET GRASS COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2013

BOARD OF COUNTY COMMISSIONERS ETC.

Susan Mosness
Bob Faw
Bill Wallace

Chairperson
Commissioner
Commissioner

COUNTY OFFICIALS ETC.

Patrick Dringman
Jane Stene
Sherry Bjorndal
Deanna Novotny
Jessie Connolly
Susan Metcalf
Daniel Tronrud

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

Sweet Grass County
FY 2013
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, 2013. 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, 2013 by \$12,060,505 (total net position). Included in total net position is \$5,924,273 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 46% of the total net position. Also included in net position is \$789,216 of unrestricted net position. This may be used to meet the general government's ongoing obligations to citizens and creditors. The remaining \$5,347,016 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, and 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 FY2013 exceeded its liabilities by \$3,742,902 (total net position). Included in total net position is \$2,058,696 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 55% of total net position. Pioneer Medical Center has \$1,444,690 in unrestricted assets and \$239,516 in restricted assets. Unrestricted assets may be used to meet the PMC ongoing obligations to citizens and creditors. Restricted assets are reserves required to be held for 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 45.57% 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 position* presents information on all Sweet Grass County assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position 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, PMC memorial fund, metal mines trust, and disaster (flood-related) which are considered major funds in FY 2013. 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 position 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 \$12,060,505 at June 30, 2013 as compared to \$11,761,960 at June 30, 2012; an increase of \$298,545.

A large portion of Sweet Grass County's net position, approximately 50%, 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 \$977,125. Of this amount \$162,374 is bank-related debt for capital assets, \$190,403 is compensated absences and \$624,348 is Other Post-Employment benefits.

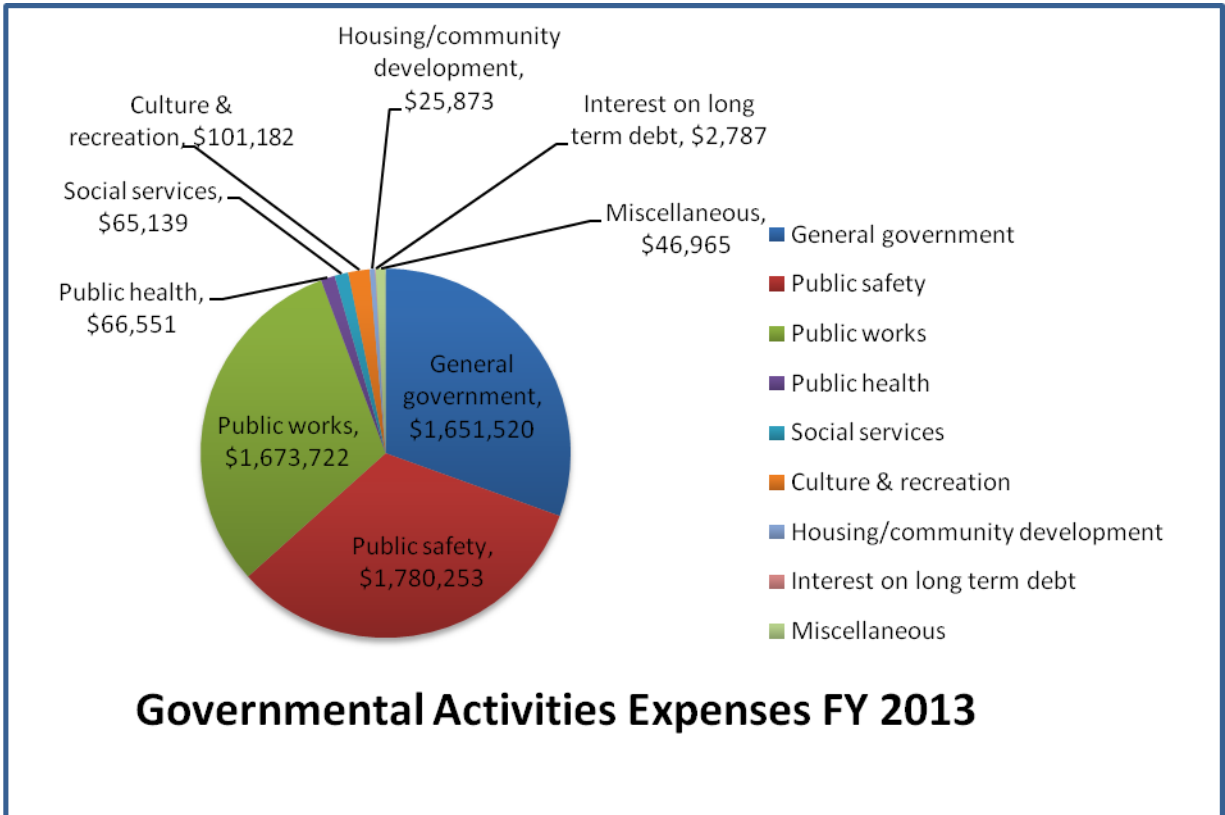
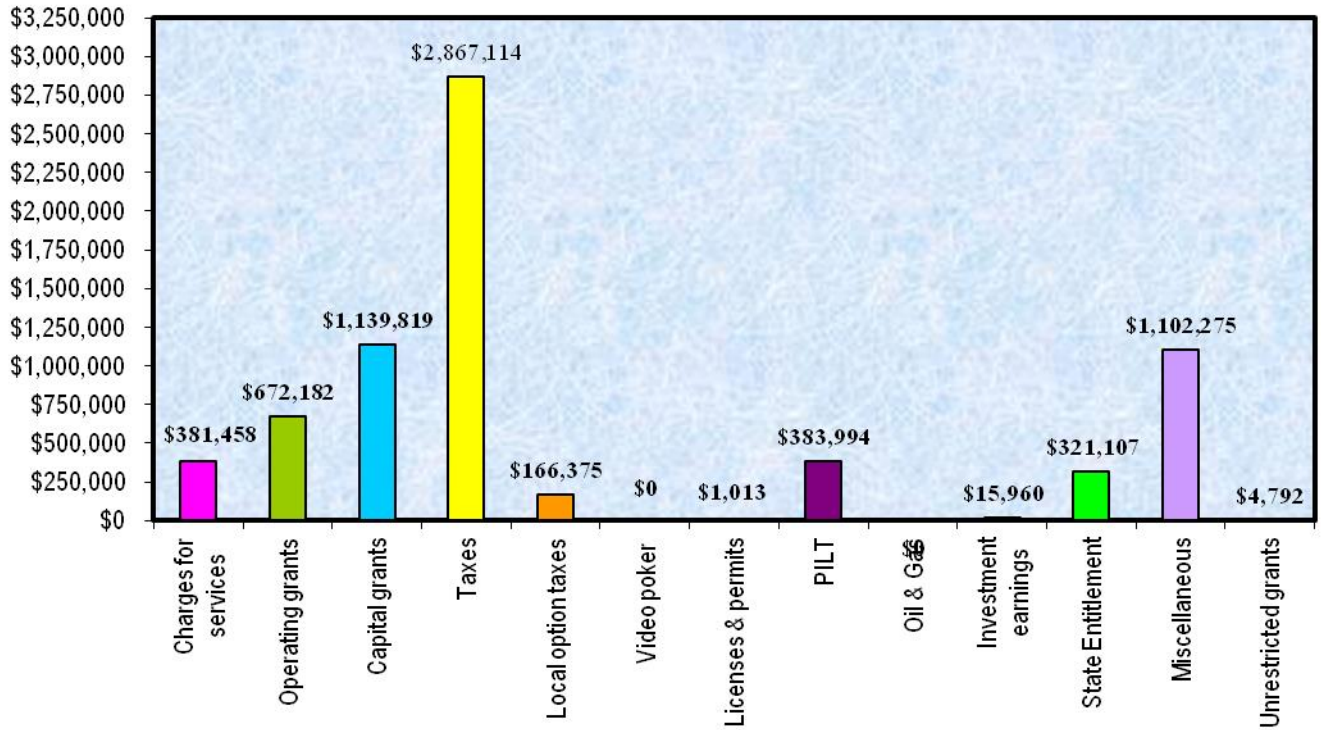
SWEET GRASS COUNTY						
Net Assets *						
Governmental Activities				Business-type Activities (PMC)		
	FY2013	FY2012	change from FY12 to FY13	FY2013	FY2012	change from FY12 to FY13
Current Assets	\$7,278,127	\$6,636,840	\$641,287	\$3,176,270	\$2,564,747	\$611,523
Capital assets	\$6,086,647	\$6,261,894	(\$175,247)	\$3,826,063	\$3,240,872	\$585,191
Total assets	\$13,364,774	\$12,898,734	\$466,040	\$7,002,333	\$5,805,619	\$1,196,714
Long-term debt outstanding	\$977,125	\$780,706	\$196,419	\$2,925,758	\$3,170,235	(\$244,477)
Other liabilities	\$327,144	\$356,068	(\$28,924)	\$333,673	\$288,324	\$45,349
Total liabilities	\$1,304,269	\$1,136,774	\$167,495	\$3,259,431	\$3,458,559	(\$199,128)
Invested in capital assets (net of debt)	\$5,924,273	\$6,124,685	(\$200,412)	\$2,058,696	\$1,018,510	\$1,040,186
Restricted	\$5,347,016	\$4,505,762	\$841,254	\$239,516	\$241,718	(\$2,202)
Unrestricted	\$789,216	\$1,131,513	(\$342,297)	\$1,444,690	\$1,346,973	\$97,717
Total net position	\$12,060,505	\$11,761,960	\$298,545	\$3,742,902	\$2,607,201	\$1,135,701
* Detailed findings on Statement of Net Position						

At the end of FY13, 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.

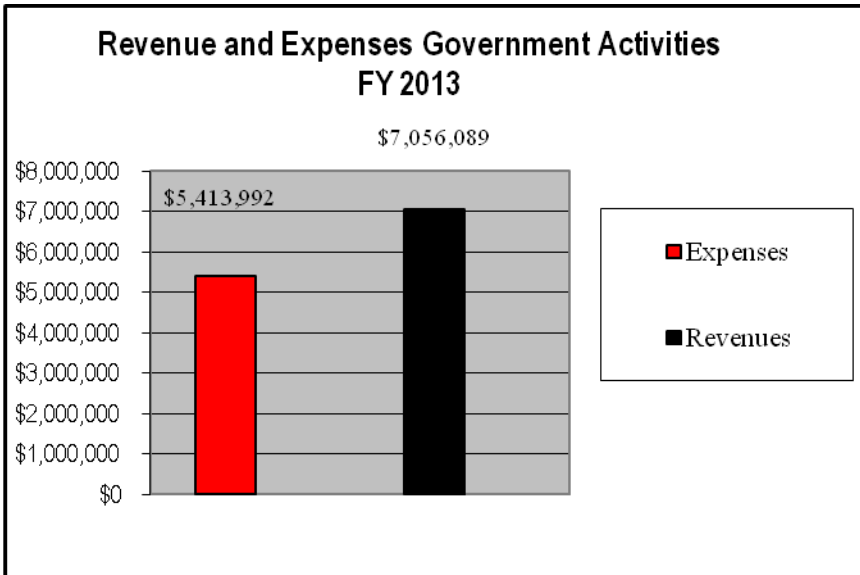
From the Net Position Table it can be seen that Sweet Grass County's restricted net position, \$5,347,016 represents resources that are subject to external restrictions on how they may be used. Restricted net position are made up primarily of special revenue funds, which by state law are levied for specific 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 position 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 position, \$789,216, may be used to meet the government's ongoing obligations to citizens and creditors.

The PMC has 55% of its net position invested in net capital assets (land, buildings and machinery less accumulated depreciation and related debt balances). A small percentage (7%) of PMC net assets are restricted by bond agreements. PMC assets exceeded its liabilities by \$3,742,902. 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 money 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 FY13 was \$643,511.

Governmental Revenues FY2013



Sweet Grass County				
Change in Net Position *				
	FY2013	FY2012	change from FY12 to FY13	
REVENUES				
Charges for services/fines/fees	\$381,458.00	\$448,767.00	(\$67,309.00)	-15.00%
Operating grants/contributions	\$672,182.00	\$2,346,882.00	(\$1,674,700.00)	-71.36%
Capital grants/contributions	\$1,139,819.00	\$469,630.00	\$670,189.00	142.71%
Property Taxes	\$2,867,114.00	\$2,544,739.00	\$322,375.00	12.67%
Local Option Tax	\$166,375.00	\$164,492.00	\$1,883.00	1.14%
Video Poker Apportionment	\$0.00	\$225.00	(\$225.00)	-
Misc.	\$1,102,275.00	\$101,974.00	\$1,000,301.00	980.94%
Interest earnings	\$15,960.00	\$14,381.00	\$1,579.00	10.98%
PILT	\$383,994.00	\$447,178.00	(\$63,184.00)	-14.13%
Oil & Gas Production	\$0.00	\$5,273.00	(\$5,273.00)	-
State Entitlement	\$321,107.00	\$299,870.00	\$21,237.00	7.08%
Unrestricted grants	\$4,792.00	\$9,887.00	(\$5,095.00)	-94.05%
Licenses & Permits	\$1,013.00	\$374.00	\$639.00	170.86%
Total revenues	\$7,056,089.00	\$6,853,672.00	\$202,417.00	2.95%
EXPENSES				
General government	\$1,651,520.00	\$1,802,082.00	(\$150,562.00)	-8.35%
Public safety	\$1,780,253.00	\$1,608,195.00	\$172,058.00	10.70%
Public works	\$1,674,022.00	\$2,884,203.00	(\$1,210,181.00)	-41.97%
Public health	\$66,551.00	\$169,272.00	(\$102,721.00)	-60.68%
Social services	\$65,139.00	\$61,817.00	\$3,322.00	5.37%
Culture & recreation	\$101,182.00	\$103,647.00	(\$2,465.00)	-2.38%
Housing/community development	\$25,873.00	\$22,692.00	\$3,181.00	14.02%
Interest on long term debt	\$2,787.00	\$4,651.00	(\$1,864.00)	-40.08%
Miscellaneous	\$46,965.00	\$85,930.00	(\$38,965.00)	-45.35%
Total expenses	\$5,414,292.00	\$6,742,489.00	(\$1,328,197.00)	-19.70%
Change in net position	\$1,641,797.00	\$111,183.00	\$1,530,614.00	
Transfers - Net	(\$984,708.00)	\$0.00	(\$984,708.00)	
Inc/dec net position	\$657,089.00	\$111,183.00	\$546,206.00	
* Detail information may be found in Statement of Activities.				



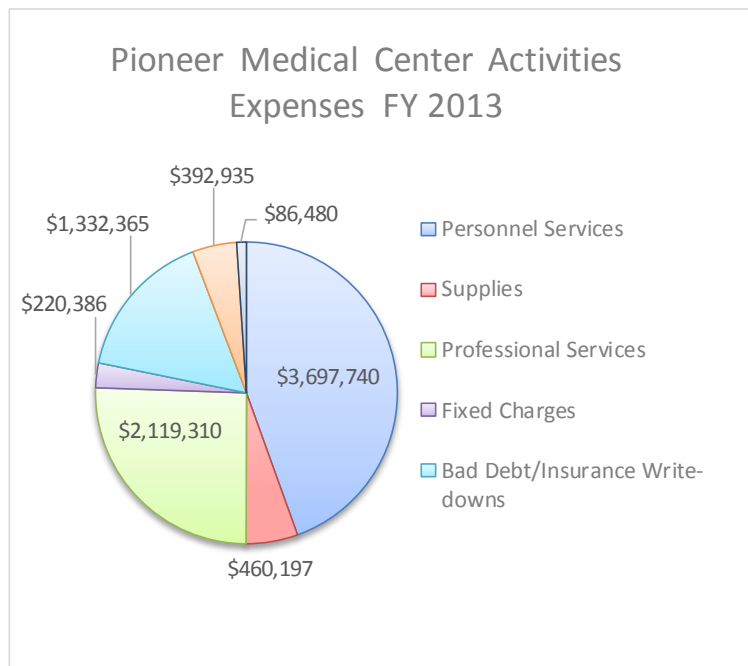
Governmental Activities. Governmental activities increased Sweet Grass County net assets by \$657,089.

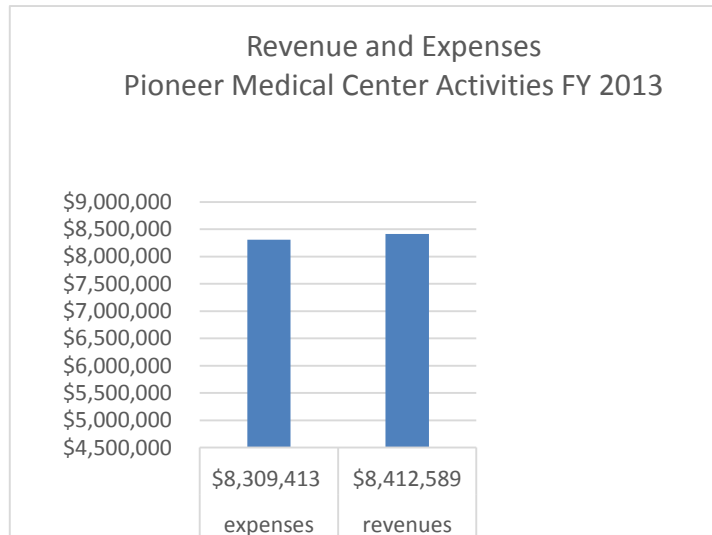
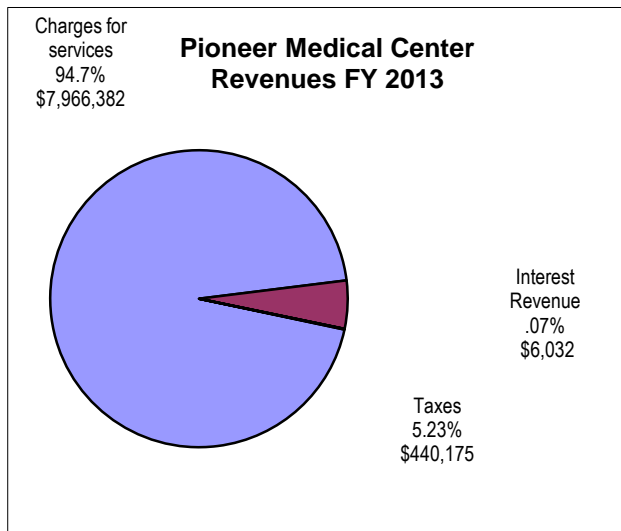
Governmental revenues increased from FY 12 to FY 13 by an overall total of \$202,417 or 2.95%

1. Oil and gas revenues were accounted for as an unrestricted grant in FY13. We received \$3,606 in FY 13 and \$5,273 in FY 12 for a 31% decrease. 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 for operations due to the variability every year and the inability to predict what it will be from year to year.
2. Video apportionment taxes were accounted for in unrestricted grants in FY13. The County received \$200 in FY 13 as opposed to \$225 in FY 12.
3. Unrestricted grants show a decrease from FY12 to FY 13 of 94%. This was due largely to a change in the way a few grants were reported. IN FY12 unrestricted grants included Taylor Grazing and a fire department DNRC grant. In FY13 it does not include the DNRC grant but does include Taylor Grazing, video apportionment and oil and gas revenue.
4. Operating grant revenue decreased by 71% primarily due to the flood that occurred in May 2011. We received \$1.5mil in disaster funding from FEMA and the State of Montana in FY12. In FY13 we received \$226,000. The only site left to repair is on Wormser Loop Road.
5. Licenses and permits raises a small amount of revenue and so any change in it becomes large. Road encroachment fees went from \$300 in FY12 to \$600 in FY13 and sign permits in the planning department increased from \$930 to \$1,246.
6. Capital grants showed a 142% increase from FY12. Two Treasurer State Endowment (TSEP) bridge projects were completed. The East Fork Bridge on the Lower Sweet Grass was completed for \$89,884 and the Otter Creek Bridge was completed for \$131,808. There were also grant proceeds accounted for in the PMC memorial fund for \$495,000 that were used for construction at the PMC.

Expenditures decreased from FY12 to FY13 by 19.7% or \$1,328,497. Changes in expenses came from the following sources:

1. Public Works (includes road, bridge, cemetery, weed and airport) decreased from FY12 by 42%. The number one reason for the decrease in public works spending was flood repairs from the flooding in May 2011 were almost all completed in FY12. The county spent \$1.5mil in FY12 as compared to \$59,000 in FY13.
2. Public Health decreased by 60% primarily due to the way expenses were accounted for in the PMC memorial fund. When the memorial fund incurs an expense it is paid directly by the PMC and the memorial fund (which is accounted for on the county books) reimburses the PMC using a journal entry with an expense from the memorial fund and receipt to the PMC. This created double expenditures and a revenue that was not a true revenue. This method changed in FY13. The expenditure is still be made by the PMC, but the county journal entry to reimburse the PMC by the memorial fund is a transfer out and a transfer in.
3. There was an 40% decrease in debt interest paid out. The airport runway loan was paid in full in FY12 and the road and bridge intercap loan for equipment that was incurred in March 2010 has seen a decrease in interest paid as the loan nears its term of maturity in February 2015 and also intercap loan rates are currently at 1.25%.
4. Miscellaneous expenditures decreased by 45% due to a loss on the sale of equipment from FY12





Sweet Grass County				
Change in Net Position*				
Business-type Activities (PMC)				
	FY2013	FY2012	change from FY12 to FY13	
REVENUES				
Charges for services/fines/fees	\$7,942,860.00	\$6,542,083.00	\$1,400,777.00	21.77%
Property Taxes	\$440,175.00	\$409,243.00	\$30,932.00	7.56%
Misc.	\$235,22.00	\$142,359.00	(\$118,837.00)	100.00%
Interest earnings	\$6,032.00	\$11,720.00	(\$5,688.00)	-48.53%
Total revenues	\$8,412,589.00	\$7,105,405.00	\$1,307,184.00	
EXPENSES				
PMC/Ambulance	\$8,309,413.00	\$6,860,005.00	\$1,449,408.00	21.13%
Total expenses	\$8,309,413.00	\$6,860,005.00	\$1,449,408.00	

Change in net position	\$103,176.00	\$245,400.00	(\$142,224.00)	
Gain (loss) sale of capital assets	\$48,899.00	\$0.00	\$48,899.00	
Transfers - Net	\$984,708.00		\$984,708.00	
Inc/dec net position	\$1,136,783.00	\$245,400.00	\$891,383.00	
* Detail information may be found in Statement of Activities.				

CHANGES IN ENTERPRISE FUND NET POSITION

There were two changes in PMC revenues that require further explanation. Miscellaneous revenue in the PMC decreased from reimbursements from the memorial fund for expenditures paid on their behalf by the PMC. The other change was a decrease in interest due to lower interest rates between FY12 and FY13.

General Fund Budgetary Highlights

Total revenues budgeted in the general fund were \$1,362,295 and collected were \$1,365,285. Actual collections for the general fund were \$2,990 more than anticipated. Total expenditures budgeted in the general fund were \$1,377,763 and spent were \$1,229,940. Actual expenditures from the general fund were \$147,823 less than budgeted. Two transfers were made from the general fund. The first from DES to the sheriff for \$9,000 for capital improvements; the second from the courthouse facility budget to capital improvements for \$10,000. Revenues exceeded expenditures for a \$116,345 net change in fund balance in the general fund. The county always strives to be fiscally conservative.

Capital Asset and Debt Administration

Capital assets. Sweet Grass County's investment in capital assets (net of accumulated depreciation) is \$6,086,647. This investment in capital assets includes land, buildings, improvements other than buildings, and machinery and equipment. The following are key highlights to capital asset changes for FY 2013:

- ✓ Courthouse - Remodeling continues in FY 13 spending \$21,838
- ✓ Fairgrounds - Hog barn rebuilt for \$5,827.12
- ✓ Airport - 1982 International Harvester Snowplow Truck for \$11,778.74
- ✓ Airport – sold Oshkosh Truck for \$1,000 and 1976 Walker crash truck for \$3,100
- ✓ Senior Citizen Center - Air conditioning system spent \$9,442.00 (county owns building)
- ✓ Sheriff Office - Two 2013 Ford Explorer patrol cars total cost of \$91,220.88
- ✓ Fire Department - Jaws of life for \$33,680 (paid for with \$11,114 fire donations and \$22,566 from county fire budget)
- ✓ Fire Department - Caterpillar D7G Dozer, machinery valued at \$139,784 plus \$5,000 for shipping for a total of \$144,784. The county paid only for the shipping, machinery was donated thru military vendor of surplus military equipment
- ✓ Fire Department - Eagle Attack infrared camera for \$6,231.25, purchased with 2012 Homeland Security Grant (HSGP)
- ✓ Fire Department - three Toughbook laptops total cost \$17,775, purchased with 2011 HSGP
- ✓ Weed Department - purchased old ambulance barn from ambulance service for \$103,000 and permanent shelving for \$538 for a total of \$103,538

- ✓ Road & Bridge - East Fork Bridge on Lower Sweet Grass Replacement total cost \$215,805.41 (TSEP 10-523), funds used were a combination of TSEP \$178,270.16 and FEMA \$37,535.25 (bridge was damaged during May 2011 flood)
- ✓ Road & Bridge - Otter Creek Bridge replacement costing \$222,413.79 (TSEP 12-700)
- ✓ Road & Bridge – Five Bridge TSEP Project, included Dry Creek, Wheeler Creek, Stephens Hill, Tony Creek, Otter Creek total cost \$71,706.72 (TSEP 08-411)
- ✓ Road & Bridge – Forklift for \$9,500
- ✓ Road & Bridge – 2014 Manac bottom dump trailer for \$32,955

Long-term debt. As of June 30, 2013 the County had total outstanding bank-related debt of \$162,374. Compensated Absences were \$190,403. Other Post-Employment Benefits (OPEB) were \$624,348. New debt incurred in FY13 was for two 2013 Ford Explorer patrol cars for the sheriff department for \$68,000.

The PMC total outstanding bank-related debt was \$1,767,367. Compensated Absence liability is \$288,615. Other Post-Employment Benefits (OPEB) were \$869,776. There was no new debt incurred by the PMC for FY13.

SWEET GRASS COUNTY DEBT FY 2013							
Governmental Activities				Business-type Activities (PMC)			
	2013 loan balance	2012 loan balance	change in debt from previous year		2013 loan balance	2012 loan balance	change in debt from previous year
courthouse copier lease	\$4,886.00	\$6,071.42	(\$1,185.42)	Construction Loan	\$242,091.00	\$548,284.66	(\$306,193.66)
Copier lease - annex	\$7,515.00	\$9,173.22	(\$1,658.22)	ALF Revenue Bond	\$445,000.00	\$495,000.00	(\$50,000.00)
Skidsteer/Grader/Mower	\$81,973.00	\$121,965.24	(\$39,992.24)	ALF Revenue Bond	\$375,647.00	\$388,782.87	(\$13,135.87)
2 patrol cars	\$68,000.00	\$0.00	\$68,000.00	1996 PMC Rev Bond	\$704,629.00	\$775,806.55	(\$71,177.55)
				Capital Lease	\$0.00	\$6,200.85	(\$6,200.85)
				Ambulance	\$0.00	\$8,285.63	(\$8,285.63)
Compensated Absences	\$190,403.00	\$175,235.74	\$15,167.26	Compensated Absences	\$288,615.00	\$295,540.69	(\$6,925.69)
Total	\$352,777.00	\$312,445.62	\$40,331.38		\$2,055,982.00	\$2,517,901.25	(\$461,919.25)

County & PMC Summary FY 2013 Debt			
	County	PMC	Total
Total Bank-Related Debt	\$ 162,374.00	\$ 1,767,367.00	\$ 1,929,741.00
Total Compensated Absences	\$ 190,403.00	\$ 288,615.00	\$ 479,018.00
Total OPEB	\$ 624,348.00	\$ 869,776.00	\$ 1,494,124.00
	\$ 977,125.00	\$ 2,925,758.00	\$ 3,902,883.00

The following statistics are based on the latest census information from 2010 provided by the State of Montana.

The unemployment rate for Sweet Grass County from the 2010 census is 4%, as compared to the state average of 7.2%.

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 year in Sweet Grass County is \$35,247 as of 2010. Statewide average wage for Montana is \$34,589

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 2013 fiscal year.

The FY 2013 budget reflects 2013 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

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INDEPENDENT AUDITOR'S REPORT

County Commissioners
Sweet Grass County
Big Timber, Montana

Report on the Financial Statements

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, 2013, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sweet Grass County, Montana, as of and for the year ended June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 13, 50 through 56, and 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 schedule of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2014, on our consideration of Sweet Grass County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sweet Grass County, Montana's internal control over financial reporting and compliance.

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

March 26, 2014

Sweet Grass County, Montana
Statement of Net Position
June 30, 2013

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 6,275,454	\$ 1,546,576	\$ 7,822,030
Taxes and assessments receivable, net	167,976	31,656	199,632
Accounts receivable - net	825	1,240,184	1,241,009
Interest receivable	-	131	131
Due from other governments	514,976	-	514,976
Prepaid expenses	-	4,110	4,110
Inventories	318,896	91,575	410,471
Total current assets	<u>\$ 7,278,127</u>	<u>\$ 2,914,232</u>	<u>\$ 10,192,359</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 262,038	\$ 262,038
Capital assets - land	61,056	107,436	168,492
Capital assets - construction in progress	21,840	-	21,840
Capital assets - depreciable, net	6,003,751	3,718,627	9,722,378
Total noncurrent assets	<u>\$ 6,086,647</u>	<u>\$ 4,088,101</u>	<u>\$ 10,174,748</u>
Total assets	<u>\$ 13,364,774</u>	<u>\$ 7,002,333</u>	<u>\$ 20,367,107</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ -	\$ 53,714	\$ 53,714
Accrued payables	-	164,695	164,695
Accrued payroll	49,754	48,969	98,723
Due to other governments	-	58,895	58,895
Revenues collected in advance	2,140	-	2,140
Current portion of long-term capital liabilities	58,188	148,708	206,896
Current portion of compensated absences payable	144,484	222,046	366,530
Deferred grant revenue	275,250	-	275,250
Total current liabilities	<u>\$ 529,816</u>	<u>\$ 697,027</u>	<u>\$ 1,226,843</u>
Noncurrent liabilities			
Deposits payable	\$ -	\$ 7,400	\$ 7,400
Noncurrent portion of long-term liabilities	624,348	869,776	1,494,124
Noncurrent portion of long-term capital liabilities	104,186	1,618,659	1,722,845
Noncurrent portion of compensated absences	45,919	66,569	112,488
Total noncurrent liabilities	<u>\$ 774,453</u>	<u>\$ 2,562,404</u>	<u>\$ 3,336,857</u>
Total liabilities	<u>\$ 1,304,269</u>	<u>\$ 3,259,431</u>	<u>\$ 4,563,700</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 5,924,273	\$ 2,058,696	\$ 7,982,969
Restricted for capital projects	503,172	-	503,172
Restricted for debt service	553	236,889	237,442
Restricted for special projects	4,843,291	-	4,843,291
Restricted for other purposes	-	2,627	2,627
Unrestricted	789,216	1,444,690	2,233,906
Total net position	<u>\$ 12,060,505</u>	<u>\$ 3,742,902</u>	<u>\$ 15,803,407</u>
Total liabilities and net position	<u>\$ 13,364,774</u>	<u>\$ 7,002,333</u>	<u>\$ 20,367,107</u>

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 1,651,520	\$ 122,552	\$ 85,302	\$ 237,988	\$ (1,205,678)	\$ -	\$ (1,205,678)
Public safety	1,780,253	215,106	172,679	211,078	(1,181,390)	-	(1,181,390)
Public works	1,674,022	31,362	414,201	233,295	(995,164)	-	(995,164)
Public health	66,551	8,982	-	-	(57,569)	-	(57,569)
Social and economic services	65,139	3,456	-	-	(61,683)	-	(61,683)
Culture and recreation	101,182	-	-	164	(101,018)	-	(101,018)
Housing and community development	25,873	-	-	457,294	431,421	-	431,421
Debt service - interest	2,787	-	-	-	(2,787)	-	(2,787)
Miscellaneous	46,965	-	-	-	(46,965)	-	(46,965)
Total governmental activities	\$ <u>5,414,292</u>	\$ <u>381,458</u>	\$ <u>672,182</u>	\$ <u>1,139,819</u>	\$ <u>(3,220,833)</u>	\$ <u>-</u>	\$ <u>(3,220,833)</u>
Business-type activities:							
Pioneer Medical Center	\$ 8,309,413	\$ 7,966,382	\$ -	\$ -		(343,031)	(343,031)
Total business-type activities	\$ <u>8,309,413</u>	\$ <u>7,966,382</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(343,031)</u>	\$ <u>(343,031)</u>
Total primary government	\$ <u>13,723,705</u>	\$ <u>8,347,840</u>	\$ <u>672,182</u>	\$ <u>1,139,819</u>	\$ <u>(3,220,833)</u>	\$ <u>(343,031)</u>	\$ <u>(3,563,864)</u>
General Revenues:							
Property taxes for general purposes					\$ 2,867,114	\$ 440,175	\$ 3,307,289
Local option tax					166,375	-	166,375
Miscellaneous					1,102,275	-	1,102,275
Interest/investment earnings					15,960	6,032	21,992
PILT					383,994	-	383,994
State entitlement					321,107	-	321,107
Grants and entitlements not restricted to specific programs					4,792	-	4,792
Licenses and permits					1,013	-	1,013
Gain (loss) on sale of capital assets					-	48,899	48,899
Transfers - net					(984,708)	984,708	-
Total general revenues, special items and transfers					\$ <u>3,877,922</u>	\$ <u>1,479,814</u>	\$ <u>5,357,736</u>
Change in net position					\$ <u>657,089</u>	\$ <u>1,136,783</u>	\$ <u>1,793,872</u>
Net position - beginning					\$ 11,761,960	\$ 2,607,201	\$ 14,369,161
Restatements					(358,544)	(1,082)	(359,626)
Net position - beginning - restated					\$ <u>11,403,416</u>	\$ <u>2,606,119</u>	\$ <u>14,009,535</u>
Net position - end					\$ <u>12,060,505</u>	\$ <u>3,742,902</u>	\$ <u>15,803,407</u>

See accompanying Notes to the Financial Statements

**Sweet Grass County, Montana
Balance Sheet
Governmental Funds
June 30, 2013**

	<u>General</u>	<u>Road</u>	<u>Law Enforcement</u>	<u>PMC Memorial</u>	<u>Metal Mines Trust</u>	<u>Flood State/Federal</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS								
Current assets:								
Cash and investments	\$ 1,553,610	\$ 651,527	\$ 362,962	\$ 643,511	\$ 821,198	\$ 61,897	\$ 2,180,749	\$ 6,275,454
Taxes and assessments receivable, net	45,460	24,245	32,428	-	-	-	65,843	167,976
Accounts receivable - net	825	-	-	-	-	-	-	825
Due from other funds	300,202	-	-	-	-	-	-	300,202
Due from other governments	17,713	-	12,493	-	-	133,737	351,033	514,976
Inventories	-	318,896	-	-	-	-	-	318,896
Total assets	<u>\$ 1,917,810</u>	<u>\$ 994,668</u>	<u>\$ 407,883</u>	<u>\$ 643,511</u>	<u>\$ 821,198</u>	<u>\$ 195,634</u>	<u>\$ 2,597,625</u>	<u>\$ 7,578,329</u>
LIABILITIES								
Current liabilities:								
Accrued payroll	\$ 16,992	\$ 3,969	\$ 12,183	\$ -	\$ -	\$ -	\$ 16,610	\$ 49,754
Due to other funds	-	-	-	-	-	-	300,202	300,202
Revenues collected in advance	-	-	2,140	-	-	-	-	2,140
Deferred revenue	45,460	24,245	32,428	-	-	-	65,843	167,976
Deferred grant revenue	-	-	-	-	-	275,250	-	275,250
Total liabilities	<u>\$ 62,452</u>	<u>\$ 28,214</u>	<u>\$ 46,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 275,250</u>	<u>\$ 382,655</u>	<u>\$ 795,322</u>
FUND BALANCES								
Nonspendable	\$ -	\$ 318,896	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 318,896
Restricted	-	647,558	361,132	643,511	821,198	-	2,216,422	4,689,821
Unassigned fund balance	1,855,358	-	-	-	-	(79,616)	(1,452)	1,774,290
Total fund balance	<u>\$ 1,855,358</u>	<u>\$ 966,454</u>	<u>\$ 361,132</u>	<u>\$ 643,511</u>	<u>\$ 821,198</u>	<u>\$ (79,616)</u>	<u>\$ 2,214,970</u>	<u>\$ 6,783,007</u>
Total liabilities and fund balance	<u>\$ 1,917,810</u>	<u>\$ 994,668</u>	<u>\$ 407,883</u>	<u>\$ 643,511</u>	<u>\$ 821,198</u>	<u>\$ 195,634</u>	<u>\$ 2,597,625</u>	<u>\$ 7,578,329</u>

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2013

Total fund balances - governmental funds	\$ 6,783,007
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,086,647
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.	167,976
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	<u>(977,125)</u>
Total net position - governmental activities	<u>\$ 12,060,505</u>

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	<u>General</u>	<u>Road</u>	<u>Law Enforcement</u>	<u>PMC Memorial</u>	<u>Metal Mines Trust</u>	<u>Flood State/Federal</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES								
Taxes and assessments	\$ 985,894	\$ 455,806	\$ 556,324	\$ -	\$ -	\$ -	\$ 1,045,292	\$ 3,043,316
Licenses and permits	413	600	-	-	-	-	1,296	2,309
Intergovernmental	555,733	295,177	99,089	457,295	234,941	64,830	815,970	2,523,035
Charges for services	128,725	-	183,611	-	-	-	65,411	377,747
Fines and forfeitures	43,100	-	-	-	-	-	6,776	49,876
Miscellaneous	29,621	95,228	-	630,848	-	-	132,933	888,630
Investment earnings	9,797	-	742	1,765	2,922	-	4,931	20,157
Total revenues	<u>\$ 1,753,283</u>	<u>\$ 846,811</u>	<u>\$ 839,766</u>	<u>\$ 1,089,908</u>	<u>\$ 237,863</u>	<u>\$ 64,830</u>	<u>\$ 2,072,609</u>	<u>\$ 6,905,070</u>
EXPENDITURES								
General government	\$ 1,164,749	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 194,620	\$ 1,359,369
Public safety	63,136	-	761,383	-	-	-	634,338	1,458,857
Public works	112,997	619,393	-	-	-	21,806	543,947	1,298,143
Public health	30,968	-	-	-	-	-	35,583	66,551
Social and economic services	2,250	-	-	-	-	-	61,001	63,251
Culture and recreation	-	-	-	-	-	-	83,146	83,146
Housing and community development	-	-	-	-	-	-	25,873	25,873
Debt service - principal	2,842	34,794	-	-	-	-	5,199	42,835
Debt service - interest	1,387	1,218	-	-	-	-	182	2,787
Miscellaneous	46,762	-	-	-	-	-	203	46,965
Capital outlay	64,293	-	91,221	-	-	37,534	593,957	787,005
Total expenditures	<u>\$ 1,489,384</u>	<u>\$ 655,405</u>	<u>\$ 852,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,340</u>	<u>\$ 2,178,049</u>	<u>\$ 5,234,782</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 263,899</u>	<u>\$ 191,406</u>	<u>\$ (12,838)</u>	<u>\$ 1,089,908</u>	<u>\$ 237,863</u>	<u>\$ 5,490</u>	<u>\$ (105,440)</u>	<u>\$ 1,670,288</u>
OTHER FINANCING SOURCES (USES)								
Proceeds of general long term debt	\$ -	\$ -	\$ 68,000	\$ -	\$ -	\$ -	\$ -	\$ 68,000
Transfers in	-	-	22,000	-	-	-	264,744	286,744
Transfers out	<u>(27,000)</u>	<u>(75,000)</u>	<u>-</u>	<u>(984,709)</u>	<u>-</u>	<u>-</u>	<u>(184,743)</u>	<u>(1,271,452)</u>
Total other financing sources (uses)	<u>\$ (27,000)</u>	<u>\$ (75,000)</u>	<u>\$ 90,000</u>	<u>\$ (984,709)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,001</u>	<u>\$ (916,708)</u>
Net Change in Fund Balance	<u>\$ 236,899</u>	<u>\$ 116,406</u>	<u>\$ 77,162</u>	<u>\$ 105,199</u>	<u>\$ 237,863</u>	<u>\$ 5,490</u>	<u>\$ (25,439)</u>	<u>\$ 753,580</u>
Fund balances - beginning	\$ 1,613,269	\$ 850,048	\$ 283,970	\$ 538,312	\$ 583,335	\$ (19,327)	\$ 2,269,424	\$ 6,119,031
Restatements	5,190	-	-	-	-	(65,779)	(29,015)	(89,604)
Fund balances - beginning, restated	<u>\$ 1,618,459</u>	<u>\$ 850,048</u>	<u>\$ 283,970</u>	<u>\$ 538,312</u>	<u>\$ 583,335</u>	<u>\$ (85,106)</u>	<u>\$ 2,240,409</u>	<u>\$ 6,029,427</u>
Fund balance - ending	<u>\$ 1,855,358</u>	<u>\$ 966,454</u>	<u>\$ 361,132</u>	<u>\$ 643,511</u>	<u>\$ 821,198</u>	<u>\$ (79,616)</u>	<u>\$ 2,214,970</u>	<u>\$ 6,783,007</u>

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, 2013

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

Net change in fund balances - total governmental funds \$ 753,580

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	787,005
- Depreciation expense	(838,096)
- Donated capital assets	144,784
- Long-term receivables (deferred revenue)	6,235

The change in compensated absences is shown as an expense in the Statement of Activities (15,167)

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

- Long-term debt principal payments	42,835
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Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:

- Proceeds from the sale of long-term debt	(68,000)
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Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability	(156,087)
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Change in net position - Statement of Activities **\$ 657,089**

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2013

		<u>Business-Type Activities - Enterprise Funds</u>
		<u>Pioneer Medical Center</u>
ASSETS		
Current assets:		
Cash and investments	\$	1,546,576
Taxes and assessments receivable, net		31,656
Accounts receivable - net		1,240,184
Interest receivable		131
Prepaid expenses		4,110
Inventories		91,575
Total current assets	\$	<u>2,914,232</u>
Noncurrent assets:		
Restricted cash and investments	\$	262,038
Capital assets - land		107,436
Capital assets - depreciable, net		3,718,627
Total noncurrent assets	\$	<u>4,088,101</u>
Total assets	\$	<u><u>7,002,333</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$	53,714
Accrued payables		164,695
Accrued payroll		48,969
Due to other governments		58,895
Current portion of long-term capital liabilities		148,708
Current portion of compensated absences payable		222,046
Total current liabilities	\$	<u>697,027</u>
Noncurrent liabilities:		
Deposits payable	\$	7,400
Noncurrent portion of long-term liabilities		869,776
Noncurrent portion of long-term capital liabilities		1,618,659
Noncurrent portion of compensated absences		66,569
Total noncurrent liabilities	\$	<u>2,562,404</u>
Total liabilities	\$	<u>3,259,431</u>
NET POSITION		
Invested in capital assets, net of related debt	\$	2,058,696
Restricted for debt service		236,889
Restricted for other purposes		2,627
Unrestricted		1,444,690
Total net position	\$	<u>3,742,902</u>
Total liabilities and net position	\$	<u><u>7,002,333</u></u>

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2013

		Business-Type Activities - Enterprise Funds
		<u>Pioneer Medical Center</u>
OPERATING REVENUES		
Charges for services	\$	7,942,860
Miscellaneous revenues		23,522
Total operating revenues	\$	<u>7,966,382</u>
OPERATING EXPENSES		
Personal services	\$	3,697,740
Supplies		460,197
Purchased services		2,119,310
Fixed charges		220,386
Loss/bad debt expense		1,332,365
Depreciation		392,935
Total operating expenses	\$	<u>8,222,933</u>
Operating income (loss)	\$	<u>(256,551)</u>
NON-OPERATING REVENUES (EXPENSES)		
Taxes/assessments revenue	\$	440,175
Interest revenue		6,032
Debt service interest expense		(86,480)
Total non-operating revenues (expenses)	\$	<u>359,727</u>
Income (loss) before contributions and transfers	\$	103,176
Transfers in	\$	984,708
SPECIAL AND EXTRAORDINARY ITEMS		
Gain (loss) on sale of capital assets	\$	48,899
Change in net position	\$	<u>1,136,783</u>
Net Position - Beginning of the year	\$	2,607,201
Restatements		(1,082)
Net Position - Beginning of the year - Restated	\$	<u>2,606,119</u>
Net Position - End of the year	\$	<u><u>3,742,902</u></u>

See accompanying Notes to the Financial Statements

**Sweet Grass County
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2013**

	Business - Type Activities Enterprise Funds
	Pioneer Medical Center
Cash flows from operating activities:	
Cash received from providing services	\$ 6,147,568
Cash received from miscellaneous sources	22,440
Cash payments to suppliers	(405,112)
Cash payments for purchased services	(2,119,310)
Cash payments to employees	(3,703,897)
Net cash provided (used) by operating activities	\$ (58,311)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	\$ (929,227)
Principal paid on debt	(454,995)
Interest paid on debt	(87,186)
Cash paid for patient trust funds	(100)
Net cash provided (used) by capital and related financing activities	\$ (1,471,508)
Cash flows from non-capital financing activities:	
Tax levies and contributions from the County	\$ 440,376
Transfers of cash from governmental funds	1,079,709
Net cash provided (used) from non-capital financing activities	\$ 1,520,085
Cash flows from investing activities:	
Interest on investments	\$ 6,013
Net cash provided (used) by investing activities	\$ 6,013
Net increase (decrease) in cash and cash equivalents	\$ (3,721)
Cash and cash equivalents at beginning	1,812,335
Cash and cash equivalents at end	\$ 1,808,614
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (256,551)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	392,935
Other post-employment benefits	217,444
Changes in assets and liabilities:	
Increase in accounts receivable	(462,927)
Increase in inventory	(11,188)
Decrease in prepaid expenses	22,747
Decrease in accounts payable	(13,509)
Increase in due to other governments	58,895
Decrease in compensated absences	(6,926)
Increase in accrued payable	769
Net cash provided (used) by operating activities	\$ (58,311)

See accompanying notes to the financial statements

Sweet Grass County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2013

	<u>Investment Trust Funds</u>		<u>Agency Funds</u>
ASSETS			
Cash and short-term investments	\$ 2,473,261	\$	1,506,613
Taxes receivable	-		296,403
Total assets	<u>\$ 2,473,261</u>	\$	<u>1,803,016</u>
LIABILITIES			
Warrants payable	\$ -	\$	395,117
Due to others	-		1,407,899
Total liabilities	<u>\$ -</u>	\$	<u>1,803,016</u>
NET POSITION			
Assets held in trust	<u>\$ 2,473,261</u>		

See accompanying Notes to the Financial Statements

Sweet Grass County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013

		<u>Investment Trust Funds</u>
ADDITIONS		
Contributions:		
Contributions to Investment Trust Fund	\$	2,540,297
Investment earnings:		
Interest and change in fair value of investments	\$	8,512
Total additions	\$	<u>2,548,809</u>
 DEDUCTIONS		
Distributions from investment trust fund	\$	2,589,920
Total deductions	\$	<u>2,589,920</u>
Change in net position	\$	<u>(41,111)</u>
Net Position - Beginning of the year	\$	2,514,372
Net Position - End of the year	\$	<u><u>2,473,261</u></u>

See accompanying Notes to the Financial Statements

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

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.

GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates the pre-November 30, 1989 FASB, APB and ARB pronouncements that the GASB considers to be applicable to state and local governments. This standard is effective for fiscal year ending June 30, 2013.

The government adopted the provisions of Governmental Accounting Standards Board statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.

Financial Reporting County

In determining the financial reporting entity, the County complies with the provisions of GASB statement No. 14, *The Financial Reporting County*, 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 Position 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.

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

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

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position 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.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position 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:

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

- 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 funds:

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

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

Road Fund – A special revenue fund to account for activities relating to roadwork.

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

PMC Memorial Fund – A special revenue fund to account for the activities related donations and contributions to the Pioneer Medical Center.

Metal Mines Trust Fund – A special revenue fund to account for the holding of funds resulting from Metal Mines License Taxes and Hard Rock Mining Impact Fees.

Flood 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.

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT

June 30, 2013

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 position 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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2013, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 2,488
<u>Cash in banks:</u>	
Demand deposits	2,891,295
Savings deposits	79,751
Time deposits	6,326,256
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	2,764,152
Total	\$ <u>12,063,942</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

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

(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 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

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, 2013:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 907,892,295	A1	44
Corporate Commercial Paper	150,768,775	A1	105
Corporate Variable-Rate	663,143,336	A3	41
Certificates of Deposit Fixed Rate	50,000,000	A1	222
Certificates of Deposit Variable-Rate	435,974,196	A2	35
Other Asset Backed	17,987,295	BBB-	NA
U.S. Government Agency Fixed	25,000,000	A1	3
U.S. Government Agency Variable -Rate	182,700,345	A1	17
Money Market Funds (Unrated)	168,232,935	NR	1
Money Market Funds (Rated)	15,000,000	A1+	1
Structured Investment Vehicles (SIV)	29,561,449	NR	4
Total Investments	<u>\$ 2,646,260,626</u>	A2	<u>43</u>
Securities Lending Collateral Investment Pool	<u>\$ 7,182,928</u>	NR	*

*“As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for U.S. dollar collateral.”

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
 June 30, 2013

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, 2013, \$1,896,953 of the government’s bank balance of \$9,400,387 was exposed to custodial credit risk as follows:

	June 30, 2013 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 3,590,461
- Collateral held by the pledging bank's trust department but not in the County's name.	3,912,973
Uninsured and uncollateralized	<u>1,896,953</u>
Total deposits and investments	<u><u>\$ 9,400,387</u></u>

Deposit Security

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

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ration of less than 6%.

The amount of collateral held for County deposits at June 30, 2013, 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 funds, invested in STIP, savings, time deposits, U.S. government securities and they are carried at fair value.

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
 June 30, 2013

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, 2013 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 position and changes in net position for the Treasurer's Pool as of June 30, 2013.

Statement of Net Position

Net assets held in trust for all pool participants:	
Equity of internal pool participants	\$ 5,996,807
Equity of external pool participants	2,473,261
Total equity	<u>\$ 8,470,068</u>

Condensed Statement of Changes in Net Position

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 8,512	\$ 20,640
Contributions to trust	2,540,297	6,325,795
Distributions paid	(2,589,920)	(5,876,098)
Net change in net assets	<u>\$ (41,111)</u>	<u>\$ 470,337</u>
Net position at beginning of year	2,514,372	5,526,470
Net position at end of year	<u>\$ 2,473,261</u>	<u>\$ 5,996,807</u>

Cash equivalents

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

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
 June 30, 2013

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the County as of June 30, 2013. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>Amount</u>
Debt services	\$ 259,411
Patient accounts	<u>2,627</u>
Total	<u>\$ 262,038</u>

NOTE 4. 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.

NOTE 5. 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.

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

NOTE 6. CAPITAL ASSETS

The Sweet Grass County's assets are capitalized at historical cost or estimated historical cost. Sweet Grass County's 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	60 years
Machinery & Equipment	5-30 years
Improvements	5-75 years
Vehicles & Heavy Equipment	3-10 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 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:

Governmental activities:

	Balance			Balance	
	July 1, 2012	Additions	Deletions	<u>Restatements/ Transfers</u>	June 30, 2013
Capital assets not being depreciated:					
Land	\$ 61,056	\$ -	\$ -	\$ -	\$ 61,056
Construction in progress	332,929	460,057		(771,148)	21,838
Total capital assets not being depreciated	\$ 393,985	\$ 460,057	\$ -	\$ (771,148)	\$ 82,894
Other capital assets:					
Buildings	\$ 4,099,063	\$ 118,807	\$ -	\$ -	\$ 4,217,870
Machinery and equipment	4,455,152	352,925	(4,100)	-	4,803,977
Infrastructure	1,689,847	-	-	526,708	2,216,555
Total other capital assets at historical cost	\$ 10,244,062	\$ 471,732	\$ (4,100)	\$ 526,708	\$ 11,238,402
Less: accumulated depreciation	\$ (4,376,153)	\$ (838,096)	\$ 4,100	\$ (24,500)	\$ (5,234,649)
Total	\$ 6,261,894	\$ 93,693	\$ -	\$ (268,940)	\$ 6,086,647

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 120,897
Public safety	321,396
Public works	375,879
Culture and recreation	18,036
Social and economic services	<u>1,888</u>
Total governmental activities depreciation expense	<u>\$ 838,096</u>

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

Business-type activities:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Restatements/ <u>Transfers</u>	Balance <u>June 30, 2013</u>
Capital assets not being depreciated:					
Land	\$ 2,500	\$ 99,167	\$ -	\$ -	\$ 101,667
Construction in progress	615,915	-	-	(615,915)	-
Total capital assets not being depreciated	<u>\$ 618,415</u>	<u>\$ 99,167</u>	<u>\$ -</u>	<u>\$ (615,915)</u>	<u>\$ 101,667</u>
Other capital assets:					
Buildings	\$ 5,921,383	\$ 766,836	\$ (103,762)	\$ 372,290	\$ 6,956,747
Improvements other than buildings	-	5,769	-	-	5,769
Machinery and equipment	1,701,549	160,456	(140,034)	242,773	1,964,744
Total other capital assets at historical cost	<u>\$ 7,622,932</u>	<u>\$ 933,061</u>	<u>\$ (243,796)</u>	<u>\$ 615,063</u>	<u>\$ 8,927,260</u>
Less: accumulated depreciation	<u>\$ (5,000,475)</u>	<u>\$ (392,935)</u>	<u>\$ 189,694</u>	<u>\$ 852</u>	<u>\$ (5,202,864)</u>
Total	<u>\$ 3,240,872</u>	<u>\$ 639,293</u>	<u>\$ (54,102)</u>	<u>\$ -</u>	<u>\$ 3,826,063</u>

NOTE 7. 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, 2013, the following changes occurred in liabilities reported in long-term debt:

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

Governmental Activities:

	Balance			Balance		Due
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>	<u>One Year</u>	
Compensated absences	\$ 175,236	\$ 15,167	\$ -	\$ 190,403	\$	144,484
Intercap loans	121,965	68,000	(39,993)	149,972		54,524
Capital leases	15,244	-	(2,842)	12,402		3,664
Other post-employment benefits*	468,261	156,087	-	624,348		-
Total	<u>\$ 780,706</u>	<u>\$ 239,254</u>	<u>\$ (42,835)</u>	<u>\$ 977,125</u>	<u>\$</u>	<u>202,672</u>

*See Note 8

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

Business-type Activities:

	Balance			Balance		Due
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>	<u>One Year</u>	
Revenue bonds	\$ 1,659,590	\$ -	\$ (134,314)	\$ 1,525,276	\$	143,509
Contracted debt	556,571	-	(314,480)	242,091		5,199
Compensated absences	295,541	-	(6,926)	288,615		222,046
Capital leases	6,201	-	(6,201)	-		-
Other post-employment benefits*	652,332	217,444	-	869,776		-
Total	<u>\$ 3,170,235</u>	<u>\$ 217,444</u>	<u>\$ (461,921)</u>	<u>\$ 2,925,758</u>	<u>\$</u>	<u>370,754</u>

*See Note 8

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, 2013</u>
2001 Assisted Living Facility Bond #1	5/1/01	6.15%	20 yrs	7/1/20	\$ 935,000	varies	\$ 445,000
2001 Assisted Living facility Bond #2	5/1/01	4.75%	30 yrs	5/14/31	500,000	31,320	375,647
1996 Pioneer Medical Center	7/2/96	4.89%	25 yrs	5/31/21	1,550,000	107,508	<u>704,629</u>
							<u>\$ 1,525,276</u>

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
 June 30, 2013

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, 2013.

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
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
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	24,194	611
Total	<u>\$ 1,525,276</u>	<u>\$ 443,237</u>

Loans/Contracted Debt

Loans/contracted debts outstanding as of June 30, 2013 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, 2013</u>
Triangle Telephone Loan	10/15/12	1.25%	8.8 yrs	1/15/23	551,000	<u>\$ 242,091</u>

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
 June 30, 2013

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 5,199	\$ 6,464
2015	5,199	5,684
2016	5,199	4,904
2017	5,199	4,124
2018	16,144	3,344
2019	62,388	2,564
2020	62,388	1,785
2021	62,388	1,005
2022	17,987	225
Total	\$ <u>242,091</u>	\$ <u>30,099</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 16th 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, 2013 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, 2013</u>
Equipment	3/5/10	1.0-4.75%	5 yrs	2/15/15	\$ 200,000	\$ 81,972
Patrol Cars	2/15/13	1.0-0.25%	5 yrs	2/15/18	<u>68,000</u>	<u>68,000</u>
Total					\$ <u>268,000</u>	\$ <u>149,972</u>

Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 54,524	\$ 1,754
2015	54,141	1,049
2016	13,598	400
2017	13,769	262
2018	13,940	139
Total	\$ <u>149,972</u>	\$ <u>3,604</u>

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
 June 30, 2013

Capital Leases

The County has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2013 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest rate</u>	<u>Capitalized Original Cost</u>	<u>Remaining Payments as of June 30, 2013</u>
Courthouse copier lease (1)	7/1/11	12.00%	\$ 7,295	\$ 4,886
Annex copier lease (1)	11/1/11	10.00%	10,399	7,516
Total			<u>\$ 17,694</u>	<u>\$ 12,402</u>

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 3,664	\$ 1,075
2015	3,817	779
2016	4,162	345
2017	759	19
Total	<u>\$ 12,402</u>	<u>\$ 2,218</u>

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.

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT

June 30, 2013

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

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

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

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		38.7%

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount 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 government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government'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>1,120,593</u>
Net OPEB obligation - end of year	\$	<u>1,494,124</u>

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
 June 30, 2013

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, present 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* is 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 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 STATEMENT
June 30, 2013

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2013, was as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
To cover deficit cash balance	General – Major Governmental	Emergency Disaster – Nonmajor Governmental	\$ 622
To cover deficit cash balance	General – Major Governmental	Weed Old Boulder – Nonmajor Governmental	1,471
To cover deficit cash balance	General – Major Governmental	Weed NRCS – Nonmajor Governmental	4,006
To cover deficit cash balance	General – Major Governmental	Weed RAC – Nonmajor Governmental	239
To cover deficit cash balance	General – Major Governmental	STEP Grant – Nonmajor Governmental	1,997
To cover deficit cash balance	General – Major Governmental	2012 HSGP – Nonmajor Governmental	87,183
To cover deficit cash balance	General – Major Governmental	2011 HSGP – Nonmajor Governmental	123,895
To cover deficit cash balance	General – Major Governmental	TSEO 12-700 – Nonmajor Governmental	<u>80,789</u>
		Total	<u>\$ 300,202</u>

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2013:

<u>Purpose</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Future capital outlay	Capital improvement building – Nonmajor Governmental	General – Major Governmental	\$ 10,000
Budgetary funding transfer	Law Enforcement – Major Governmental	General – Major Governmental	9,000
Budgetary funding transfer	Website and Technology – Nonmajor Governmental	General – Major Governmental	7,000
Future capital outlay	Capital improvement road – Nonmajor Governmental	Road – Major Governmental	25,000
Future capital outlay	Capital improvement road – Nonmajor Governmental	Road – Major Governmental	50,000

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

Future capital outlay	Capital improvement bridge – Nonmajor Governmental	Bridge – Nonmajor Governmental	20,000
Future capital outlay	TSEP Pony Truss – Nonmajor Governmental	Bridge – Nonmajor Governmental	25,000
Future capital outlay	Capital improvement fair – Nonmajor Governmental	Fair – Nonmajor Governmental	27,000
Budgetary funding transfer	Fair – Nonmajor Governmental	General – Major Governmental	1,000
Budgetary funding transfer	Pioneer Medical Center – Major Enterprise	PMC Memorial – Major Governmental	551,415
Budgetary funding transfer	Pioneer Medical Center – Major Enterprise	PMC Memorial – Major Governmental	433,294
Future capital outlay	Capital improvement weed – Nonmajor Governmental	Weed Special County – Nonmajor Governmental	10,000
Budgetary funding transfer	Weed CNRC Grant – Nonmajor Governmental	Weed Derby Fire Donation – Nonmajor Governmental	7,876
Reimbursement of Dispatch salary	Law Enforcement – Nonmajor Governmental	911 Emergency – Nonmajor Governmental	13,000
Budgetary funding transfer	Sr Citizen – Nonmajor Governmental	MM Taxc plan and economic development – Nonmajor Governmental	4,800
Future capital outlay	MT-TSEP-CG-523– Nonmajor Governmental	MT-TSEP Grant – Nonmajor Governmental	49,390
Future capital outlay	TSEP Pony Truss– Nonmajor Governmental	MT-TSEP Grant – Nonmajor Governmental	23,864
Future capital outlay	TSEP Pony Truss– Nonmajor Governmental	2014 TSEP Grant – Nonmajor Governmental	<u>3,813</u>
		Total	<u>\$ 1,271,452</u>

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
 June 30, 2013

NOTE 10. STATE-WIDE RETIREMENT PLANS

All full-time County employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS), 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, 2013 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, 2011, 2012, and 2013, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2011	\$ 243,789	\$ 27,821
2012	\$ 245,943	\$ 29,434
2013	\$ 244,645	\$ 31,526

NOTE 11. 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.

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

Nonspendable Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	<u>\$ 318,896</u>	Inventory

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 647,558	Public works
Law Enforcement	361,132	Public safety
PMC Memorial	643,511	Public health
Metal Mines Trust	<u>821,198</u>	Public works
Total Major Funds	<u>\$ 2,473,399</u>	

All other Aggregate

	505,386	Culture and recreation
	142,063	General government
	146,213	Housing and community development
	16,924	Public health
	450,893	Public safety
	902,455	Public works
	<u>52,488</u>	Social and economic services
Total all other aggregate	<u>\$ 2,216,422</u>	

NOTE 12. DEFICIT FUND BALANCES/NET POSITION

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
Emergency Disaster	\$ 622	Due to other funds liability	Future tax revenue
Weed NRCS	830	Accrued payroll liability	Future grant revenue
Flood State/Federal	79,616	Deferred revenue liability	Transfers from the general fund

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>
General	\$ 5,190	Reduction of prior-year payroll liability
Planning	1,500	Reduction of prior-year payroll liability
Fire	5,120	Correction of prior-year activity
Junk Vehicle	(1,499)	Prior-year payroll accrual
911 Emergency	9,999	Reversal of prior-year deferred revenue
DNRC RRGL Grant	(1,750)	Reduction of prior-year grant receivable
Op Med Cab	271	Correction of prior-year receivable
Flood State/Federal	(65,779)	Reversal of prior-year receivable
2010 HSGP	(42,604)	Reversal of prior-year receivable
Pioneer Medical Center	(1,082)	Correction of prior-year activity
Government-wide	<u>(268,992)</u>	Correction of prior-year capitalizations
Total	<u>\$ (359,626)</u>	

SWEET GRASS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENT
June 30, 2013

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.

City Court

The County participated in a city court service agreement with the City of Big Timber for the fiscal year ended June 30, 2013. Sweet Grass County received \$23,480 from the City for providing law enforcement services.

Law Enforcement

The County participated in a law enforcement service agreement with the City of Big Timber for the fiscal year ended June 30, 2013. The County received \$157,300 from the City for providing law enforcement services.

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

**REQUIRED SUPPLEMENTAL
INFORMATION**

Sweet Grass County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2013

General				
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 982,019	\$ 980,990	\$ 985,894	\$ 4,904
Licenses and permits	300	300	413	113
Intergovernmental	229,881	160,690	171,739	11,049
Charges for services	39,850	123,965	128,725	4,760
Fines and forfeitures	69,110	45,750	43,100	(2,650)
Miscellaneous	43,000	43,100	29,621	(13,479)
Investment earnings	7,500	7,500	5,793	(1,707)
Amounts available for appropriation	\$ 1,371,660	\$ 1,362,295	\$ 1,365,285	\$ 2,990
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 1,181,963	\$ 1,181,963	\$ 1,060,757	\$ 121,206
Public safety	112,550	112,550	63,136	49,414
Public works	-	-	-	-
Public health	33,250	33,250	30,968	2,282
Social and economic services	5,000	5,000	2,250	2,750
Debt service - principal	-	-	2,842	(2,842)
Debt service - interest	-	-	1,387	(1,387)
Miscellaneous	-	-	46,762	(46,762)
Capital outlay	45,000	45,000	21,838	23,162
Total charges to appropriations	\$ 1,377,763	\$ 1,377,763	\$ 1,229,940	\$ 147,823
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	(19,000)	(19,000)
Total other financing sources (uses)	\$ -	\$ -	\$ (19,000)	\$ (19,000)
Net change in fund balance			\$ 116,345	
Fund balance - beginning of the year			\$ 421,642	
Restatements			5,190	
Fund balance - beginning of the year - restated			\$ 426,832	
Fund balance - end of the year			\$ 543,177	

**Sweet Grass County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2013**

Road					
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL			
RESOURCES (INFLOWS):					
Taxes and assessments	\$ 455,605	\$ 455,140	\$ 455,806	\$	666
Licenses and permits	300	300	600		300
Intergovernmental	277,964	277,964	295,177		17,213
Charges for services	-	-	-		-
Fines and forfeitures	-	-	-		-
Miscellaneous	2,200	97,411	95,228		(2,183)
Investment earnings	-	-	-		-
Amounts available for appropriation	<u>\$ 736,069</u>	<u>\$ 830,815</u>	<u>\$ 846,811</u>	\$	<u>15,996</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):					
General government	\$ -	\$ -	\$ -	\$	-
Public safety	-	-	-		-
Public works	760,450	794,161	619,393		174,768
Public health	-	-	-		-
Social and economic services	-	5,000	-		5,000
Debt service - principal	-	2,910	34,794		(31,884)
Debt service - interest	-	1,484	1,218		266
Miscellaneous	-	-	-		-
Capital outlay	50,000	-	-		-
Total charges to appropriations	<u>\$ 810,450</u>	<u>\$ 803,555</u>	<u>\$ 655,405</u>	\$	<u>148,150</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ -	\$ -	\$ -	\$	-
Transfers out	-	-	(75,000)		(75,000)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (75,000)</u>	\$	<u>(75,000)</u>
Net change in fund balance			<u>\$ 116,406</u>		
Fund balance - beginning of the year			\$ 850,048		
Restatements			-		
Fund balance - beginning of the year - restated			<u>\$ 850,048</u>		
Fund balance - end of the year			<u>\$ 966,454</u>		

Sweet Grass County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2013

Law Enforcement				
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 556,480	\$ 556,528	\$ 556,324	\$ (204)
Licenses and permits	-	-	-	-
Intergovernmental	98,739	92,539	99,089	6,550
Charges for services	174,275	180,575	183,611	3,036
Fines and forfeitures	-	-	-	-
Miscellaneous	-	500	-	(500)
Investment earnings	900	900	742	(158)
Amounts available for appropriation	<u>\$ 830,394</u>	<u>\$ 831,042</u>	<u>\$ 839,766</u>	<u>\$ 8,724</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	-	-	-	-
Public safety	842,600	848,540	761,383	87,157
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Debt service - principal	-	34,794	-	34,794
Debt service - interest	-	1,706	-	1,706
Miscellaneous	-	-	-	-
Capital outlay	32,950	109,950	91,221	18,729
Total charges to appropriations	<u>\$ 875,550</u>	<u>\$ 994,990</u>	<u>\$ 852,604</u>	<u>\$ 142,386</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	21,900	89,900	22,000	(67,900)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ 21,900</u>	<u>\$ 89,900</u>	<u>\$ 90,000</u>	<u>\$ 100</u>
Net change in fund balance			<u>\$ 77,162</u>	
Fund balance - beginning of the year			\$ 283,970	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 283,970</u>	
Fund balance - end of the year			<u>\$ 361,132</u>	

Sweet Grass County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2013

PMC Memorial				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY	WITH FINAL
			BASIS) See Note A	BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	457,295	457,295
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	630,848	630,848
Investment earnings	-	-	1,765	1,765
Amounts available for appropriation	\$ -	\$ -	\$ 1,089,908	\$ 1,089,908
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	495,370	1,019,744	-	1,019,744
Social and economic services	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	-	-	-	-
Total charges to appropriations	\$ 495,370	\$ 1,019,744	\$ -	\$ 1,019,744
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	(984,709)	(984,709)
Total other financing sources (uses)	\$ -	\$ -	\$ (984,709)	\$ (984,709)
Net change in fund balance			\$ 105,199	
Fund balance - beginning of the year			\$ 538,312	
Restatements			-	
Fund balance - beginning of the year - restated			\$ 538,312	
Fund balance - end of the year			\$ 643,511	

Sweet Grass County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2013

Metal Mines Trust				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	234,941	234,941
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	163,200	-	-	-
Investment earnings	-	1,440	2,922	1,482
Amounts available for appropriation	<u>\$ 163,200</u>	<u>\$ 1,440</u>	<u>\$ 237,863</u>	<u>\$ 236,423</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	-	-	-	-
Total charges to appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	(746,535)	-	-	-
Total other financing sources (uses)	<u>\$ (746,535)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance			<u>\$ 237,863</u>	
Fund balance - beginning of the year			\$ 583,335	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 583,335</u>	
Fund balance - end of the year			<u>\$ 821,198</u>	

Sweet Grass County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2013

		<u>Flood State/Federal</u>			
		<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
		<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH FINAL</u>
				<u>(BUDGETARY</u>	<u>BUDGET</u>
				<u>BASIS) See Note A</u>	
RESOURCES (INFLOWS):					
Taxes and assessments	\$	-	-	-	-
Licenses and permits		-	-	-	-
Intergovernmental		681,815	604,298	64,830	(539,468)
Charges for services		-	-	-	-
Fines and forfeitures		-	-	-	-
Miscellaneous		-	-	-	-
Investment earnings		-	-	-	-
Amounts available for appropriation	\$	<u>681,815</u>	<u>604,298</u>	<u>64,830</u>	<u>(539,468)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):					
General government	\$	-	-	-	-
Public safety		645,090	646,478	-	646,478
Public works		-	-	21,806	(21,806)
Public health		-	-	-	-
Social and economic services		-	-	-	-
Debt service - principal		-	-	-	-
Debt service - interest		-	-	-	-
Miscellaneous		-	-	-	-
Capital outlay		-	-	37,534	(37,534)
Total charges to appropriations	\$	<u>645,090</u>	<u>646,478</u>	<u>59,340</u>	<u>587,138</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	\$	-	-	-	-
Transfers out		-	-	-	-
Total other financing sources (uses)	\$	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance				<u>5,490</u>	
Fund balance - beginning of the year				(19,327)	
Restatements				<u>(65,779)</u>	
Fund balance - beginning of the year - restated				<u>(85,106)</u>	
Fund balance - end of the year				<u>(79,616)</u>	

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

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

	<u>General</u>	<u>Road</u>	<u>Law Enforcement</u>	<u>PMC Memorial</u>	<u>Metal Mines Trust</u>	<u>Flood State/Federal</u>
Sources/Inflows of resources						
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,365,285	\$ 846,811	\$ 839,766	\$ 1,089,908	\$ 237,863	\$ 64,830
Combined funds (GASBS 54) revenues	<u>387,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 1,753,283</u>	<u>\$ 846,811</u>	<u>\$ 839,766</u>	<u>\$ 1,089,908</u>	<u>\$ 237,863</u>	<u>\$ 64,830</u>
Uses/Outflows of resources						
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,229,940	\$ 655,405	\$ 852,604	\$ -	\$ -	\$ 59,340
Combined funds (GASBS 54) expenditures	<u>259,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 1,489,384</u>	<u>\$ 655,405</u>	<u>\$ 852,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,340</u>

Sweet Grass County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2010	\$ -	\$ 2,278,260	\$ 2,278,260	0%	\$ 5,880,596	38.7%

SINGLE AUDIT SECTION

Sweet Grass County, Montana
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditure June 30, 2013
<u>U.S. Department of Agriculture</u>			
<i>Passed through Montana Department of Agriculture:</i>			
Cooperative Forestry Assistance	10.664	MDA 2011-723X	\$ 3,291
<i>Passed through State of Montana Department of Natural Resources:</i>			
Cooperative Forestry Assistance	10.664	VFA-13-490	7,000
<i>Passed through Montana Department of Administration:</i>			
Schools and Roads - Grants to States	10.665	N/A	214,149
<i>Direct:</i>			
Schools and Roads - Grants to States	10.665	12-DG-11011100-005	36,958
Environmental Quality Incentives Program	10.912	65-0325-12-039	8,713
Total U.S. Department of Agriculture			\$ 270,111
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through Montana Department of Public Health and Human Services:</i>			
Public health emergency preparedness	93.069	N/A	\$ 34,922
Immunization Cooperative Agreements	93.268	13-07-4-31-145-0	1,620
Total U.S. Department of Health and Human Services			\$ 36,542
<u>U.S. Department of Homeland Security</u>			
<i>Passed through Montana Department of Military affairs:</i>			
Disaster Grants - Public Assistance (Presidentially declared disasters)	97.036	N/A	\$ 48,623
Hazard Mitigation Grant	97.039	FEMA DR-1996-MT	2,358
Emergency Management Performance Grants	97.042	EMW-2012-EP-00057-S01	23,439
Emergency food and shelter national board program - security system	97.067	EMW-2012-SS-00143-S01	87,183
Emergency food and shelter national board program - communications	97.067	EMW-2011-SS-00052	101,000
Emergency food and shelter national board program - Technology	97.067	EMW-2011-SS-00052-S01	22,895
Total U.S. Department of Homeland Security			\$ 285,498
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through State of Montana Department of Commerce:</i>			
Community Development Block Grants	14.228	MT-CDBG-ED10-07	\$ 457,294
Total U.S. Department of Housing and Urban Development			\$ 457,294
<u>U.S. Department of the Interior</u>			
<i>Passed through Sweet Grass Conservation District:</i>			
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	BLM-MT-RFA09-0801	\$ 25,555
Total U.S. Department of the Interior			\$ 25,555
<u>U.S. Department of Justice</u>			
<i>Direct</i>			
Public Safety Partnership and Community Policing Grants	16.710	2010UMWX0188	\$ 48,252
Total U.S. Department of Justice			\$ 48,252
<u>U.S. Department of Transportation</u>			
<i>Passed through Montana Sheriff and Peace Officers Association:</i>			
Alcohol Impaired driving countermeasures incentive grant	20.601	N/A	\$ 3,141
Total U.S. Department of Transportation			\$ 3,141
Total Federal Financial Assistance			\$ 1,126,393
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, 2013

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of 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

**INDEPENDENT AUDITOR'S 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, Montana
Big Timber, Montana

We have audited, in accordance with the 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, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information Sweet Grass County, Montana, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sweet Grass County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sweet Grass County, Montana's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as identified as items 13-6.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as identified as items 13-1 through 13-5.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 *Governmental Auditing Standards*.

Sweet Grass County's Response to Findings

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. Sweet Grass County's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

March 27, 2014

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of County Commissioners
Sweet Grass County
Big Timber, Montana

Report on Compliance for Each Major Federal Program

We have audited Sweet Grass County, Montana, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Sweet Grass County's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sweet Grass County, Montana's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion Each Major Federal Program

In our opinion, Sweet Grass County, Montana, complied, in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 13-7. Our opinion on each major federal program is not modified with respect to these matters.

Sweet Grass County, Montana's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Sweet Grass County, Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Sweet Grass County, Montana is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Derringer, Downey and Associates, CPAs, P.C.

March 26, 2014

SWEET GRASS COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	<i>Unmodified</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>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.067	Emergency Food and Shelter National Board Program
14.228	Community Development Block Grants

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Section II – Financial Statement Findings

13-1 Justice of the Peace Internal Control

Condition:

The following controls weaknesses were noted in the office of the Justice of the Peace:

- (1) In some cases the Court will accept payments over time for citations. The Court uses a time payment agreement card for each time payment. The time payment agreement cards are not reconciled to a summary or control report of all time payments authorized by the Court.
- (2) When a defendant comes in to make a payment they are given a manual receipt. This receipt is not the receipt assigned by their accounting system. The receipt does not have the name of the County or any indication it was from Justice Court.
- (3) The court has several checks that have not cleared the bank. These checks are over one year old and considered stale dated.
- (4) Disbursements from the trust account only require the signature of the judge.

Criteria:

Courts are held to a higher standard of internal control and segregation of duties than other departments. As such the County should establish procedures for handling of court money to provide the highest level of control available.

Effect:

- (1) Without a control ledger or card the Court is at risk of losing a time payment customer without their knowledge.
- (2) The Court has strong controls over theft when all cash transactions are reported immediately into the accounting system.
- (3) There were 8 stale dated checks going back to June 2008. Failure to follow up on stale dated checks results in defendants or restitution recipients not receiving the money owed to them.
- (4) One signature on checks weakens the controls over cash disbursements.

Recommendation:

We recommend the following:

- (1) Create a control ledger card or report and balance the time payment cards to the control monthly.
- (2) Eliminate the use of manual receipts. Enter all receipts into the computer accounting system at time of receipt.
- (3) Turn all stale dated checks over to the MT department of revenue lost property division.
- (4) Require 2 signatures on all disbursements.

Auditee Response:

The Court agrees with the above conditions and will take the necessary steps for improvement.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

13-2 District Court Controls

Condition:

The following control concerns were noted in the District Court:

- (1) The Court maintains a trust account for all transactions that flow through the Court. The trust account is not balanced monthly to a subsidiary list of all the persons money is held in trust for.
- (2) The Court has been holding a restitution payment for several years because they cannot locate the beneficiary.
- (3) Deposits to the trust fund other than child support are made monthly.

Criteria:

To ensure trust collections are properly recorded and disbursed subsidiary ledgers should be maintained and timely disbursed.

Effect:

As of June 30, 2013 the County had \$1,709 it could not account for. An \$1,100 restitution payment has not been disbursed to the beneficiary.

Recommendation:

We recommend the following changes to the District Court's operating procedures:

- (1) The Court should balance a subsidiary ledger of all money held in trust monthly.
- (2) The Court should utilize the MT State Department of revenues lost property division rather than holding the money themselves.
- (3) Deposits should be made at least weekly.

Auditee Response:

The Court agrees with the above conditions and will take the necessary steps for improvement.

13-3 Outstanding Warrants (repeat for prior year finding 11-1)

Condition:

The County has warrants outstanding greater than one year old

Criteria:

Montana Code Annotated (MCA) holds that

7-6-2607 Processing of warrants. (1)The board shall cause to be canceled all county warrants that have remained uncalled for 1 year or more in the county clerk's office. The uncalled warrants must be canceled in the same manner as other county warrants. At the same time, the county treasurer shall deliver to the board all warrants or vouchers that are in the county treasurer's possession for money disbursed by the county treasurer and the clerk shall issue a receipt for the warrants or vouchers.

(2) The board shall cause to be entered on the record of warrants, opposite to the entry of each warrant issued, the date when the warrant was canceled and shall make a list of the canceled warrants, specifying the number, date, amount, and the person to whom the warrant was payable. The board shall cause the list to be entered on the minutes of the board.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Effect:

The following accounts had warrants greater than a year old.

- Payroll Clearing Fund	total of 21	\$5,404
- Claims Clearing Fund	total of 4	\$582
- Justice of the Peace	total of 8	\$172

Cause:

The county has not designed and implemented policies and procedures to ensure that it cancels all outstanding warrants greater than one year old.

Recommendation:

We recommend the County investigate all warrants outstanding for greater than one year and turn them over to the State of MT Department of Revenue lost property division.

Auditee Response:

We will look into the matter immediately.

13-4 PMC Allowance for Uncollectable Accounts

Condition:

Historically the Pioneer Medical Center (PMC) has reported Net Receivables (Receivables less Allowance for Bad Debts) of around 11.5% of patient revenues. For the Fiscal Year Ended June 30, 2013 the PMC reported Net Receivables of 15.4% of patient revenues. With total revenues reported of \$7,942,860 this increase in receivables is approximately \$300,000.

Criteria:

Generally Accepted Accounting Principles (GAAP) require receivables to be conservatively reported using a historical basis for collection.

Effect:

Net Patient Receivables is overstated and Bad Debt Expenses is understated by approximately \$300,000.

Recommendation:

We recommend the PMC reevaluate the process for calculation of the allowance of bad debt expense.

Auditee Response:

The County will take a more aggressive approach in recognizing allowance for bad debt expense.

13-5 PMC Medicare Cost of Reimbursement

Condition:

Annually a cost report is prepared and sent to medicare for review. For the fiscal year ended June 30, 2013 medicare agree to reimburse \$92,464. This receivable was not reported in the financials of the PMC as of June 30, 2013.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Criteria:

Generally Accepted Accounting Principles (GAAP) require all receivables to be reported on the balance sheet.

Effect:

The balance sheet was understated by \$92,464 on June 30, 2013.

Cause:

This appears to be an accounting oversight. Medicare did not make their determination until November 2013.

Recommendation:

We recommend the County create a system to ensure all receivables are properly reported at year end.

Auditee Response:

This was an oversight and will be corrected in future years.

13-6 Cash Handling and Reporting

Condition:

- (1) The County has an excessive number of individual cash accounts. On the June 30, 2013 cash reconciliation, the county reports 17 checking accounts, 23 certificates of deposit and 7 savings accounts.
- (2) We did not agree with the bank reconciliations of 3 of the County's checking accounts. These accounts had reconciling items that we were unable to trace to the subsequent bank statements.
- (3) The County reported a deposit in transit that did not exist at year end.

Criteria:

- (1) There is no legal limit on the number of accounts a County can maintain. The more bank accounts a government have the greater its risk of misstatement or fraud.
- (2) Reconciling the bank accounts is essential in determining whether the cash balances are correct, and all transactions are reported.
- (3) The County included on its June 30, 2013 reconciliation an amount of \$36,898 that pertained to a repayment from Reed Point High School. The county termed the repayment as a deposit in transit. However, the amount was not in transit at year end. Rather it was a correction of an overpayment discovered after fiscal year end.

Effect:

- (1) Increases work load and risk of misstatement or fraud.
- (2) We questioned bank reconciling items in the following accounts and amounts

a. Payroll tax fund	cash under reported	(\$1,806)
b. Justice of the Peace	cash over reported	\$9,125
c. Big Timber Vol Fire	cash under reported	<u>(\$13,814)</u>
Total	Cash under reported	<u>(\$6,495)</u>
- (3) No net effect on the County's financials. However due from other governments (receivable) was understated by \$36,898 and cash was overstated by the same amount.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Cause:

- (1) The County partially attempts to track cash balances by opening separate bank accounts rather than using their accounting system to identify cash in the County investment pool.
- (2) We were unable to determine the cause of the reconciliation error.
- (3) It appears as if the County attempted to correct an error they discovered in the current year by adjusting cash in the prior year.

Recommendation:

- (1) The County Commissioners should review all of the bank accounts and consolidate where possible.
- (2) The County should reconcile its cash balances to its bank statements. The county should account for all outstanding checks and deposits in transit. Further we recommend the Fiscal Manager report to the County Commissioners all irregular bank account activity including reconciling problems.
- (3) We recommend in the future the County record correcting transaction in the current year rather than adjusting the bank statements.

Auditee Response:

The County is working on these issues.

Section III – Federal Award Findings and Questioned Costs

13-7 CDBG Grant Bidding

CFDA Title: Community Development Block Grants

CFDA Number: 14.228

Federal Award Number: MT-CDBG-ED10-07

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: State of Montana Department of Commerce

Condition:

The County received a CDBG grant for the purchase of a new CT Scanner. The cost of the scanner was \$300,000. The County could not find documentation to support the bid letting of the equipment.

Criteria:

OMB Circular A-133 requires new equipment purchases greater than the State's procurement limit to be let out for bid.

Effect:

Non-Compliance with the procurement requirements of OMB Circular A-133.

Recommendation:

We recommend the County review all contracts for equipment greater than \$50,000 to comply with State and Federal bidding requirements.

Auditee Response:

This may have been an oversight. We will review all future purchases.

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

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

County Commissioners
Sweet Grass County
Big Timber, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Internal Activity	Implemented
Outstanding Warrants (repeat from 11-1)	Repeated
Expenditures Incurred without appropriation (repeat from 11-2)	Implemented

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

March 27, 2014