

PARK COUNTY
LIVINGSTON, MONTANA
FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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PARK COUNTY

ORGANIZATION

June 30, 2008

BOARD OF COUNTY COMMISSIONERS

| | |
|--------------|-------------------|
| Larry Lahren | Board Chairperson |
| Jim Durgan | Commissioner |
| Kris Denton | Commissioner |

ELECTED OFFICIALS

| | |
|------------------|---------------------------|
| Denise Nelson | County Clerk and Recorder |
| Kevin Larkin | County Treasurer |
| M. Allen Lutes | County Sheriff |
| Brett Linneweber | County Attorney |
| Ed Barich | County Superintendent |
| June Little | Clerk of District Court |
| Linda Budeski | Justice of the Peace |
| Albert Jenkins | County Coroner |
| Sue Martin | Public Administrator |

OLNESS & ASSOCIATES, P. C.

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

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Park County
Livingston, Montana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Park County, Montana (the government) as of and for the year ended June 30, 2008, which collectively comprise the government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the government's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amounts at which inventory was recorded in the governmental activities, road fund and aggregate remaining fund information, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, road fund and aggregate remaining fund information of the government, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund, excluding the road fund, for the government, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Olness & Associates, PC

October 16, 2008

PARK COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

The following overview presents Park County's financial activities for the fiscal year ending June 30, 2008. It is predicated and based upon the financial statements which begin on page 8

FINANCIAL HIGHLIGHTS

- Total net assets increased more than 2 percent as a result of this year's operations. Net assets of our governmental activities increased \$419,542, or 2 percent, and net assets of our business-type activities increased \$175,796 or 9 percent.
- During the year, our government had expenses that were \$1,153,045 more than the \$7,205,065 generated in tax and other revenues for governmental programs.
- In the business-type activities, revenues decreased to \$1,494,708 (or 17 percent) while expenses decreased by 17 percent.
- Total cost of governmental activities increased by \$903,131 or 12 percent.
- The General fund fund balance reported a decrease this year of \$204,642 or 18% due to an increase in overall expenses.

USING THIS AUDIT REPORT

This audit report consists of a series of financial statements. These financial statements provide information about the activities of the government as a whole and present a longer-term view of the county's finances.

Fund statements indicate how services were financed in the short term and what remains for future spending. Fund financial statements also report the government's operations in more detail than the all-inclusive, government-wide statements by providing information about specific funds. The other statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of entities outside of county government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements: The Statement of Net Assets and the Statement of Activities (pages 8 and 9) report information about the government as a whole. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting systems used by most private sector businesses. All of the current year's revenue and expenses are accounted for regardless of when cash is received or paid.

These two statements also report the net assets and changes in them. Over time, increases or decreases in the county's net assets are one indicator of its financial condition. Some influential variables, such as changes in the property tax base and the condition of our capital assets, can also be used for this purpose.

In the statement of net assets and the statement of activities, Park County's finances are divided into two categories:

Governmental activities: Basic services are reported here, including the sheriff's office, road, planning, and general county administration. Property taxes and state and federal grants finance most of these activities.

Business-type activities: The County charges fees to customers to help it cover all or most of the cost of certain services it provides. Solid waste services are reported here.

Fund Financial Statements: The fund financial statements begin on page 10 and provide detailed information about the most specific funds – not the government as a whole. 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. Some funds are required to be established by State law and/or by bond covenants. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other revenue. The following funds are used by Park County:

Governmental Funds: Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations is discussed on pages 11 and 13.

Proprietary Funds: The County charges fees to customers for some of the services it provides and these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. Internal service funds (the other component of proprietary funds) report activities that provide supplies and

PARK COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

services to specific programs and/or departments. (i.e., the Mechanic fund)

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting and are *not* included in the government-wide financial statements because these assets are not available to finance Park County operations. The county is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

Net Assets: Net assets may serve over time as a useful indicator of a government's financial position. The following schedules provide summaries of changes in net assets of the county's governmental and business-type activities.

| NET ASSETS: | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | \$ 17,703,232 | \$ 17,628,663 | \$ 3,068,068 | \$ 3,058,397 | \$ 20,771,300 | \$ 20,687,060 |
| Capital assets | 6,644,148 | 5,802,976 | 1,091,691 | 844,294 | \$ 7,735,839 | 6,647,270 |
| Total assets | 24,347,380 | 23,431,639 | 4,159,759 | 3,902,691 | 28,507,139 | 27,334,330 |
| Other liabilities | 539,568 | 283,089 | 8,284 | | 547,852 | 283,089 |
| Long-term liabilities outstanding | 1,202,323 | 962,603 | 2,069,926 | 1,975,018 | 3,272,249 | 2,937,621 |
| Total liabilities | 1,741,891 | 1,245,692 | 2,078,210 | 1,975,018 | 3,820,101 | 3,220,710 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 5,504,910 | 5,136,841 | 1,091,691 | 838,669 | 6,596,601 | 5,975,510 |
| Restricted | 386,162 | 254,140 | 1,784,534 | 1,553,073 | 2,170,696 | 1,807,213 |
| Unrestricted | 16,714,417 | 16,794,966 | (794,676) | (485,989) | 15,919,741 | 16,308,977 |
| | \$ 22,605,489 | \$ 22,185,947 | \$ 2,081,549 | \$ 1,905,753 | \$ 24,687,038 | \$ 24,091,700 |

The County's net assets reflect its investment in capital assets (land, buildings, machinery and equipment, etc.) less any related debt used to acquire those assets that is still outstanding. We use these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the county's investment in its 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 the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets (\$2,170,696) represent resources that are subject to external restrictions on how they may be used. The majority of these net assets (\$1,784,534) are for business-type activities related to the Landfill closure/post closure care trust. These net assets are set aside to satisfy the financial assurance requirements established by the Department of Environmental Quality.

Unrestricted net assets (\$15,919,741) are resources that may be used to meet the governments' ongoing obligations to citizens and creditors.

Assets exceeded liabilities by \$22,605,489 for the governmental activities and \$2,081,549 for the business-type activities, or a total of \$24,687,038 as of June 30, 2008.

The increase in current assets for governmental activities is due to our efforts to increase reserves to the legal limit of 33 1/3%. Departments were required to balance increases in personnel expenditures with decreases in operating expenditures in order to keep appropriations flat, and at the same time there were increases in tax revenues due to an increase in taxable valuation as well as mill levy increases per 15-10-420, MCA.

Net assets for governmental activities increased 2% or \$ 419,542 from 2007 to 2008. An increase of 4.1% in the taxable valuation of the County, as well as mill levy increases per 15-10-420, MCA, contributed to this change. County departments continue to work toward the goal of increasing reserves to the legal limit of 33 1/3%, and this is reflected by the fact that actual expenditures for 2008 were 9% below budgeted appropriations, also contributing to the increase in total assets.

Net assets for business activities also increased, about 8% or \$175,796. Current assets for business activities increase slightly due to a small increase in assessment revenue. Solid waste revenue decreased in FY08 and this was offset by a decrease in operating expenses.

PARK COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET ASSETS:

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 985,939 | \$ 1,136,429 | \$ 1,409,410 | \$ 1,720,572 | \$ 2,395,349 | \$ 2,857,001 |
| Operating grants and contributions | 586,648 | 482,741 | - | 9,999 | 586,648 | 492,740 |
| Capital grants and contributions | - | 21,758 | - | - | - | 21,758 |
| General revenues: | | | | | | |
| Taxes | 4,453,030 | 4,337,933 | - | - | 4,453,030 | 4,337,933 |
| Licenses and permits | 44,151 | 49,675 | - | - | 44,151 | 49,675 |
| Intergovernmental | 1,696,793 | 1,683,481 | - | - | 1,696,793 | 1,683,481 |
| Interest | 901,462 | 1,162,751 | 79,611 | 62,412 | 981,073 | 1,225,163 |
| Miscellaneous | 74,926 | 125,796 | 5,687 | - | 80,613 | 125,796 |
| Insurance proceeds | - | - | - | - | - | - |
| Gain (loss) on disposal of capital assets | 84,703 | 7,000 | - | - | 84,703 | 7,000 |
| Total revenues | 8,827,652 | 9,007,564 | 1,494,708 | 1,792,983 | 10,322,360 | 10,800,547 |
| Expenses: | | | | | | |
| General government | 2,695,693 | 2,303,666 | - | - | 2,695,693 | 2,303,666 |
| Public safety | 2,609,006 | 2,351,813 | - | - | 2,609,006 | 2,351,813 |
| Public works | 1,754,827 | 1,435,603 | - | - | 1,754,827 | 1,435,603 |
| Public health | 522,599 | 466,057 | - | - | 522,599 | 466,057 |
| Social and economic services | 227,829 | 224,560 | - | - | 227,829 | 224,560 |
| Culture and recreation | 517,080 | 444,902 | - | - | 517,080 | 444,902 |
| Housing and community development | - | 144,736 | - | - | - | 144,736 |
| Landfill | - | - | 474,356 | 497,634 | 474,356 | 497,634 |
| Incinerator/transfer station | - | - | 894,556 | 660,923 | 894,556 | 660,923 |
| Collections | - | - | - | 493,475 | - | 493,475 |
| Interest on long-term debt | 31,076 | 32,731 | - | - | 31,076 | 32,731 |
| Intergovernmental | - | 50,911 | - | - | - | 50,911 |
| Total expenses | 8,358,110 | 7,454,979 | 1,368,912 | 1,652,032 | 9,727,022 | 9,107,011 |
| Change in net assets before transfers | 469,542 | 1,552,585 | 125,796 | 140,951 | 595,338 | 1,693,536 |
| Transfers | (50,000) | (50,000) | 50,000 | 50,000 | - | - |
| Change in net assets | 419,542 | 1,502,585 | 175,796 | 190,951 | 595,338 | 1,693,536 |
| Net assets, beginning | 22,185,947 | 20,683,362 | 1,905,753 | 1,714,802 | 24,091,700 | 22,398,164 |
| Net assets, ending | \$ 22,605,489 | \$ 22,185,947 | \$ 2,081,549 | \$ 1,905,753 | \$ 24,687,038 | \$ 24,091,700 |

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. Major funds are defined by the two criteria below, noting that county government may choose to report other governmental and enterprise funds as major funds, even though they do not meet the below criteria. (The General Fund is always reported as a major fund.)

Criteria 1

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

Criteria 2

The same factors that meet the 10 percent criterion are at least 5 percent of the corresponding factor total for all governmental and enterprise funds combined.

Park County has five governmental funds which are reported as major funds. These are: General, Road, Public Safety (Law Enforcement), Payment In Lieu of Taxes (PILT) and General Capital Improvement.

- *General Fund:* This is the primary operating fund for Park County and includes the Commissioners, Justice of the Peace, Clerk and Recorder, Treasurer, Elections, County Attorney, Building Maintenance, School Superintendent, mailroom services, Disaster & Emergency Services, Coroner, Sanitarian, Health Department, Extension, veteran services, and mental health services. Additionally, in FY08 the position of Auditor was created, and that department as well as a new Information Technology department was funded in the General Fund in FY08.

Besides taxes, General fund revenue sources include Option Tax revenue, which amounted to \$645,439 in FY08. Revenues were \$2,203,021, or a decrease of 2.3% from FY07. Expenditures increased almost 19.5% over the prior year to \$2,148,886. The General

PARK COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

fund fund balance as of June 30, 2008 was \$912,957 (FY07-\$1,117,599), a decrease of \$204,642 from the prior year.

- **Road:** The road fund records all costs related to maintenance of county roads and minimal road construction expenses. The fund balance was \$ 54,255 as of June 30, 2008 which represents a decrease of \$166,294 (approximately 75%) from the prior year. Other financing sources include transfers in from PILT and option tax of \$357,950, and sale of capital assets in the amount of \$147,144. Tax revenue accounted for \$298,796 of total revenue for the road fund and expenses totaled \$2,106,573.
- **Public Safety:** The Public Safety fund accounts for activities for Law Enforcement (Sheriff's Office), detention center, other public safety programs, and grants to city/county dispatch. Revenues in 2008 were \$1,343,330, a decrease of nearly 4% over the prior year, and expenditures increased nearly 1.5% to \$1,708,754. Transfers in of \$291,043 from other funds, primarily the General fund and the PILT fund resulted in a net fund balance of \$381,817, a decrease of approximately 2.5% over the prior year's fund balance.
- **Payment in Lieu of Taxes (PILT):** PILT funds are received annually from the federal government in lieu of taxes on federal property within the county. The amount of this payment is determined by the US government and is usually paid out in the late spring of each year. The Park County Commission has determined that it is important to retain at least one year's payment amount in fund balance for the unlikely event that the federal government changes this current policy. This fund is used for operating costs of the Finance Office, Computers, GIS, Rural Addressing, Civil Attorney, Litigation, Fire Council, and Commissioners Special Projects, in addition to transferring moneys out to other funds such as Road, Planning, Law Enforcement and other smaller programs.

The PILT fund balance as of June 30, 2008 was \$1,741,783, a decrease from the prior year of \$382,396. This was due, in part, to an increase in funding for dispatch services, transfers to Law Enforcement and the road department, and professional service fees. PILT will be fully funded through 2012.

- **General Capital Improvement Fund:** This fund represents the amount awarded to the county from a lawsuit, plus interest. Fund balance as of June 30, 2008 was \$ 10,565,445. In FY06 the Commissioners decided to restrict use of the funds to monitoring and cleanup costs related to the Landfill, so the fund is expected to continue to increase.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues for the General fund were \$18,834 less than budgeted. Total tax revenues were \$15,086 less than budgeted. This was due in part to unanticipated protested taxes. An increase in charges for services was more that offset by decreases in investment earnings and revenues for licenses, permits, fees and fines collected during the year. More than 29 percent of General fund revenue is from the local Option Tax which is not a levied tax. The inclusion of this tax in the General Fund (in FY05) has served to infuse the General fund with cash. Any monies over the 33 1/3 percent allowed for reserves were transferred out to other funds. Actual expenditures were slightly more than 94% of budgeted expenditures which is not considered a significant variation.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: Park County's investment in capital assets, net of related debt, as of June 30, 2008, totaled \$6,596,601, an increase over the prior year. This investment includes land, buildings, and improvements other than buildings, machinery, and equipment. For fiscal year 2008, additions included: a dispatch auto log system, PA system for the rodeo arena, handicap accessible election booths, 2 fuel tanks and a used Chevy pickup truck for the road department, a used Dodge 1 ton pickup truck and new bobcat for the transfer station, and a track loader for the landfill.

Long Term Debt: As of June 30, 2008, Park County had a total of \$1,537,140 in outstanding long-term debt. The county incurred new debt to purchase the track loader. Additional debt was issued to upgrade road equipment.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The taxable value of property located in Park County for fiscal year 2008 was \$34,696,716. The number of mills for the general mill levy was 75.645 for fiscal year 08.

The sudden and unexpected failure of the Ninth Street Island Bridge in the spring of 2008 necessitated the need for a temporary bridge allowing access to Ninth Street Island. A (Bailey) bridge, on loan from the Montana Department of Transportation, is currently in place. However, the (Bailey) bridge must be purchased from MDT for approximately \$254,000, or an equivalent bridge purchased and supplied to MDT as a replacement unit. Montana State Dept. of Emergency Services reimbursed the County for the majority of other expenses associated with the temporary bridge. The Commissioners levied 2 mills in tax year 2008 for ongoing expenses related to this issue.

In March 2008, the County was forced to restrict use and repair damage to the Carbella Bridge which provides access to the Tom Miner Basin area. Old Yellowstone Trail Road, the remaining access route to Tom Miner Basin, had to be substantially upgraded to safely handle heavy equipment brought in for bridge repair in addition to serving the daily traffic needs of this area. Access to the Tom Miner Basin area was of immediate concern to the Commissioners so they followed emergency situation contract protocol per MCA 7-5-2304 and proceeded with bridge and road repairs. The County's bridge and road reserves financed the \$183,838 needed to complete this project.

PARK COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Due to the inadequacies of the County's jail, the ongoing need to incarcerate certain persons in other counties' facilities while awaiting trial or until they are remanded to another facility will continue to impact Park County financially. Juvenile detention accounts for the majority of this expense. Juveniles cannot be housed in the same facility as adults and therefore cannot be accommodated in the County's current facility.

In February 2008, the members of the Gardiner Water District and members of the Gardiner Sewer District, a Rural Special Improvement District (RSID), voted to combine the two organizations into the Park County-Gardiner Water/Sewer District operating under a common Board of Directors. This eliminates the RSID and makes the Gardiner Water/Sewer District eligible for grants to maintain and improve the systems' infrastructure. At this writing the new Board has yet to agree to terms of the transfer of the sewage system from the County to the Water/Sewer District, but this is expected to occur during FY09.

The following items have also impacted the FY08 budget and/or will impact the County's FY09 budget:

Fiscal Year 2008:

- Proceeds from the Cooke City resort tax were utilized in FY08 for building repair and maintenance, community and infrastructure projects, and property tax relief for the citizens of Cooke City.
- The County has contracted with an engineering firm to design a major sidewalk construction project for Gardiner. The project is part of the Safe Route to School program and is scheduled to be completed in FY09.
- DEQ assessed a fine against Gardiner Sewer District for discharge into the Yellowstone River in the amount of \$28,422. However, in negotiations with DEQ the fine was reduced to approximately \$18,000 and kept in the County for use on various Flesman Creek renovation projects.
- The Livingston Senior Citizen Center was surveyed and redesigned for major health and safety improvements during FY08. A large portion of the project is funded by a CDGB and HOME grant and should be completed during FY09.
- The County participated in a study to initiate a major rebuilding and expansion of the Wilsall Senior Citizen Center.
- Park County has combined 2 of its 3 refuse funds (5410 & 5420) to enhance the process of account administration and budgeting.
- In accordance with MCA 7-6-2401 the Commissioners created the position of County Auditor. An Auditor was appointed in March 2008. Other new positions include an IT Technician and a ½ time Deputy Clerk & Recorder.
- The County Road Department has leased three new graders to improve road maintenance and snow removal.
- An excavator was purchased to create a larger landfill cell and thus extend the calculated life expectancy of the County landfill.
- The Montana Driver's Licensing Office was moved out of the City/County Complex, opening space for a conference room and office space for the Law Enforcement clerk.

Fiscal Year 2009

- The inadequacy of the County Detention Center will continue to be a drain on Law Enforcement reserves. The expense in this area is determined by criminal activity and not by management decisions.
- For many years, Angel Line, a transportation program for Senior and handicapped citizens, was operated by the City of Livingston and jointly funded by the City and County. Because Angel Line operates County wide, at times outside City jurisdiction, a liability issue arose for the City and the Angel Line Board. For this reason, the responsibility for Angel Line's equipment, personnel, and daily operation will be transferred to the County effective January 1, 2009.
- The Gardiner Water and Sewer District Board has yet to accept the terms and conditions of the Contract for transfer at this time. Should an unexpected cost arise during this interim period and before the transfer of operations occurs, the County will be responsible for the expense. Efforts are underway to expedite the transfer of operations.
- As noted above, the Ninth Street Island Bridge will continue to be a drain on the County's cash flow.
- The Commission eliminated the position of Road Supervisor. The Commission will supervise and coordinate the day-to-day operations of the road crew. In addition, the mechanic position was integrated into road department.
- A Solid Waste Board was re-appointed by the Commission to comply with a court settlement relating to a lawsuit. Current board members are charged with formulating by-laws.

PARK COUNTY
STATEMENT OF NET ASSETS
June 30, 2008

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and equivalents | \$ 5,997,844 | \$ 1,084,988 | \$ 7,082,832 |
| Investments | 10,427,471 | - | 10,427,471 |
| Receivables: | | | |
| Taxes/assessments | 782,154 | 200,724 | 982,878 |
| Solid waste | - | 16,075 | 16,075 |
| Resort tax | 24,825 | - | 24,825 |
| Weed | 31,815 | - | 31,815 |
| Gardiner sewer | 15,266 | - | 15,266 |
| Governments | 138,021 | - | 138,021 |
| Internal balances | 18,253 | (18,253) | - |
| Inventories | 140,600 | - | 140,600 |
| Prepaid items | 126,983 | - | 126,983 |
| Restricted assets: | | | |
| Cash and equivalents | - | 70,593 | 70,593 |
| Investments | - | 1,713,941 | 1,713,941 |
| Capital assets: | | | |
| Land | 451,369 | 52,528 | 503,897 |
| Depreciable capital assets, net | <u>6,192,779</u> | <u>1,039,163</u> | <u>7,231,942</u> |
| Total assets | <u>24,347,380</u> | <u>4,159,759</u> | <u>28,507,139</u> |
| LIABILITIES | | | |
| Accounts payable-vendors | 102,111 | - | 102,111 |
| Deferred revenue | 185,475 | - | 185,475 |
| Long-term liabilities: | | | |
| Due within one year: | | | |
| Bonds, notes and capital leases | 220,475 | - | 220,475 |
| Compensated absences | 31,507 | 8,284 | 39,791 |
| Due in more than one year: | | | |
| Bonds, notes and capital leases | 918,763 | - | 918,763 |
| Compensated absences | 283,560 | 74,551 | 358,111 |
| Landfill closure/postclosure costs payable | - | 1,995,375 | 1,995,375 |
| Total liabilities | <u>1,741,891</u> | <u>2,078,210</u> | <u>3,820,101</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 5,504,910 | 1,091,691 | 6,596,601 |
| Restricted for: | | | |
| Roads and streets | 170,549 | - | 170,549 |
| Hard rock mining impact | 127,648 | - | 127,648 |
| Metal mines | 87,965 | - | 87,965 |
| Landfill closure/postclosure costs | - | 1,784,534 | 1,784,534 |
| Unrestricted | <u>16,714,417</u> | <u>(794,676)</u> | <u>15,919,741</u> |
| Total net assets | <u>\$ 22,605,489</u> | <u>\$ 2,081,549</u> | <u>\$ 24,687,038</u> |

PARK COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

| Functions/Programs | Expenses | Program Revenue | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---------------------|-------------------------|--|--|-----------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities: | | | | | | |
| General government | \$ 2,695,693 | \$ 365,375 | \$ 47,904 | \$ (2,282,414) | \$ - | \$ (2,282,414) |
| Public safety | 2,609,006 | 239,221 | 237,037 | (2,132,748) | - | (2,132,748) |
| Public works | 1,754,827 | 296,206 | 131,361 | (1,327,260) | - | (1,327,260) |
| Public health | 522,599 | 30,252 | 122,211 | (370,136) | - | (370,136) |
| Social and economic services | 227,829 | 2,164 | - | (225,665) | - | (225,665) |
| Culture and recreation | 517,080 | 52,721 | 48,135 | (416,224) | - | (416,224) |
| Interest on long-term debt | 31,076 | - | - | (31,076) | - | (31,076) |
| Total governmental activities | 8,358,110 | 985,939 | 586,648 | (6,785,523) | - | (6,785,523) |
| Business-type activities: | | | | | | |
| Landfill | 474,356 | 461,904 | - | - | (12,452) | (12,452) |
| Incinerator | 894,556 | 947,506 | - | - | 52,950 | 52,950 |
| Total business-type activities | 1,368,912 | 1,409,410 | - | - | 40,498 | 40,498 |
| Total | \$ 9,727,022 | \$ 2,395,349 | \$ 586,648 | (6,785,523) | 40,498 | (6,745,025) |
| General revenues: | | | | | | |
| Property taxes | | | | 4,453,030 | - | 4,453,030 |
| Licenses and permits | | | | 44,151 | - | 44,151 |
| Intergovernmental | | | | 1,696,793 | - | 1,696,793 |
| Unrestricted investment earnings | | | | 901,462 | 79,611 | 981,073 |
| Miscellaneous | | | | 74,926 | 5,687 | 80,613 |
| Gain on disposal of capital assets | | | | 84,703 | - | 84,703 |
| Transfers | | | | (50,000) | 50,000 | - |
| Total general revenues and transfers | | | | 7,205,065 | 135,298 | 7,340,363 |
| Change in net assets | | | | 419,542 | 175,796 | 595,338 |
| Net assets - beginning | | | | 22,185,947 | 1,905,753 | 24,091,700 |
| Net assets - ending | | | | \$ 22,605,489 | \$ 2,081,549 | \$ 24,687,038 |

See notes to basic financial statements.

PARK COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

| | General | Road | Public Safety | PILT | General Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|------------------|---------------------|-----------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 21,153 | \$ 12,969 | \$266,135 | \$ 1,253,037 | \$ 1,514,491 | \$ 2,926,824 | \$ 5,994,609 |
| Investments | 875,823 | - | - | 500,694 | 9,050,954 | - | 10,427,471 |
| Receivables: | | | | | | | |
| Taxes/assessments | 95,620 | 51,021 | 194,774 | - | - | 440,739 | 782,154 |
| Governments | 22,026 | 7,531 | 36,918 | 25,000 | - | 46,546 | 138,021 |
| Resort tax | - | - | - | - | - | 24,825 | 24,825 |
| Weed | - | - | - | - | - | 31,815 | 31,815 |
| Gardiner sewer | - | - | - | - | - | 15,266 | 15,266 |
| Inventories | - | 33,755 | - | - | - | 106,845 | 140,600 |
| Prepaid items | - | - | 78,764 | 17,485 | - | 30,734 | 126,983 |
| Total assets | \$ 1,014,622 | \$ 105,276 | \$576,591 | \$ 1,796,216 | \$ 10,565,445 | \$ 3,623,594 | \$ 17,681,744 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable-vendors | \$ 6,045 | \$ - | \$ - | \$ 54,433 | \$ - | \$ 41,633 | \$ 102,111 |
| Deferred revenue | 95,620 | 51,021 | 194,774 | - | - | 441,214 | 782,629 |
| Total liabilities | 101,665 | 51,021 | 194,774 | 54,433 | - | 482,847 | 884,740 |
| Fund balances: | | | | | | | |
| Reserved for: | | | | | | | |
| Debt service | - | - | - | - | - | 166,372 | 166,372 |
| Unreserved | 912,957 | 54,255 | 381,817 | 1,741,783 | 10,565,445 | - | 13,656,257 |
| Unreserved, reported in non-major: | | | | | | | |
| Special revenue funds | - | - | - | - | - | 2,623,746 | 2,623,746 |
| Capital projects funds | - | - | - | - | - | 350,629 | 350,629 |
| Total fund balances | 912,957 | 54,255 | 381,817 | 1,741,783 | 10,565,445 | 3,140,747 | 16,797,004 |
| Total liabilities and fund balances | \$ 1,014,622 | \$ 105,276 | \$576,591 | \$ 1,796,216 | \$ 10,565,445 | \$ 3,623,594 | \$ 17,681,744 |

PARK COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2008

| | |
|---|----------------------|
| Total fund balance, governmental funds | \$ 16,797,004 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net assets. | 6,507,207 |
| Certain other long-term assets are not available to pay current period expenditures and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net assets. | 597,154 |
| The assets and liabilities of certain internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of net assets. | 158,429 |
| Some liabilities, such as notes payable, capital leases payable, compensated absences and bonds payable, are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the statement of net assets. | <u>(1,454,305)</u> |
| Net assets of governmental activities | <u>\$ 22,605,489</u> |

PARK COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

| | General | Road | Public Safety | PILT | General Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|------------------|-------------------|---------------------|-----------------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | | |
| Taxes/assessments | \$ 1,208,462 | \$ 298,796 | \$ 1,143,468 | \$ - | \$ - | \$ 1,624,849 | \$ 4,275,575 |
| Fines and forfeitures | 120,618 | - | - | - | - | 33,662 | 154,280 |
| Licenses and permits | 31,585 | 12,175 | 391 | - | - | - | 44,151 |
| Intergovernmental | 273,973 | 222,763 | 132,622 | 897,085 | - | 749,514 | 2,275,957 |
| Charges for services | 294,969 | 37,691 | 62,081 | 6,881 | - | 421,481 | 823,103 |
| Investment earnings | 245,413 | - | - | 80,874 | 525,028 | 50,147 | 901,462 |
| Miscellaneous | 28,001 | 2,805 | 4,768 | 3,924 | - | 42,912 | 82,410 |
| Total revenues | 2,203,021 | 574,230 | 1,343,330 | 988,764 | 525,028 | 2,922,565 | 8,556,938 |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General government | 1,588,202 | - | - | 512,564 | - | 518,052 | 2,618,818 |
| Public safety | 112,322 | - | 1,584,754 | 222,158 | - | 536,653 | 2,455,887 |
| Public works | - | 894,852 | - | 94,502 | - | 570,797 | 1,560,151 |
| Public health | 325,782 | - | - | 15,000 | - | 174,531 | 515,313 |
| Social and economic services | 87,782 | - | - | 5,000 | - | 133,139 | 225,921 |
| Culture and recreation | - | - | - | - | - | 510,409 | 510,409 |
| Debt service: | | | | | | | |
| Principal | 23,607 | 312,795 | - | 10,991 | - | 40,459 | 387,852 |
| Interest and other charges | 2,041 | 17,427 | - | 139 | - | 11,469 | 31,076 |
| Capital outlay | 9,150 | 881,499 | 124,000 | 165,265 | - | 211,984 | 1,391,898 |
| Total expenditures | 2,148,886 | 2,106,573 | 1,708,754 | 1,025,619 | - | 2,707,493 | 9,697,325 |
| Excess (deficiency) of revenues over expenditures | 54,135 | (1,532,343) | (365,424) | (36,855) | 525,028 | 215,072 | (1,140,387) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Long-term debt issued | - | 860,955 | - | - | - | - | 860,955 |
| Sale of capital assets | - | 147,144 | 63,917 | - | - | - | 211,061 |
| Transfers in | 91,775 | 357,950 | 291,043 | 11,568 | - | 416,380 | 1,168,716 |
| Transfers out | (350,552) | - | - | (357,109) | (50,000) | (461,055) | (1,218,716) |
| Total other financing sources (uses) | (258,777) | 1,366,049 | 354,960 | (345,541) | (50,000) | (44,675) | 1,022,016 |
| Net change in fund balances | (204,642) | (166,294) | (10,464) | (382,396) | 475,028 | 170,397 | (118,371) |
| Fund balances - beginning | 1,117,599 | 220,549 | 392,281 | 2,124,179 | 10,090,417 | 2,970,350 | 16,915,375 |
| Fund balances - ending | \$ 912,957 | \$ 54,255 | \$ 381,817 | \$ 1,741,783 | \$ 10,565,445 | \$ 3,140,747 | \$ 16,797,004 |

PARK COUNTY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2008

| | |
|---|--------------|
| Net change in fund balances - total governmental funds | \$ (118,371) |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | |
| <p>Governmental funds report outlay for capital assets as expenditures because such outlay uses current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets estimated useful lives as depreciation expense for the period.</p> | |
| This is the amount by which capital outlay (\$1,391,898) exceeded depreciation (\$421,256) in the current period. | 970,642 |
| <p>Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports the gain or loss on the sale of capital assets. Thus, the change in net assets differs from the change in fund balance by the book value of the asset sold.</p> | |
| | (126,358) |
| <p>Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.</p> | |
| | 186,011 |
| <p>Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.</p> | |
| | (473,103) |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p> | |
| Compensated absences | (18,599) |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as central garage and plotter maps, to individual funds. The change in net assets of certain internal service funds is reported with governmental activities.</p> | |
| | (680) |
| Change in net assets of governmental activities | \$ 419,542 |

PARK COUNTY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

| | Enterprise Funds | | | Internal Service Funds |
|---|-------------------|---------------------|---------------------|---------------------------|
| | Landfill | Incinerator | Total | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 264,199 | \$ 820,789 | \$ 1,084,988 | \$ 3,235 |
| Receivables: | | | | |
| Taxes/assessments | 41,811 | 158,913 | 200,724 | - |
| Solid waste | 15,214 | 861 | 16,075 | - |
| Total current assets | <u>321,224</u> | <u>980,563</u> | <u>1,301,787</u> | <u>3,235</u> |
| Non-current assets: | | | | |
| Restricted assets: | | | | |
| Cash and cash equivalents | 70,593 | - | 70,593 | - |
| Investments | 1,713,941 | - | 1,713,941 | - |
| | <u>1,784,534</u> | <u>-</u> | <u>1,784,534</u> | <u>-</u> |
| Capital assets: | | | | |
| Land | - | 52,528 | 52,528 | - |
| Buildings and improvements | 54,241 | 207,636 | 261,877 | 155,614 |
| Equipment and furniture | 483,236 | 1,316,659 | 1,799,895 | 44,403 |
| Less: accumulated depreciation | (213,950) | (808,659) | (1,022,609) | (63,076) |
| | <u>323,527</u> | <u>768,164</u> | <u>1,091,691</u> | <u>136,941</u> |
| Total non-current assets | <u>2,108,061</u> | <u>768,164</u> | <u>2,876,225</u> | <u>136,941</u> |
| Total assets | <u>2,429,285</u> | <u>1,748,727</u> | <u>4,178,012</u> | <u>140,176</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Compensated absences | 2,193 | 6,091 | 8,284 | - |
| Total current liabilities | <u>2,193</u> | <u>6,091</u> | <u>8,284</u> | <u>-</u> |
| Non-current liabilities: | | | | |
| Compensated absences | 19,738 | 54,813 | 74,551 | - |
| Landfill closure/postclosure costs payable | 1,995,375 | - | 1,995,375 | - |
| Total non-current liabilities | <u>2,015,113</u> | <u>54,813</u> | <u>2,069,926</u> | <u>-</u> |
| Total liabilities | <u>2,017,306</u> | <u>60,904</u> | <u>2,078,210</u> | <u>-</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 323,527 | 768,164 | 1,091,691 | 136,941 |
| Restricted: | | | | |
| Landfill closure/postclosure | 1,784,534 | - | 1,784,534 | - |
| Unrestricted | (1,696,082) | 919,659 | (776,423) | 3,235 |
| Total net assets | <u>\$ 411,979</u> | <u>\$ 1,687,823</u> | <u>2,099,802</u> | <u>\$ 140,176</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | (18,253) | |
| Net assets of business-type activities | | | <u>\$ 2,081,549</u> | |

PARK COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

| | Enterprise Funds | | | | Internal Service Funds |
|---|-------------------|---------------------|-----------------------|---------------------|------------------------|
| | Landfill | Incinerator | Other Enterprise Fund | Total | |
| REVENUES | | | | | |
| Charges for services | \$ 194,407 | \$ 35,111 | \$ - | \$ 229,518 | \$ 71,476 |
| Assessment revenue | 267,497 | 912,395 | - | 1,179,892 | - |
| Total operating revenues | 461,904 | 947,506 | - | 1,409,410 | 71,476 |
| OPERATING EXPENSES | | | | | |
| Personal services | 179,773 | 404,217 | - | 583,990 | - |
| Supplies | 49,484 | 86,810 | - | 136,294 | 64,594 |
| Purchased services | 60,629 | 300,452 | - | 361,081 | - |
| Fixed charges | 25,443 | 32,417 | - | 57,860 | 5,383 |
| Closure/postclosure costs | 114,136 | - | - | 114,136 | - |
| Depreciation | 44,230 | 70,253 | - | 114,483 | 3,112 |
| Total operating expenses | 473,695 | 894,149 | - | 1,367,844 | 73,089 |
| Operating income (loss) | (11,791) | 53,357 | - | 41,566 | (1,613) |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Interest and investment revenue | 79,611 | - | - | 79,611 | - |
| Miscellaneous revenue | - | 5,687 | - | 5,687 | - |
| Interest expense | - | (135) | - | (135) | - |
| Total non-operating revenue (expenses) | 79,611 | 5,552 | - | 85,163 | - |
| Income (loss) before transfers | 67,820 | 58,909 | - | 126,729 | (1,613) |
| Transfers in | 50,000 | 577,103 | - | 627,103 | - |
| Transfers out | - | - | (577,103) | (577,103) | - |
| Change in net assets | 117,820 | 636,012 | (577,103) | 176,729 | (1,613) |
| Total net assets - beginning | 294,159 | 1,051,811 | 577,103 | 1,923,073 | 141,789 |
| Total net assets - ending | <u>\$ 411,979</u> | <u>\$ 1,687,823</u> | <u>\$ -</u> | <u>\$ 2,099,802</u> | <u>\$ 140,176</u> |
| Net change in net assets, total enterprise funds | | | | \$ 176,729 | |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | (933) | |
| Net change in net assets of business-type activities | | | | <u>\$ 175,796</u> | |

PARK COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

| | Enterprise Funds | | | | Internal Service Funds |
|--|------------------|-------------|------------|--------------|---------------------------|
| | Landfill | Incinerator | Collection | Total | |
| CASH FLOWS FROM OPERATIONS: | | | | | |
| Cash received from customers | \$ 452,800 | \$ 848,670 | \$ 59,793 | \$ 1,361,263 | \$ - |
| Cash received from interfund services | - | - | - | - | 71,476 |
| Cash paid to employees | (173,209) | (365,848) | (50,252) | (589,309) | - |
| Cash paid to suppliers for goods and services | (135,556) | (419,679) | - | (555,235) | (69,977) |
| Net cash provided by operating activities | 144,035 | 63,143 | 9,541 | 216,719 | 1,499 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | |
| Cash received (paid) from (by) operating transfers | 50,000 | 266,439 | (266,439) | 50,000 | - |
| Cash received from miscellaneous sources | - | 5,687 | - | 5,687 | - |
| Net cash provided (used) by noncapital financing activities | 50,000 | 272,126 | (266,439) | 55,687 | - |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | | | | |
| Purchase of capital assets | (154,926) | (206,954) | - | (361,880) | - |
| Principal payments on debt | - | (5,625) | - | (5,625) | - |
| Interest paid | - | (135) | - | (135) | - |
| Net cash provided used by capital financing activities | (154,926) | (212,714) | - | (367,640) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Net change in investments | (243,142) | - | - | (243,142) | - |
| Interest received | 65,545 | - | - | 65,545 | - |
| Net cash used by investing activities | (177,597) | - | - | (177,597) | - |
| Change in cash and cash equivalents | (138,488) | 122,555 | (256,898) | (272,831) | 1,499 |
| Cash and cash equivalents - beginning (Landfill includes restricted cash and cash equivalents of \$82,274) | 473,280 | 698,234 | 256,898 | 1,428,412 | 1,736 |
| Cash and cash equivalents - ending (Landfill includes restricted cash and cash equivalents of \$70,593) | \$ 334,792 | \$ 820,789 | \$ - | \$ 1,155,581 | \$ 3,235 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | | |
| Operating income (loss) | \$ (11,791) | \$ 53,357 | \$ - | \$ 41,566 | \$ (1,613) |
| Adjustment to reconcile operating income (loss) to net cash provided by operating activities: | | | | | |
| Depreciation | 44,230 | 70,253 | - | 114,483 | 3,112 |
| Closure/postclosure costs | 114,136 | - | - | 114,136 | - |
| (Increase) decrease in accounts receivable | 3,643 | (576) | 112 | 3,179 | - |
| (Increase) decrease in taxes/assessments receivable | (12,747) | (98,260) | 59,681 | (51,326) | - |
| Increase (decrease) in compensated absences | 6,564 | 38,369 | (50,252) | (5,319) | - |
| Net cash provided by operating activities | \$ 144,035 | \$ 63,143 | \$ 9,541 | \$ 216,719 | \$ 1,499 |
| Noncash Investing, Capital and Financing Activities | | | | | |
| Change in fair value | \$ 14,066 | \$ - | \$ - | \$ 14,066 | \$ - |

See notes to basic financial statements.

PARK COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

| | External Investment Trust Fund | Agency Funds |
|---|--------------------------------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,341,125 | \$ 1,668,646 |
| Investments | 73,264 | - |
| Taxes/assessments receivable | - | 2,110,895 |
| Total assets | 4,414,389 | \$ 3,779,541 |
| LIABILITIES | | |
| Accounts payable | - | \$ 1,668,646 |
| Due to special districts | - | 89,194 |
| Due to state | - | 47,651 |
| Due to schools | - | 1,242,987 |
| Due to cities/towns | - | 731,063 |
| Total liabilities | - | \$ 3,779,541 |
| NET ASSETS | | |
| Held in trust for benefits and other purposes | \$ 4,414,389 | |

PARK COUNTY
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 For the Year Ended June 30, 2008

| | External Investment Trust Fund |
|-----------------------------|--------------------------------------|
| ADDITIONS | |
| Contributions | \$ 415,965 |
| Interest | 77,079 |
| Total additions | 493,044 |
| DEDUCTIONS | |
| Distribution of investments | 106,238 |
| Total deductions | 106,238 |
| Change in net assets | 386,806 |
| Net assets - beginning | 4,027,583 |
| Net assets - ending | \$ 4,414,389 |

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. The government's significant accounting policies are described below.

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the government. Based on the aforementioned criteria, the government has no component units.

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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.

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major governmental funds:

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

The road fund accounts for resources accumulated and payments made for providing road and street services to county residents.

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services.

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

The general capital improvement fund accounts for resources and payments related to general improvements or capital purchases.

The government reports the following major proprietary funds:

The landfill and incinerator funds account for the activities of the government's sanitation and landfill services.

Additionally, the government reports the following fund types:

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

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

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

Assets, Liabilities and Net Assets or Equity

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts can, at their option, participate in the County's investment pool. 17% of the investment pool belongs to these districts.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

The pool unit value is fixed at \$1 for purchases and redemptions. Income is automatically reinvested in additional units. The government did not provide or obtain any legally binding guarantees to support the value of the units.

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

The government does not charge an administrative fee to participants in the pool or individual investment accounts.

Receivables and Payables

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

Solid waste accounts receivable bad debts are written-off using the direct write-off method. Use of this method does not result in a material difference from the allowance method required by generally accepted accounting principles.

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

Inventories and Prepaid Items

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

The government is required by state and federal laws and regulations to make annual contributions to a trust to finance the closure and postclosure care costs of its landfill. The amount is reported as restricted assets.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

| <u>Assets</u> | <u>Years</u> |
|-------------------------|--------------|
| Land improvements | 10-15 |
| Infrastructure | 50 |
| Buildings | 40-100 |
| Machinery and equipment | 5-30 |

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as an other financing source.

Fund Equity

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

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

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

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

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

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The disaster (\$42,103) and CTEP (\$4,202) funds had deficit fund balances as of June 30, 2008. The deficits occurred because expenditures/expenses were in excess of revenues in the current year. 2 mills will be levied in fiscal year 2009 to cover the disaster fund deficit. The CTEP deficit is expected to be eliminated through a contribution from the general fund.

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

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

| | |
|--------------------------|----------------------|
| Governmental activities | \$ 16,425,315 |
| Business-type activities | 2,869,522 |
| Fiduciary funds | <u>6,083,035</u> |
| | <u>\$ 25,377,872</u> |

Total carrying value of cash, cash equivalents and investments as of June 30, 2008, consisted of the following:

| | Cash/Cash Equivalents | Investments | Total |
|--------------------------------------|--------------------------|---------------------|---------------------|
| Cash on hand | \$ 2,725 | \$ - | \$ 2,725 |
| Cash in banks: | | | |
| Demand deposits | 394,018 | - | 394,018 |
| Savings deposits | 713,658 | - | 713,658 |
| Time deposits | - | 173,264 | 173,264 |
| Brokers: | | | |
| Money markets | 25,805 | - | 25,805 |
| U.S. Government securities | - | 12,041,412 | 12,041,412 |
| Short-term Investment Program (STIP) | 11,556,476 | - | 11,556,476 |
| Repurchase agreements | <u>470,514</u> | <u>-</u> | <u>470,514</u> |
| | <u>\$13,163,196</u> | <u>\$12,214,676</u> | <u>\$25,377,872</u> |

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$779,075 of the government's bank balance of \$1,218,147 was exposed to custodial credit risk as follows:

| | |
|--|-------------------|
| Uninsured and collateral held by the pledging bank's trust department not in the government's name | <u>\$ 779,075</u> |
|--|-------------------|

State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2008, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2008 is listed below. The security type percentage is based on the book value ratio of the specific security investment type to the total portfolio.

| Security Name | Coupon | Maturity | Par | Book Value | Fair Value | % of Total |
|----------------------------|------------|----------|------------|---------------------|---------------------|------------|
| Certificate of deposit | 2.65-4.81% | Various | \$ 173,264 | \$ 173,264 | \$ 173,264 | 1.42% |
| U.S. Government securities | 2.55-5.25% | Various | 12,079,000 | 12,041,412 | 12,067,787 | 98.58% |
| | | | | <u>\$12,214,676</u> | <u>\$12,241,051</u> | |

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

Credit Risk. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. The government has no investment policy that would further limit its investment choices. The

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

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

| | Custodial Credit Risk Category | | | Carrying Amount | Fair Value |
|------------------------|--------------------------------|-------------|----------------------|----------------------|----------------------|
| | 1 | 2 | 3 | | |
| Repurchase agreements | \$ - | \$ - | \$ 470,514 | \$ 470,514 | \$ 470,514 |
| Broker investments | 1,500,000 | - | 10,541,412 | 12,041,412 | 12,067,787 |
| Broker money market | - | - | 25,805 | 25,805 | 25,805 |
| | <u>\$ 1,500,000</u> | <u>\$ -</u> | <u>\$ 11,037,731</u> | 12,537,731 | <u>\$ 12,564,106</u> |
| Uncategorized: STIP | | | | 11,556,476 | |
| | | | | <u>\$ 24,094,207</u> | |

Following is the condensed schedule of changes in net assets and net assets for the investment pool for the year ended June 30, 2008:

| | Internal | External | Total |
|--|----------------------|---------------------|----------------------|
| Net assets - beginning of year | \$ 20,553,779 | \$ 4,027,583 | \$ 24,581,362 |
| Contributions from participants | 22,147,286 | 415,965 | 22,563,251 |
| Investment earnings/change in fair value | 990,870 | 77,079 | 1,067,949 |
| Distributions to participants | (22,728,452) | (106,238) | (22,834,690) |
| Net assets - end of year | <u>\$ 20,963,483</u> | <u>\$ 4,414,389</u> | <u>\$ 25,377,872</u> |

Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 296,369 | \$ 155,000 | \$ - | \$ 451,369 |
| Total capital assets, not being depreciated | <u>296,369</u> | <u>155,000</u> | <u>-</u> | <u>451,369</u> |
| Capital assets, being depreciated | | | | |
| Buildings/improvements | 5,064,700 | - | - | 5,064,700 |
| Improvements other than buildings | 600,228 | 39,931 | - | 640,159 |
| Machinery and equipment | 4,145,226 | 1,284,469 | (799,178) | 4,630,517 |
| Infrastructure | 116,310 | 123,698 | - | 240,008 |
| Total capital assets, being depreciated | <u>9,926,464</u> | <u>1,448,098</u> | <u>(799,178)</u> | <u>10,575,384</u> |
| Less accumulated depreciation for: | | | | |
| Buildings/improvements | (2,158,739) | (85,728) | - | (2,244,467) |
| Improvements other than buildings | (36,934) | (30,053) | - | (66,987) |
| Machinery and equipment | (2,218,509) | (304,944) | 461,620 | (2,061,833) |
| Infrastructure | (5,675) | (3,643) | - | (9,318) |
| Total accumulated depreciation | <u>(4,419,857)</u> | <u>(424,368)</u> | <u>461,620</u> | <u>(4,382,605)</u> |
| Total capital assets, being depreciated, net | <u>5,506,607</u> | <u>1,023,730</u> | <u>(337,558)</u> | <u>6,192,779</u> |
| Governmental activities capital assets, net | <u>\$ 5,802,976</u> | <u>\$ 1,178,730</u> | <u>\$ (337,558)</u> | <u>\$ 6,644,148</u> |

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged to governmental activities as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 83,321 |
| Public safety | 137,257 |
| Public works | 183,862 |
| Culture and recreation | <u>19,928</u> |
| Total depreciation-governmental activities (1) | <u>\$ 424,368</u> |

(1) Total depreciation-governmental activities includes \$3,112 from the internal service fund.

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|--|-------------------------|-------------------|-------------|--------------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 52,528 | \$ - | \$ - | \$ 52,528 |
| Total capital assets, not being depreciated | <u>52,528</u> | <u>-</u> | <u>-</u> | <u>52,528</u> |
| Capital assets, being depreciated | | | | |
| Buildings and systems | 203,582 | - | - | 203,582 |
| Improvements other than buildings | 58,295 | - | - | 58,295 |
| Machinery and equipment | <u>1,438,015</u> | <u>361,880</u> | <u>-</u> | <u>1,799,895</u> |
| Total capital assets, being depreciated | <u>1,699,892</u> | <u>361,880</u> | <u>-</u> | <u>2,061,772</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and systems | (23,463) | (6,737) | - | (30,200) |
| Improvements other than buildings | (40,457) | (3,032) | - | (43,489) |
| Machinery and equipment | <u>(844,206)</u> | <u>(104,714)</u> | <u>-</u> | <u>(948,920)</u> |
| Total accumulated depreciation | <u>(908,126)</u> | <u>(114,483)</u> | <u>-</u> | <u>(1,022,609)</u> |
| Total capital assets, being depreciated, net | <u>791,766</u> | <u>247,397</u> | <u>-</u> | <u>1,039,163</u> |
| Business-type activities capital assets, net | <u>\$ 844,294</u> | <u>\$ 247,397</u> | <u>\$ -</u> | <u>\$ 1,091,691</u> |

Depreciation expense was charged to business-type activities as follows:

| | |
|---|-------------------|
| Business-type activities: | |
| Landfill | \$ 44,230 |
| Incinerator | <u>70,253</u> |
| Total depreciation-business-type activities | <u>\$ 114,483</u> |

Internal Balances and Transfers

Internal balances, as of June 30, 2008, consisted of \$18,253, which resulted from the allocation of the internal service fund activities. The balance is not expected to be repaid in the next fiscal year.

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Interfund transfers consisted of the following:

| | <u>Transfer In</u> | <u>Transfer Out</u> | <u>Total</u> |
|-----------------------------|------------------------|-------------------------|--------------------|
| Governmental activities: | | | |
| General | \$ 91,775 | \$ (350,552) | \$(258,777) |
| Road | 357,950 | - | 357,950 |
| Public Safety | 291,043 | - | 291,043 |
| PILT | 11,568 | (357,109) | (345,541) |
| General Capital Improvement | - | (50,000) | (50,000) |
| Nonmajor governmental funds | <u>416,380</u> | <u>(461,055)</u> | <u>(44,675)</u> |
| | <u>\$ 1,168,716</u> | <u>\$ (1,218,716)</u> | <u>\$ (50,000)</u> |
| Business-type activities: | | | |
| Landfill | \$ 50,000 | \$ - | \$ 50,000 |
| Incinerator | 577,103 | - | 577,103 |
| Collections | <u>-</u> | <u>(577,103)</u> | <u>(577,103)</u> |
| | <u>\$ 627,103</u> | <u>\$ (577,103)</u> | <u>\$ 50,000</u> |

Transfers are normal recurring amounts to fund operations of various governmental and business-type activities. Resources transferred from the general capital improvement fund to the landfill fund were used to fund the closure/postclosure trust fund. Additionally, the enterprise collections fund was closed to the incinerator fund.

Capital Leases

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

| | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| Machinery and equipment | \$ 1,070,955 |
| Less: accumulated depreciation | <u>(6,833)</u> |
| | <u>\$ 1,064,122</u> |

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2008, are as follows:

| | <u>Year ending June 30,</u> | <u>Governmental Activities</u> |
|---|---------------------------------|------------------------------------|
| | 2009 | \$ 184,432 |
| | 2010 | 169,989 |
| | 2011 | 164,433 |
| | 2012 | 160,479 |
| | 2013 | 160,479 |
| | 2014 | <u>196,000</u> |
| Total minimum lease payments | | 1,035,812 |
| Less: amount representing interest | | <u>(168,589)</u> |
| Present value of minimum lease payments | | <u>\$ 867,223</u> |

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Long-Term Debt

In past years, the government issued special improvement bonds for the construction of major water and sewer facilities located in Gardiner. Special improvement bonds are secured by a lien on the assessed property. The primary source of repayments is the assessments levied against the benefiting properties. The County is liable for the repayment of these special improvement bonds. Bonds payable currently outstanding are as follows:

| | Issue Date | Original Amount | Term | Interest Rate | Balance June 30, 2008 |
|----------------|---------------|--------------------|-------|------------------|--------------------------|
| Gardiner No. 5 | Jan. 1972 | \$ 220,000 | 40 yr | 5.00% | <u>\$ 45,000</u> |

Annual debt service requirements to maturity for special improvement bonds are as follows:

| Year ending June 30, | Governmental Activities | | |
|-------------------------|-------------------------|-----------------|------------------|
| | Principal | Interest | Total |
| 2009 | \$ 5,000 | \$ 2,250 | \$ 7,250 |
| 2010 | 5,000 | 2,000 | 7,000 |
| 2011 | 5,000 | 1,750 | 6,750 |
| 2012 | 30,000 | 1,500 | 31,500 |
| | <u>\$ 45,000</u> | <u>\$ 7,500</u> | <u>\$ 52,500</u> |

Notes payable currently outstanding are as follows:

| | Original Amount | Term | Interest Rate | Payment | Balance June 30, 2008 |
|---------------------------|--------------------|-------|------------------|-------------|--------------------------|
| Gardiner No. 5A-1992 | \$ 359,000 | 20 yr | 4.00% | Annual | \$ 113,000 |
| Gardiner No. 5A-1994 | 83,000 | 18 yr | 4.00% | Annual | 27,000 |
| Gardiner Airport-2004 *** | 68,350 | 10 yr | 4.25% | Semi-annual | 46,489 |
| HVAC-1999 *** | 145,198 | 10 yr | 4.25% | Semi-annual | 24,359 |
| Motor grader-2003 *** | 151,709 | 5 yr | 4.25% | Semi-annual | 16,167 |
| | | | | | <u>\$ 227,015</u> |

*** Loan through Montana Board of Investments. Interest adjusted each March to a maximum of 15 percent.

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

| Year ending June 30, | Governmental Activities | |
|-------------------------|-------------------------|------------------|
| | Principal | Interest |
| 2009 | \$ 77,161 | \$ 15,912 |
| 2010 | 36,815 | 8,389 |
| 2011 | 39,000 | 5,635 |
| 2012 | 39,191 | 4,052 |
| 2013 | 23,383 | 2,111 |
| 2014 | 11,465 | 2,132 |
| | <u>\$ 227,015</u> | <u>\$ 38,231</u> |

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Long-term liability activity for the year ended June 30, 2008, was as follows:

| | Balance July 1, 2007 | Additions | Retirements | Balance June 30, 2008 | Due Within One Year |
|--|-------------------------|-------------------|---------------------|--------------------------|------------------------|
| Governmental activities: | | | | | |
| Special assessment bonds | \$ 50,000 | \$ - | \$ (5,000) | \$ 45,000 | \$ 5,000 |
| Capital leases | 287,429 | 860,955 | (281,161) | 867,223 | 138,314 |
| Notes payable | 328,706 | - | (101,691) | 227,015 | 77,161 |
| Compensated absences | 296,468 | 18,599 | - | 315,067 | 31,507 |
| Governmental activity long-term liabilities | <u>\$ 962,603</u> | <u>\$ 879,554</u> | <u>\$ (387,852)</u> | <u>\$ 1,454,305</u> | <u>\$ 251,982</u> |
| Business-type activities: | | | | | |
| Notes payable | \$ 5,625 | \$ - | \$ (5,625) | \$ - | \$ - |
| Compensated absences | 88,154 | - | (5,319) | 82,835 | 8,284 |
| Business-type activity long-term liabilities | <u>\$ 93,779</u> | <u>\$ -</u> | <u>\$ (10,944)</u> | <u>\$ 82,835</u> | <u>\$ 8,284</u> |

Also, for the governmental activities, capital leases are generally liquidated by the road fund, notes payable by various governmental funds and compensated absences where the terminated employee was paid from.

Landfill Closure/Postclosure

State and federal laws and regulations require the government to place a final cover on its landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the government reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,995,375 reported as a landfill closure and postclosure care liability as of June 30, 2008, represents the cumulative amount reported to date based on the use of 66 percent of the estimated capacity of the landfill. The government will recognize the remaining estimated cost of closure and postclosure care of \$1,046,659 as the remaining estimated capacity of the landfill is filled. These amounts are based on what it would cost to perform all closure and postclosure care as of June 30, 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. If additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations), these costs may need to be covered by charges to future landfill users or from future tax revenue.

During 1998, the Montana Department of Environmental Quality (DEQ) issued a "1998 Corrective Action Order" (CA). The CA required the County to install ground-water pump/treatment systems to remedy ground-water contaminants to acceptable levels. Estimated costs to install the ground-water pumps/systems and to monitor contaminant levels are \$1,151,726 over a 25 year period.

The government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs and corrective action. The government is in compliance with the requirements, and, as of June 30, 2008, \$1,784,534 had been set aside for this purpose and is restricted and reported on the statement of net assets as "restricted assets." The government expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The following changes occurred in the closure and postclosure care liability during the year ended June 30, 2008:

| Balance July 1, 2007 | Additions | Retirements | Balance June 30, 2008 |
|-------------------------|-------------------|-------------|--------------------------|
| <u>\$ 1,881,239</u> | <u>\$ 114,136</u> | <u>\$ -</u> | <u>\$ 1,995,375</u> |

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in a state-wide public risk pool, MACO, for workers' compensation coverage. The government pays monthly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. The government also participates in MACO's Joint Powers

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Insurance Authority which offers insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

Interlocal Agreements

The City of Livingston and Park County entered into an agreement to fund a library for City and County residents. The City maintains the library accounting records and includes the financial activities of the library in its financial statements. The County contributed \$187,970 during fiscal year 2008.

The City of Livingston and Park County entered into agreements for the City-County Law Enforcement Dispatch Center and ambulance services. The City provides dispatch and ambulance services to the County. The County contributed \$177,709 and \$208,574, respectively, during fiscal year 2008 for these services.

The City-County Airport is owned and operated jointly by the City of Livingston and Park County. The operation of the airport is accounted for by the County. The airport is administered by a five-member board, consisting of the two City-appointed members, two County-appointed members and one member-at-large appointed by the Airport Board. The budget is approved by the controlling members. The Airport Board exercises control over the airport's normal operations.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$255,000, primarily for equipment.

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

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

Retirement Plans

The government participates in two statewide mandatory cost-sharing multiple employer defined benefit retirement plans. The Sheriff's Retirement System (SRS) covers the County Sheriff, Undersheriff and Deputy Sheriffs of the County. The Public Employees Retirement System (PERS) covers other County employees. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

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

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

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

| | <u>Employer</u> | <u>Employee</u> | <u>Total</u> |
|------|-----------------|-----------------|--------------|
| SRS | 9.825% | 9.245% | 19.070% |
| PERS | 6.935% | 6.900% | 13.835% |

The State of Montana contributes .1% per year to the PERS plan on behalf of the employer. The State of Montana contribution has not been recorded in the financial statements.

PARK COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The amounts contributed to the plans during the years ended June 30, 2008, 2007 and 2006 were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

| | 2008 | 2007 | 2006 |
|------|------------|------------|------------|
| SRS | \$ 167,165 | \$ 152,144 | \$ 124,680 |
| PERS | 345,943 | 309,871 | 309,434 |
| | \$ 513,108 | \$ 462,015 | \$ 434,114 |

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

- o Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. GASB No. 45 become effective based on the same three phases of governments used in GASBS No. 34. For employers, GASBS No. 45 is effective for Phase 1 governments (total annual revenues of \$100 million or more for the first year ending after June 15, 1999) with years beginning after December 15, 2006, Phase 2 governments (revenues of \$10 million to \$100 million) with years beginning after December 15, 2007, and Phase 3 governments (revenues less than \$10 million) with years beginning after December 15, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

PARK COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2008

| | Budgeted Amounts | | Actual Amounts |
|---|---------------------|---------------------|-------------------|
| | Original | Final | |
| REVENUES | | | |
| Taxes/assessments | \$ 1,223,548 | \$ 1,223,548 | \$ 1,208,462 |
| Fees and fines | 150,000 | 150,000 | 120,618 |
| Licenses and permits | 34,000 | 34,000 | 31,585 |
| Intergovernmental | 265,272 | 265,272 | 273,973 |
| Charges for services | 279,535 | 279,535 | 294,969 |
| Investment earnings | 250,000 | 250,000 | 245,413 |
| Miscellaneous | 19,500 | 19,500 | 28,001 |
| Total revenues | <u>2,221,855</u> | <u>2,221,855</u> | <u>2,203,021</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 1,729,508 | 1,729,508 | 1,588,202 |
| Public safety | 136,865 | 136,865 | 112,322 |
| Public works | 10,000 | 10,000 | - |
| Public health | 288,890 | 288,890 | 325,782 |
| Social and economic services | 90,617 | 90,617 | 87,782 |
| Debt service: | | | |
| Principal | 23,608 | 23,608 | 23,607 |
| Interest and other charges | 2,041 | 2,041 | 2,041 |
| Capital outlay | - | - | 9,150 |
| Total expenditures | <u>2,281,529</u> | <u>2,281,529</u> | <u>2,148,886</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(59,674)</u> | <u>(59,674)</u> | <u>54,135</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 66,000 | 66,000 | 91,775 |
| Transfers out | <u>(458,698)</u> | <u>(458,698)</u> | <u>(350,552)</u> |
| Total other financing sources (uses) | <u>(392,698)</u> | <u>(392,698)</u> | <u>(258,777)</u> |
| Net change in fund balance | <u>\$ (452,372)</u> | <u>\$ (452,372)</u> | <u>(204,642)</u> |
| Fund balance - beginning | | | <u>1,117,599</u> |
| Fund balance - ending | | | <u>\$ 912,957</u> |

PARK COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Road Fund
For the Year Ended June 30, 2008

| | <u>Budgeted Amounts</u> | | Actual Amounts |
|---|-------------------------|------------------|--------------------|
| | <u>Original</u> | <u>Final</u> | |
| REVENUES | | | |
| Taxes/assessments | \$ 316,681 | \$ 316,681 | \$ 298,796 |
| Licenses and permits | 10,000 | 10,000 | 12,175 |
| Intergovernmental | 215,457 | 215,457 | 222,763 |
| Charges for services | 32,600 | 32,600 | 37,691 |
| Miscellaneous | 15,000 | 15,000 | 2,805 |
| Total revenues | <u>589,738</u> | <u>589,738</u> | <u>574,230</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public works | 682,601 | 682,601 | 894,852 |
| Debt service: | | | |
| Principal | 176,331 | 176,331 | 312,795 |
| Interest and other charges | 2,860 | 2,860 | 17,427 |
| Capital outlay | 29,000 | 29,000 | 881,499 |
| Total expenditures | <u>890,792</u> | <u>890,792</u> | <u>2,106,573</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(301,054)</u> | <u>(301,054)</u> | <u>(1,532,343)</u> |
| OTHER FINANCING SOURCES | | | |
| Long-term debt issued | - | - | 860,955 |
| Sale of capital assets | - | - | 147,144 |
| Transfers in | 356,000 | 356,000 | 357,950 |
| Total other financing sources | <u>356,000</u> | <u>356,000</u> | <u>1,366,049</u> |
| Net change in fund balance | <u>\$ 54,946</u> | <u>\$ 54,946</u> | (166,294) |
| Fund balance - beginning | | | <u>220,549</u> |
| Fund balance - ending | | | <u>\$ 54,255</u> |

PARK COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Public Safety Fund
For the Year Ended June 30, 2008

| | <u>Budgeted Amounts</u> | | Actual Amounts |
|---|-------------------------|--------------------|-------------------|
| | <u>Original</u> | <u>Final</u> | |
| REVENUES | | | |
| Taxes/assessments | \$1,218,798 | \$ 1,218,798 | \$ 1,143,468 |
| Licenses and permits | 1,800 | 1,800 | 391 |
| Intergovernmental | 89,054 | 89,054 | 132,622 |
| Charges for services | 87,174 | 87,174 | 62,081 |
| Miscellaneous | - | - | 4,768 |
| Total revenues | <u>1,396,826</u> | <u>1,396,826</u> | <u>1,343,330</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public safety | 1,678,901 | 1,678,901 | 1,584,754 |
| Capital outlay | 125,000 | 125,000 | 124,000 |
| Total expenditures | <u>1,803,901</u> | <u>1,803,901</u> | <u>1,708,754</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(407,075)</u> | <u>(407,075)</u> | <u>(365,424)</u> |
| OTHER FINANCING SOURCES | | | |
| Sale of capital assets | - | - | 63,917 |
| Transfers in | 335,000 | 335,000 | 291,043 |
| Total other financing sources | <u>335,000</u> | <u>335,000</u> | <u>354,960</u> |
| Net change in fund balance | <u>\$ (72,075)</u> | <u>\$ (72,075)</u> | (10,464) |
| Fund balance - beginning | | | <u>392,281</u> |
| Fund balance - ending | | | <u>\$ 381,817</u> |

PARK COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PILT Fund
For the Year Ended June 30, 2008

| | Budgeted Amounts | | Actual Amounts |
|---|---------------------|---------------------|---------------------|
| | Original | Final | |
| REVENUES | | | |
| Intergovernmental | \$ 881,000 | \$ 881,000 | \$ 897,085 |
| Charges for services | 30,000 | 30,000 | 6,881 |
| Investment earnings | 60,000 | 60,000 | 79,779 |
| Miscellaneous | 41,400 | 41,400 | 5,019 |
| Total revenues | <u>1,012,400</u> | <u>1,012,400</u> | <u>988,764</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| General government | 732,597 | 732,597 | 512,564 |
| Public safety | 271,689 | 271,689 | 222,158 |
| Public works | 16,267 | 16,267 | 94,502 |
| Public health | 15,000 | 15,000 | 15,000 |
| Social and economic services | 5,000 | 5,000 | 5,000 |
| Debt service: | | | |
| Principal | 10,991 | 10,991 | 10,991 |
| Interest and other charges | 198 | 198 | 139 |
| Capital outlay | 221,400 | 221,400 | 165,265 |
| Total expenditures | <u>1,273,142</u> | <u>1,273,142</u> | <u>1,025,619</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(260,742)</u> | <u>(260,742)</u> | <u>(36,855)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 10,000 | 10,000 | 11,568 |
| Transfers out | (402,231) | (402,231) | (357,109) |
| Total other financing sources (uses) | <u>(392,231)</u> | <u>(392,231)</u> | <u>(345,541)</u> |
| Net change in fund balance | <u>\$ (652,973)</u> | <u>\$ (652,973)</u> | <u>(382,396)</u> |
| Fund balance - beginning | | | <u>2,124,179</u> |
| Fund balance - ending | | | <u>\$ 1,741,783</u> |

PARK COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2008

BUDGETARY INFORMATION

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

The road (\$1,215,781), bridge (\$30,161), airport (\$6,682), disaster (\$56,361), special events-sheriff (\$2,844), alcohol tax (\$5,820), vending machines (\$216) and search and rescue CIP (\$82,800) funds were overspent for the year ended June 30, 2008.

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of County Commissioners
Park County
Livingston, Montana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Park County, Montana (the government) as of and for the year ended June 30, 2008, which collectively comprise the government's basic financial statements and have issued our report thereon dated October 16, 2008. The report on the governmental activities, road fund and aggregate remaining fund information was qualified because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the government's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the government's financial statements that is more than inconsequential will not be prevented or detected by the government's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. (Findings 08-1 through 08-15)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the government's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-4 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 08-3 and 08-12 through 08-15.

Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

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

This report is intended solely for the information and use of the management, others within the entity and the Montana Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.

O'Leary & Associates, PC

October 16, 2008

PARK COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008

08-1. Financial Reporting

Internal control is a process - affected by those charged with governance, management, and other personnel - designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term financial reporting includes the preparation of financial statements, including footnote disclosures that are fairly presented in conformity with generally accepted accounting principles. Presently, employees and management have the necessary qualifications and training to fulfill their assigned daily functions, but do not have the skills and knowledge to apply generally accepted accounting principles in relation to preparation of the financial statements or to prevent, detect and correct a material financial statement misstatement.

08-2. Segregation of Duties

Smaller entities often have fewer employees, which may limit the extent to which segregation of duties is practicable. However, for key areas, even in a very small entity, it can be practicable to implement some degree of segregation of duties or other form of unsophisticated, but effective controls. Examples of segregation of duties include reporting, reviewing and approving reconciliations and approval and control of documents.

08-3. Realign Duties According to State Statutes

As noted in the prior audit, the following state statutes define roles and responsibilities for the county treasurer and clerk and recorder related to finance:

Section 7-6-2801, MCA, requires the county treasurer to keep all school money in a separate fund and keep a separate account of its disbursement to the school districts that are entitled to receive it, according to the apportionment of the county superintendent of schools; notify the county superintendent of the amount of the county school fund in the county treasury subject to apportionment, whenever required, and inform the superintendent of the amount of school money belonging to any other fund subject to apportionment, or as otherwise provided by law; and make annually, during the month of September, a financial report for the preceding year ending August 31 to the county superintendent, in a form required by the superintendent.

Section 7-6-2111, MCA, duties of the county treasurer, states that the county treasurer shall receive all money belonging to the county and all other money directed to be paid to the treasurer by law, safely keep the money, apply and pay the money out, and account for the money as required by law; keep an account of the receipt and expenditures of the money in books provided for the purpose; keep books so that the amounts received and paid out on account of separate funds or specific appropriations are exhibited in separate and distinct accounts, with the whole receipts and expenditures shown in one general or cash account; and disburse the county money only on county warrants issued by the county clerk, based on orders of the board of county commissioners, or as otherwise provided by law.

Section 7-6-612, MCA, states that the county treasurer shall make a detailed monthly report to the governing body of the county of all receipts, disbursements, debt, and other proceedings of the treasurer's office. Additionally, the county clerk shall compile and present to the governing body of the county the annual financial report provided for in 7-6-611(2a), MCA.

Section 7-6-4020, MCA, requires that a preliminary annual operating budget be prepared for the local government. Subsection 3(c) requires the county clerk and recorder to prepare and submit the county's preliminary annual operating budget.

The implementation and compliance with the code sections sighted above are mostly handled through the accounting office. Section 7-6-612, MCA, grants authority to the county commissioners to direct any elected or appointed local government official or employee to (a) maintain new or additional financial records; (b) perform new or additional financial reconciliations; and (c) submit new or additional financial reports. We recommend the county commissioners realign the duties and responsibilities of the county treasurer and clerk and recorder to conform to current state statutes. Additionally, consideration should be given to reorganize the accounting office, with direct supervision provided by the clerk and recorder.

08-4. Perform Physical Inventory and Establish a Perpetual Inventory System

Supplies inventory is recorded in the general ledger for the road, bridge and gas tax funds. At year-end, a physical inventory of supplies inventory on-hand was not conducted by the road department. We recommend a year-end inventory be conducted and the results be turned into the accounting office. Additionally, we believe that maintenance of perpetual inventory records would serve as a check on road, bridge and gas tax employees, provide information essential to adequate purchasing control and be particularly useful in taking of physical inventories.

PARK COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008

08-5. Cash and Investment Reconciliations

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. During fiscal year 2008, the monthly bank account reconciliations did not agree with the general ledger cash balances (i.e. unreconciled differences existed). An unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. We recommend the Treasurer develop formalized reconciliations. All reconciling items should be supported and be made part of the reconciliation. Additionally, the bank reconciliations should be reviewed for accuracy and completeness on a timely basis by the Commissioners. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary be recorded.

08-6. Treasurer's Office

We noted the following during our audit work in the treasurer's office:

Interest income earned on investments from DA Davidson, Buchanan Capital and First Interstate was receipted into funds 1000, 2900 and 4500. Certain investments in those accounts are owned specifically by these funds. Interest income related to these specific investments was not receipted to the correct funds. An audit adjustment was made to reclassify the interest earnings to the correct funds.

Interest income from the investment accounts discussed above was recorded when cash was received. Interest income should be recorded when it is earned. A spreadsheet should be setup to account for the investment accounts. Interest income should be recorded when it is earned and not necessarily when it is received.

The following are repeat comments from the prior year audit:

Written accounting policies and procedures have not been established in the treasurer's office. We recommend the treasurer's office develop written accounting policies and procedures to provide reasonable control over activities so that there is an absence of crisis conditions in operating and accounting areas.

Incoming mail is opened by individuals who also have cash receipting responsibilities. We recommend incoming mail be opened by two individuals. Tapes should be run of the checks received in the mail and used as part of the daily reconciliation process.

The protested taxes fund (No. 7130) did not agree to the protested taxes subsidiary ledger nor to the general ledger protested taxes receivable balances. We recommend the treasurer's office develop procedures to reconcile the protested taxes fund, protested taxes subsidiary ledger and the protested taxes receivable accounts in the general ledger.

The refund clearing fund was not reconciled. As of June 30, 2008, the refund clearing fund had a deficit cash balance of \$20,842. We recommend procedures be developed to reconcile the refund clearing fund.

08-7. Tax Corrections

Procedures were developed by the accounting office to reconcile the prenumbered tax abatement/correction forms to the adjustments/corrections recorded in the general ledger by the treasurer's office. However, based on our review of the reconciliations, differences were noted that were not resolved. We recommend the accounting office continue reconciling tax corrections and resolve all differences, if any.

08-8. Taxes Receivable Reconciliation

During our test work over taxes receivable, we noted the balances, as recorded in the general ledger, did not agree to the treasurer's unpaid taxpayer report by fund. This report summarizes taxes receivable from tax billing on an individual fund basis, by tax type. We recommend taxes receivable, as recorded in the general ledger, be reconciled to the treasurer's unpaid taxes receivable report on a periodic basis. This reconciliation should be completed by the accounting office and filed for future reference.

08-9. Justice of the Peace

As noted in prior audits, current procedures do not provide for a formal reconciliation of monthly time-pay activity to the beginning and ending subsidiary record balances. Additionally, discrepancies were noted between outstanding time pay balances per the Full Court system and the individual subsidiary cards. We recommend the Justice of the Peace secretary reconcile time-pay activity to the beginning and ending subsidiary record balances monthly. Once completed, the reconciliation should be reviewed and approved by the Justice of the Peace.

PARK COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008

08-10. Enterprise Funds

During our audit, we noted the billing and collection reports are not used to update the general ledger on a monthly basis. Monthly, billing and collection reports should be provided to the accounting office. The reports should be used to develop a journal voucher to update the accounts receivable balances in the incinerator and solid waste funds. At the end of each month, an aged accounts receivable schedule should be agreed to the accounts receivable balances in the general ledger. Differences, if any, should be investigated and resolved.

08-11. Deferred Assessments Receivable

In prior years, debt was issued by the county for special improvement district (SID) projects in Gardiner. Annually, the county bills and collects assessments for the repayment of the debt. However, the deferred assessment receivable (amount levied against the taxpayers, but not currently due) was not recorded for Gardiner SID's No. 5 and 5a. Generally accepted accounting principles require the deferred assessment receivable be established at the beginning of the project. Further, we recommend subsidiary records for Gardiner SID's No. 5 and 5a be developed for each property owner to support the remaining amount of assessments (principal and interest) to be billed.

08-12. Property Taxes

Section 15-16-701, MCA, requires the county treasurer to prepare in triplicate and submit to the board of county commissioners, on or before the first Monday in June of each year, a list of personal property taxes that are not a lien on real estate and that have been delinquent for 5 years or more. Additionally, at the time the delinquent personal property taxes list is prepared, the county treasurer may prepare in triplicate and submit to the board of county commissioners of the county a list of the real property taxes that have been delinquent for 10 years or more.

Based on our audit, we found no evidence these lists were presented to the county commissioners. We recommend the county treasurer adhere to Section 15-16-701, MCA.

08-13. Elected Official Salaries

Section 7-4-2503(4b), MCA, requires the county compensation board to prepare a compensation schedule for the elected county officials, including the county attorney, for the succeeding fiscal year. We found no record that this schedule was prepared. We recommend the county compensation board prepare a compensation schedule. This schedule should be incorporated into the annual salary resolution.

Additionally, during our testwork over elected official salaries, we noted the following:

- o The salary paid to the county treasurer, county clerk and recorder, clerk of the district court, county superintendent of schools, and county sheriff must be uniform in accordance with Section 7-4-2503 (1b), MCA. Based on review of the wage calculation worksheet for fiscal 2008, the base wage for the aforementioned elected officials was not the same.
- o Wages paid to elected officials did not always agree to the wage calculation worksheet for fiscal 2008.

We recommend the human resource and payroll departments review state statutes in detail to ensure compliance.

08-14. Graders not Advertised for Bid

A contract for the purchase of any vehicle, road machinery or other machinery, apparatus, appliances, equipment, or materials or supplies or for construction, repair, or maintenance in excess of \$50,000 may not be entered into by a county governing body without first publishing a notice calling for bids as required by Section 7-5-2301, MCA. During fiscal year 2008, the county entered into two grader finance leases amounting to \$241,620 and \$604,860. These contracts were not bid. We recommend all contracts that fall within Section 7-5-2301, MCA, be advertised for bid.

08-15. Budgets

During our test work over budgets, we noted the road (\$1,215,781), bridge (\$30,161), airport (\$6,682), disaster (\$56,361), special events-sheriff (\$2,844), alcohol tax (\$5,820), vending machines (\$216) and search and rescue CIP (\$82,800) funds were overspent for the year ended June 30, 2008. The human resource department was assigned the responsibility of preparation and monitoring the county budgets during 2008. It appears budgets were not monitored. Budget to actual results should be monitored and, if necessary, budget amendments developed to cover the overdrafts.

PARK COUNTY
PRIOR YEAR AUDIT FINDINGS

| Prior Year Audit Findings | Status |
|--|-----------------------|
| 07-1. Financial Reporting | Continued disclosure |
| 07-2. Segregation of Duties | Continued disclosure |
| 07-3. Realign Duties According to State Statutes | Not implemented |
| 07-4. Cash and Investment Reconciliations | Not implemented |
| 07-5. Treasurer's Office | Partially Implemented |
| 07-6. Tax Corrections | Not implemented |
| 07-7. Taxes Receivable Reconciliation | Not implemented |
| 07-8. Justice of the Peace | Partially implemented |
| 07-9. County Fair | Implemented |
| 07-10. Deferred Assessments Receivable | Not implemented |
| 07-11. Property Taxes | Not implemented |
| 07-12. Elected Official Salaries | Partially Implemented |
| 07-13. Pledged Securities | Implemented |
| 07-14. Budgets | Not implemented |