

**CUSTER COUNTY
MILES CITY, MONTANA
FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CUSTER COUNTY

ORGANIZATION

June 30, 2013

BOARD OF COUNTY COMMISSIONERS

Keith Holmlund	Board Chairman
Kevin Krausz	Commissioner
Vicki Hamilton	Commissioner

ELECTED OFFICIALS

Linda Corbett	County Clerk and Recorder
Tara Moorehead	County Treasurer
Tony Harbaugh	County Sheriff/Coroner
Wyatt Glade	County Attorney
Doug Ellingson	County Superintendent
Hazel Parker	Clerk of District Court
Donald Neese	Justice of the Peace
Amber Trenka	Public Administrator

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Custer County
Miles City, Montana

Report on the Financial Statements

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 Custer County, Montana (the government) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinions

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

Management has not recorded the other post employment benefit (OPEB) liability and related expense in the governmental activities, business-type activities and proprietary funds. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase the liabilities, decrease net position and change expenses in the governmental activities, business-type activities and proprietary funds. The amount by which this departure would affect the liabilities, net position and expenses has not been determined.

Qualified Opinions

In our opinion, except for the possible effects of the matters discussed in the first and second paragraphs under the heading "Basis for Qualified Opinions", the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, the road fund, aggregate remaining fund information and proprietary funds of the government, as of June 30, 2013, and the 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of each major government fund (excluding the road fund) for the government, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 1 to the financial statements, the government adopted the provisions of the GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the government adopted the provisions of the GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the government adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

O'Leary & Associates, PC

November 8, 2013

CUSTER COUNTY MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of Custer County's financial performance provides an overview of the government's financial activities for the year ended June 30, 2013. Please read the information here in conjunction with our financial statements and footnotes.

- The assets of Custer County exceeded its liabilities at the close of fiscal year June 30, 2013 by \$10,756,336. Of this amount, \$3,526,655 may be used to meet the County's ongoing operational needs and \$5,105,714 was our net investment in capital assets.
- The County's total net position increased by \$213,621, as a result of this year's operations.
- The general fund's original budgeted amounts were increased for various unanticipated revenues and expenditures. Actual revenues were more than budgeted revenues by \$33,133, while actual expenditures were less than budgeted appropriations by \$271,549.

USING THIS AUDIT REPORT

This audit report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the government as a whole and present a longer-term view of the finances. The fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report net position and changes in it. You can think of net position—the difference between assets and liabilities—as one way to measure the County's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the property tax base and the condition of the capital assets, to assess the overall health.

In the statement of net position and the statement of activities, our government is divided into two kinds of activities:

Governmental activities—Basic services are reported here, including general government, public safety, public works and culture and recreation. Property taxes and state and federal grants finance most of these activities.

Business-type activities—Fees are charged to customers to help cover all or most of the cost of the services provided. Solid waste services are reported here.

Fund financial statements The fund financial statements provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law and/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 money. We utilize the following funds:

Governmental funds:

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

CUSTER COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Proprietary funds:

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

Fiduciary funds:

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

THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator, of a government's financial position. The assets of Custer County exceeded its liabilities at the close of fiscal year June 30, 2013 by \$10,756,336. Of this amount, \$3,526,655 may be used to meet the County's ongoing operational needs and \$5,105,714 was our net investment in capital assets. Business-type activities restricted net position (\$276,781) represents resources that are subject to external restrictions on how they may be used. The \$276,781 is related to the landfill closure/post closure care trust. The money is set aside to satisfy the financial assurance requirements established by the EPA. The remaining restricted net position for the governmental activities is also subject to external resources on how they are used.

The County's total net position increased \$213,621, as a result of this year's operations. Net position for our governmental activities increased \$47,825, which represents one percent. The net position for the business-type activities increased \$165,796 which can be attributable to a \$20 increase per household in prior years for the annual solid waste assessment. The increase was put in place to help fund the expansion of our landfill and set aside cash for the closure and postclosure care of our landfill.

The following net position and changes in net position schedules provide summaries of the county's governmental and business-type activities.

NET POSITION:	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 3,555,497	\$ 3,471,856	\$ 3,436,072	\$ 3,055,632	\$ 6,991,569	\$ 6,527,488
Capital assets	4,436,713	4,436,266	1,041,323	1,167,544	5,478,036	5,603,810
Total assets	7,992,210	7,908,122	4,477,395	4,223,176	12,469,605	12,131,298
Other liabilities	74,637	58,112	7,365	7,136	82,002	65,248
Long-term liabilities outstanding	736,889	717,151	894,378	806,184	1,631,267	1,523,335
Total liabilities	811,526	775,263	901,743	813,320	1,713,269	1,588,583
Net position:						
Net Investment in capital assets	4,064,391	4,095,782	1,041,323	1,167,544	5,105,714	5,263,326
Restricted	1,847,186	1,979,493	276,781	262,818	2,123,967	2,242,311
Unrestricted	1,269,107	1,057,584	2,257,548	1,979,494	3,526,655	3,037,078
	<u>\$ 7,180,684</u>	<u>\$ 7,132,859</u>	<u>\$ 3,575,652</u>	<u>\$ 3,409,856</u>	<u>\$ 10,756,336</u>	<u>\$ 10,542,715</u>

**CUSTER COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS**

CHANGE IN NET POSITION:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,058,864	\$ 1,093,489	\$ 739,546	\$ 710,975	\$ 1,798,410	\$ 1,804,464
Operating grants and contributions	1,422,025	2,133,008	-	-	1,422,025	2,133,008
Capital grants and contributions	58,000	131,842	-	-	58,000	131,842
General revenues:						
Taxes	3,578,246	3,419,413	-	-	3,578,246	3,419,413
Licenses and permits	4,025	4,040	-	-	4,025	4,040
Intergovernmental	1,028,797	1,042,241	-	90,805	1,028,797	1,133,046
Interest	24,396	56,714	12,571	25,527	36,967	82,241
Miscellaneous	90,823	80,638	-	-	90,823	80,638
Gain on disposal of capital assets	25,140	-	-	-	25,140	-
Total revenues	7,290,316	7,961,385	752,117	827,307	8,042,433	8,788,692
Expenses:						
General government	1,765,841	1,713,578	-	-	1,765,841	1,713,578
Public safety	2,177,999	1,637,493	-	-	2,177,999	1,637,493
Public works	1,449,371	2,529,187	-	-	1,449,371	2,529,187
Public health	1,106,467	958,939	-	-	1,106,467	958,939
Social and economic services	306,771	293,278	-	-	306,771	293,278
Culture and recreation	413,043	388,663	-	-	413,043	388,663
Housing and community development	24,323	24,298	-	-	24,323	24,298
Other current charges	2,610	4,595	-	-	2,610	4,595
Solid Waste	-	-	578,321	718,556	578,321	718,556
Interest on long-term debt	4,066	7,504	-	-	4,066	7,504
Total expenses	7,250,491	7,557,535	578,321	718,556	7,828,812	8,276,091
Change in net position before transfers	39,825	403,850	173,796	108,751	213,621	512,601
Transfers	8,000	8,000	(8,000)	(8,000)	-	-
Change in net position	47,825	411,850	165,796	100,751	213,621	512,601
Net position, beginning	7,132,859	6,721,009	3,409,856	3,309,105	10,542,715	10,030,114
Net position, ending	<u>\$ 7,180,684</u>	<u>\$ 7,132,859</u>	<u>\$ 3,575,652</u>	<u>\$ 3,409,856</u>	<u>\$ 10,756,336</u>	<u>\$ 10,542,715</u>

FUND FINANCIAL STATEMENTS

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

Total assets, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds). The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

The general fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. At the end of the fiscal year, fund balance was unassigned (\$405,418). Overall fund balance increased \$27,090. The increase resulted from not spending the entire general fund budget.

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services. The public safety fund fund balance decreased \$67,957. The decrease can be attributable to housing inmates in Valley County and inmate transportation costs.

The PILT (payments in lieu of taxes) fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Expenditures made from the fund are at the discretion of the Board of County Commissioners. During fiscal year 2013, resources from the PILT fund were distributed to other funds to fund those other fund's budgets. Overall fund balance increased \$125,430. The

CUSTER COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

increase occurred because only a portion of the current year allocation was used to fund other budgets.

The road fund accounts for resources accumulated and payments made for the maintenance, repair and construction of county-owned roads. At the end of the fiscal year, fund balance of the road fund was \$312,612, a decrease of \$63,462. The decrease was due to using available fund balance to fund current year operations.

Net position for the solid waste fund increased \$165,796. The increase can be attributed to a \$20 increase per household in prior years for the annual solid waste assessment. The increase was put in place to help fund the expansion of our landfill and set aside cash for the closure and postclosure care of our landfill.

General Fund Budgetary Highlights:

The general fund's original budgeted amounts were increased for various unanticipated revenues and expenditures. Actual revenues were more than budgeted revenues by \$65,784, while actual expenditures were less than budgeted appropriations by \$271,550.

CAPITAL ASSET AND DEBT ADMINISTRATION

Custer County's net investment in capital assets, as of June 30, 2013, was \$5,105,714. This investment in capital assets includes property, buildings, improvements, machinery and equipment and infrastructure (e.g., roads, bridges, sidewalks and similar items). The County has elected not to report major infrastructure assets retroactively. For more information related to capital assets, see the notes to the basic financial statements.

Compensated absences are a liability of the County for unpaid vacation leave, sick leave, and compensatory time. The liability generally increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. The amount of this liability at June 30, 2013 was \$382,567. Other debt outstanding consists of notes payable, with various maturities.

THE GOVERNMENT'S FUTURE

The following factors were considered in preparing the County Budget for the 2014 fiscal year.

Lack of funds and other road and bridge problems continue to plague the road department. Roads in the Ismay area are getting gravel and scoria and will throughout the winter, as well as other major county roads.

Process continues with repairs to several buildings at the fairgrounds.

High energy and fuel costs are a major concern for several of Custer County's departments, including the road, fair, sheriff, cemetery and maintenance department.

RID #1A sewer line replacement funding is in the process of being obtained from TSEP, CDBG, and USDA grants and loans.

A County planning board has been established. An advisory board, made up of community leaders, has been established to help recognize and solve area problems.

Impacts from coal and oil production are expected in our area, and we are working closely with our Economic Development director.

The ACLU threatened Custer County with a lawsuit if the County jail continued to operate. The decision was made to move prisoners to another facility for the short term. It was decided the money would be better used to put toward a new jail rather than challenge the ACLU. An election was held to authorize the Custer County Commissioners to sell bonds up to \$7.5 million dollars to build a new Detention Center. The election passed overwhelmingly and the planning for the new Detention Center is in progress. Prisoner transportation is still a major issue for the Sheriff's budget as the costs are more than \$240,000 annually.

The Tusler Bridge, that crosses the Yellowstone River, was a Milwaukee Railroad Bridge and was given to the County by the railroad for vehicle use for traffic to and from Kinsey. There was an accident on the bridge and minor repairs have been done. But major repairs still need to be done. Minimal upgrades are anticipated to cost \$25,000 to \$50,000.

Future work to be done is:

- 1) Upgrades to the jury and court rooms are going to be required.
- 2) The chiller for the courthouse air conditioning system will need to be replaced.
- 3) The room that houses the computer server systems needs to be fitted with a better cooling system, as the heat shuts down the computer when it gets hot.
- 4) The emergency generator that provides power when the power goes down in the two county facilities needs to be upgraded. This may happen when the new Detention Center is planned.
- 5) A new motor grader will replace one going through the buy back program.

CUSTER COUNTY
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 1,332,171	\$ 799,857	\$ 2,132,028
Investments	1,622,250	1,228,534	2,850,784
Receivables:			
Taxes and assessments	251,813	22,444	274,257
Governments	196,926	-	196,926
Solid waste	-	5,078	5,078
Cemetery	12,409	-	12,409
Inventories	139,928	-	139,928
Restricted assets:			
Cash and equivalents	-	226,881	226,881
Investments	-	1,153,278	1,153,278
Capital assets			
Land and construction in progress	183,361	39,910	223,271
Capital assets, net of accumulated depreciation	4,253,352	1,001,413	5,254,765
Total assets	7,992,210	4,477,395	12,469,605
LIABILITIES			
Accounts payable-vendors	74,637	7,365	82,002
Long-term liabilities:			
Due within one year:			
Notes and capital leases	77,762	-	77,762
Compensated absences	38,257	-	38,257
Due in more than one year:			
Notes and capital leases	276,560	-	276,560
Compensated absences	344,310	-	344,310
Landfill closure/postclosure care payable	-	894,378	894,378
Total liabilities	811,526	901,743	1,713,269
NET POSITION			
Net investment in capital assets	4,064,391	1,041,323	5,105,714
Restricted for:			
Landfill closure/postclosure care	-	276,781	276,781
General government	239,960	-	239,960
Public safety	332,964	-	332,964
Public works	739,642	-	739,642
Public health	135,914	-	135,914
Social and economic	68,835	-	68,835
Culture and recreation	91,163	-	91,163
Housing and community development	3,481	-	3,481
Capital projects	235,227	-	235,227
Unrestricted	1,269,107	2,257,548	3,526,655
Total net position	\$ 7,180,684	\$ 3,575,652	\$ 10,756,336

CUSTER COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 1,765,841	\$ 186,410	\$ 22,605	\$ -	\$ (1,556,826)	\$ -	\$ (1,556,826)
Public safety	2,177,999	209,711	647,462	58,000	(1,262,826)	-	(1,262,826)
Public works	1,449,371	141,019	177,831	-	(1,130,521)	-	(1,130,521)
Public health	1,106,467	222,013	460,570	-	(423,884)	-	(423,884)
Social and economic services	306,771	35,970	113,557	-	(157,244)	-	(157,244)
Culture and recreation	413,043	263,741	-	-	(149,302)	-	(149,302)
Housing and community development	24,323	-	-	-	(24,323)	-	(24,323)
Other current charges	2,610	-	-	-	(2,610)	-	(2,610)
Interest on long-term debt	4,066	-	-	-	(4,066)	-	(4,066)
Total governmental activities	<u>7,250,491</u>	<u>1,058,864</u>	<u>1,422,025</u>	<u>58,000</u>	<u>(4,711,602)</u>	<u>-</u>	<u>(4,711,602)</u>
Business-type activities:							
Solid waste	578,321	739,546	-	-	-	161,225	161,225
Total business-type activities	<u>578,321</u>	<u>739,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>161,225</u>	<u>161,225</u>
Total	<u>\$ 7,828,812</u>	<u>\$ 1,798,410</u>	<u>\$ 1,422,025</u>	<u>\$ 58,000</u>	<u>(4,711,602)</u>	<u>161,225</u>	<u>(4,550,377)</u>
General revenues:							
Property taxes					3,578,246	-	3,578,246
Licenses and permits					4,025	-	4,025
Intergovernmental					1,028,797	-	1,028,797
Unrestricted investment earnings					24,396	12,571	36,967
Miscellaneous					90,823	-	90,823
Gain on disposal of capital assets					25,140	-	25,140
Transfers					8,000	(8,000)	-
Total general revenues and transfers					<u>4,759,427</u>	<u>4,571</u>	<u>4,763,998</u>
Change in net position					47,825	165,796	213,621
Net position - beginning					<u>7,132,859</u>	<u>3,409,856</u>	<u>10,542,715</u>
Net position - ending					<u>\$ 7,180,684</u>	<u>\$ 3,575,652</u>	<u>\$ 10,756,336</u>

CUSTER COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General	Public Safety	PILT	Road	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 171,533	\$ 76,857	\$ 504,852	\$ 77,645	\$ 497,950	\$ 1,328,837
Investments	208,885	92,374	614,783	94,553	607,596	1,618,191
Receivables:						
Taxes and assessments	69,619	72,991	-	26,545	82,658	251,813
Governments	58,000	-	-	65,643	73,283	196,926
Cemetery	-	-	-	-	12,409	12,409
Inventories	-	-	-	74,771	65,157	139,928
Total assets	<u>\$ 508,037</u>	<u>\$ 242,222</u>	<u>\$ 1,119,635</u>	<u>\$ 339,157</u>	<u>\$ 1,339,053</u>	<u>\$ 3,548,104</u>
LIABILITIES						
Accounts payable-vendors	\$ 33,000	\$ -	\$ -	\$ -	\$ 41,637	\$ 74,637
Total liabilities	<u>33,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,637</u>	<u>74,637</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-taxes and assessments	69,619	72,991	-	26,545	82,658	251,813
Total deferred inflows of resources	<u>69,619</u>	<u>72,991</u>	<u>-</u>	<u>26,545</u>	<u>82,658</u>	<u>251,813</u>
FUND BALANCES (DEFICITS)						
Nonspendable:						
Inventory	-	-	-	74,771	65,157	139,928
Restricted for:						
General government	-	-	-	-	205,220	205,220
Public safety	-	169,231	-	-	89,621	258,852
Public works	-	-	-	237,841	343,231	581,072
Public health	-	-	-	-	101,319	101,319
Social and economic services	-	-	-	-	59,014	59,014
Culture and recreation	-	-	-	-	82,106	82,106
Housing and community development	-	-	-	-	2,254	2,254
Capital projects	-	-	-	-	235,227	235,227
Committed for:						
General government	-	-	1,119,635	-	3,129	1,122,764
Public health	-	-	-	-	746	746
Gifts and bequests	-	-	-	-	41,889	41,889
Unassigned	<u>405,418</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,155)</u>	<u>391,263</u>
Total fund balances (deficits)	<u>405,418</u>	<u>169,231</u>	<u>1,119,635</u>	<u>312,612</u>	<u>1,214,758</u>	<u>3,221,654</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 508,037</u>	<u>\$ 242,222</u>	<u>\$ 1,119,635</u>	<u>\$ 339,157</u>	<u>\$ 1,339,053</u>	<u>\$ 3,548,104</u>

CUSTER COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2013

Total fund balance, governmental funds	\$ 3,221,654
Amounts reported for governmental activities in the statement of net position 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 position.	4,436,713
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 position.	251,813
Some liabilities, (such as compensated absences, notes payable and capital leases), are not due and payable in the current period and, therefore, are not included in the fund financial statement, but are included in the governmental activities of the statement of net position.	(729,952)
Internal service funds are used by management to charge the costs of certain activities, such as data processing, to individual funds. The assets and liabilities are included in the governmental activities of the statement of net position.	<u>456</u>
Net position of governmental activities	<u><u>\$ 7,180,684</u></u>

CUSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General	Public Safety	PILT	Road	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 1,196,695	\$ 970,615	\$ -	\$ 254,781	\$ 1,221,965	\$ 3,644,056
Fines and forfeitures	120,851	-	-	-	18,061	138,912
Licenses and permits	3,185	840	-	-	-	4,025
Intergovernmental	555,379	129,281	792,468	172,983	828,455	2,478,566
Charges for services	151,667	75,059	16,417	1,708	559,064	803,915
Investment earnings	23,239	2	-	-	1,155	24,396
Miscellaneous	50,460	7,593	-	8,169	82,749	148,971
Total revenues	2,101,476	1,183,390	808,885	437,641	2,711,449	7,242,841
EXPENDITURES						
Current:						
General government	1,332,144	-	-	-	388,192	1,720,336
Public safety	364,439	1,299,210	-	-	420,240	2,083,889
Public works	-	-	-	792,280	501,235	1,293,515
Public health	196,898	2,137	28,888	-	878,240	1,106,163
Social and economic services	24,910	-	1,500	-	263,790	290,200
Culture and recreation	-	-	2,000	-	361,429	363,429
Housing and community development	8,314	-	-	-	16,009	24,323
Other current charges	-	-	-	-	2,610	2,610
Debt service:						
Principal	-	-	-	43,811	35,771	79,582
Interest and other charges	-	-	-	2,184	1,882	4,066
Capital outlay	131,368	-	-	116,791	120,565	368,724
Total expenditures	2,058,073	1,301,347	32,388	955,066	2,989,963	7,336,837
Excess (deficiency) of revenues over expenditures	43,403	(117,957)	776,497	(517,425)	(278,514)	(93,996)
OTHER FINANCING SOURCES (USES)						
Long-term debt issued	-	-	-	-	93,420	93,420
Sale of capital assets	-	-	-	52,600	-	52,600
Transfers in	8,000	50,000	10,000	401,363	278,473	747,836
Transfers out	(24,313)	-	(661,067)	-	(54,456)	(739,836)
Total other financing sources (uses)	(16,313)	50,000	(651,067)	453,963	317,437	154,020
Net change in fund balances	27,090	(67,957)	125,430	(63,462)	38,923	60,024
Fund balances - beginning	378,328	237,188	994,205	376,074	1,175,835	3,161,630
Fund balances - ending	\$ 405,418	\$ 169,231	\$ 1,119,635	\$ 312,612	\$ 1,214,758	\$ 3,221,654

CUSTER 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, 2013

Net change in fund balances - total governmental funds	\$ 60,024
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlay for capital assets as expenditures because such outlay use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets estimated useful lives as depreciation expense for the period.	
This is the amount by which capital outlay (\$368,724) exceeded depreciation (\$340,817) in the current period.	27,907
Governmental funds report the entire net sales price from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the asset. Thus, the change in net position differs from the change in fund balance by the book value of the asset sold.	(27,460)
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.	12,147
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. 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 long term debt issued exceeded debt principal repayments.	(13,838)
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:	
Compensated absences	(5,740)
Internal service funds are used by management to charge the costs of certain activities, such as data processing, to individual funds. The change in net position of the internal service funds is reported with the governmental activities.	(5,215)
Change in net position of governmental activities	<u>\$ 47,825</u>

CUSTER COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 799,857	\$ 3,334
Investments	1,228,534	4,059
Receivables:		
Taxes and assessments	22,444	-
Solid waste	5,078	-
Total current assets	<u>2,055,913</u>	<u>7,393</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	226,881	-
Investments	1,153,278	-
	<u>1,380,159</u>	<u>-</u>
Capital assets:		
Land and construction in progress	39,910	-
Buildings and improvements	2,056,024	-
Less accumulated depreciation	(1,054,611)	-
	<u>1,041,323</u>	<u>-</u>
Total non-current assets	<u>2,421,482</u>	<u>-</u>
Total assets	<u>4,477,395</u>	<u>7,393</u>
LIABILITIES		
Current liabilities:		
Accounts payable-vendors	7,365	-
Compensated absences	-	694
Total current liabilities	<u>7,365</u>	<u>694</u>
Non-current liabilities:		
Compensated absences	-	6,243
Landfill closure/postclosure care payable	894,378	-
Total non-current liabilities	<u>894,378</u>	<u>6,243</u>
Total liabilities	<u>901,743</u>	<u>6,937</u>
NET POSITION		
Net investment in capital assets	1,041,323	-
Restricted for landfill closure/postclosure care	276,781	-
Unrestricted	2,257,548	456
Total net position	<u>\$ 3,575,652</u>	<u>\$ 456</u>

CUSTER COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
REVENUES		
Charges for services	\$ 239,739	\$ 131,893
Taxes and assessments	499,807	-
Total operating revenues	<u>739,546</u>	<u>131,893</u>
OPERATING EXPENSES		
Personal services	11,292	93,143
Supplies	411	1,487
Purchased services	307,294	41,978
Fixed charges	4,000	500
Closure/postclosure costs	88,194	-
Depreciation	166,130	-
Total operating expenses	<u>577,321</u>	<u>137,108</u>
Operating income (loss)	<u>162,225</u>	<u>(5,215)</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	12,571	-
Grants and contributions to others	(1,000)	-
Total non-operating revenues (expenses)	<u>11,571</u>	<u>-</u>
Income (loss) before transfers	173,796	(5,215)
Transfers out	(8,000)	-
Change in net position	165,796	(5,215)
Net position - beginning	<u>3,409,856</u>	<u>5,671</u>
Net position - ending	<u><u>\$ 3,575,652</u></u>	<u><u>\$ 456</u></u>

CUSTER COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
CASH FLOWS FROM OPERATIONS:		
Cash received from customers	\$ 749,981	\$ -
Cash received from interfund services	-	131,893
Cash paid to employees	(11,292)	(92,983)
Cash paid to suppliers for goods and services	(311,476)	(43,965)
Net cash provided (used) by operating activities	<u>427,213</u>	<u>(5,055)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash paid for grants and contributions to others	(1,000)	-
Cash used for interfund transfer	(8,000)	-
Net cash used by noncapital financing activities	<u>(9,000)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchase of capital assets	(39,909)	-
Net cash used by capital financing activities	<u>(39,909)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in investments	15,684	4,621
Interest received	12,571	-
Net cash provided by investing activities	<u>28,255</u>	<u>4,621</u>
Change in cash and cash equivalents	406,559	(434)
Cash and cash equivalents - beginning (enterprise fund includes restricted cash and cash equivalents of \$30,273)	<u>620,179</u>	<u>3,768</u>
Cash and cash equivalents - ending (enterprise fund includes restricted cash and cash equivalents of \$226,881)	<u>\$ 1,026,738</u>	<u>\$ 3,334</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 162,225	\$ (5,215)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	166,130	-
Closure/post closure costs	88,194	-
Decrease in taxes/assessments receivable	2,852	-
Decrease in solid waste receivable	7,583	-
Increase in accounts payable	229	-
Increase in compensated absences	-	160
Net cash provided (used) by operating activities	<u>\$ 427,213</u>	<u>\$ (5,055)</u>

CUSTER COUNTY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 4,643,491	\$ 666,056
Investments	5,654,609	-
Taxes and assessments receivables	-	626,098
	<u>10,298,100</u>	<u>\$ 1,292,154</u>
Total assets		
LIABILITIES		
Accounts payable	-	\$ 343,323
Due to special districts	-	6,491
Due to state	-	272,807
Due to schools	-	411,226
Due to cities/towns	-	258,307
	<u>-</u>	<u>\$ 1,292,154</u>
Total liabilities		
NET POSITION		
Net position held in trust	<u>\$ 10,298,100</u>	

CUSTER COUNTY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2013

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 7,450,950
Investment earnings	<u>41,871</u>
Total additions	<u>7,492,821</u>
DEDUCTIONS	
Distributions to participants	6,511,506
Administrative	<u>2,094</u>
Total deductions	<u>6,513,600</u>
Change in net position	979,221
Net position - beginning	<u>9,318,879</u>
Net position - ending	<u><u>\$ 10,298,100</u></u>

CUSTER 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).

The government adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement codifies the requirements of all pre-November 30, 1989 FASB and AICPA pronouncements that apply to state and local governments.

The government adopted provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement resulted in presentation changes in the government-wide financial statements and the proprietary and fiduciary fund financial statements.

The government adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement resulted in presentation changes due to expansion of transactions that result in deferred inflows/outflows; identification of new inflows/outflows, and related change in major funds determination.

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. Based on the criteria established by the Governmental Accounting Standards Board, 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 position 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 and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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. General

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

The government reports the following major governmental funds:

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

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

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

The government reports the following major proprietary fund:

The solid waste fund accounts 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, Deferred Outflows/Inflows and Net Position/Fund Balance

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 60% of the investment pool belongs to these districts.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

The pool unit value is fixed at \$1 for purchases and redemptions. Income is automatically reinvested in additional units. The government did not provide or obtain any legally binding guarantees to support the value of the units. Investments in the pool are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents. Investment income from the pool is allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of each month. The net change in fair value of the pool is also allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of the year.

The government charges a 5% administrative fee to all participants in the pool. The fee is deducted prior to distributing interest to the County funds and pool participants. The administrative fee charged during the year was \$3,952.

Receivables

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

Cemetery and solid waste 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. Additionally, dollars have been set aside by management for replacement and depreciation. These amounts are 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 column 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. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. There was no capitalized interest for the year ended June 30, 2013 for the solid waste fund.

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

Assets	Years
Infrastructure	100
Building and improvements	10-100
Machinery and equipment	5-10

CUSTER 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 position. Issuance costs are recognized as an expense in the period incurred. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that would qualify for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Net Position

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

Net Investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position 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 – any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

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

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Fund Balance

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

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

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

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

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

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

The governing body has by resolution authorized the Clerk and Recorder, in conjunction with the County Commissioners, to assign fund balance. There was no assigned fund balance in the general fund.

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

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The Mitigation (\$6,688) and East Valley Waterline (\$7,467) funds had deficit fund balances as of June 30, 2013. The deficits occurred because expenditures exceeded revenues. The deficits are expected to be eliminated through subsequent collection of grant revenues and or a transfer from the General fund.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

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

Governmental activities	\$ 2,954,421
Business-type activities	3,408,550
Fiduciary funds	<u>10,964,156</u>
	<u>\$ 17,327,127</u>

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Total carrying value of cash, cash equivalents and investments as of June 30, 2013, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 1,500	\$ -	\$ 1,500
Cash in banks:			
Demand deposits	6,235,325	-	6,235,325
Savings deposits	7,433	-	7,433
Time deposits	-	500,000	500,000
Brokerage:			
Money market	767,889	-	767,889
U.S. Government securities	-	9,158,671	9,158,671
Short-term Investment Program (STIP)	656,309	-	656,309
	<u>\$ 7,668,456</u>	<u>\$ 9,658,671</u>	<u>\$ 17,327,127</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, 2013, \$6,386,814 of the government's bank balance of \$6,644,842 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,386,814
Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>5,000,000</u>
	<u>\$ 6,386,814</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, 2013, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2013 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
Time deposits	.60 to .75%	06/30/04	\$ 500,000	\$ 500,000	\$ 500,000	5.18%
U.S. government securities	.125 to 1.25%	06/30/04	9,155,000	9,158,671	9,091,222	94.82%
				<u>\$ 9,658,671</u>	<u>\$ 9,591,222</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 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.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Brokers:					
U.S. Government securities	\$ 2,500,000	\$ -	\$ 6,658,671	\$ 9,158,671	\$ 9,091,222
Money Markets	767,889	-	-	767,889	767,889
	<u>\$ 3,267,889</u>	<u>\$ -</u>	<u>\$ 6,658,671</u>	9,926,560	9,859,111
Uncategorized:					
STIP				656,309	656,309
				<u>\$ 10,582,869</u>	<u>\$ 10,515,420</u>

Following is the condensed schedule of changes in net position and net position for the investment pool for the year ended June 30, 2013:

	Internal	External	Total
Net position - beginning of year	\$ 6,327,754	\$ 9,318,879	\$ 15,646,633
Contributions from participants	4,561,720	7,450,950	12,012,670
Investment earnings	37,160	41,871	79,031
Administrative fees	(1,858)	(2,094)	(3,952)
Distributions to participants	(3,895,749)	(6,511,506)	(10,407,255)
Net position - end of year	<u>\$ 7,029,027</u>	<u>\$ 10,298,100</u>	<u>\$ 17,327,127</u>

Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 114,111	\$ -	\$ -	\$ 114,111
Construction-in-progress	120,836	69,250	(120,836)	69,250
Total capital assets, not being depreciated	<u>234,947</u>	<u>69,250</u>	<u>(120,836)</u>	<u>183,361</u>
Capital assets, being depreciated				
Buildings/improvements	3,335,924	-	-	3,335,924
Improvements other than buildings	324,507	-	-	324,507
Machinery and equipment	3,477,874	299,474	(121,628)	3,655,720
Infrastructure	542,204	120,836	-	663,040
Total capital assets, being depreciated	<u>7,680,509</u>	<u>420,310</u>	<u>(121,628)</u>	<u>7,979,191</u>
Less accumulated depreciation for:				
Buildings/improvements	(1,539,811)	(76,671)	-	(1,616,482)
Improvements other than buildings	(53,085)	(19,021)	-	(72,106)
Machinery and equipment	(1,865,448)	(235,289)	94,168	(2,006,569)
Infrastructure	(20,846)	(9,836)	-	(30,682)
Total accumulated depreciation	<u>(3,479,190)</u>	<u>(340,817)</u>	<u>94,168</u>	<u>(3,725,839)</u>
Total capital assets, being depreciated, net	<u>4,201,319</u>	<u>79,493</u>	<u>(27,460)</u>	<u>4,253,352</u>
Governmental activities capital assets, net	<u>\$ 4,436,266</u>	<u>\$ 148,743</u>	<u>\$ (148,296)</u>	<u>\$ 4,436,713</u>

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 1	\$ -	\$ -	\$ 1
Construction-in-progress	-	39,909	-	39,909
Total capital assets, not being depreciated	1	39,909	-	39,910
Capital assets, being depreciated				
Buildings and systems	70,965	-	-	70,965
Improvements other than buildings	1,985,059	-	-	1,985,059
Total capital assets, being depreciated	2,056,024	-	-	2,056,024
Less accumulated depreciation for:				
Buildings and systems	(16,878)	(1,739)	-	(18,617)
Improvements other than buildings	(871,603)	(164,391)	-	(1,035,994)
Total accumulated depreciation	(888,481)	(166,130)	-	(1,054,611)
Total capital assets, being depreciated, net	1,167,543	(166,130)	-	1,001,413
Business-type activities capital assets, net	<u>\$ 1,167,544</u>	<u>\$ (126,221)</u>	<u>\$ -</u>	<u>\$ 1,041,323</u>

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 39,690
Public safety	83,026
Public works	151,020
Social and economic	4,437
Culture and recreation	14,898
Housing and community development	47,746
Total depreciation-governmental activities	<u>\$ 340,817</u>
Business-type activities:	
Solid Waste	<u>\$ 166,130</u>

Interfund Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
Governmental activities:			
General	\$ 8,000	\$ (24,313)	\$ (16,313)
Road	401,363	-	401,363
PILT	10,000	(661,067)	(651,067)
Public Safety	50,000	-	50,000
Nonmajor governmental funds	278,473	(54,456)	224,017
	<u>\$ 747,836</u>	<u>\$ (739,836)</u>	<u>\$ 8,000</u>
Business-type activities:			
Solid Waste	<u>\$ -</u>	<u>\$ (8,000)</u>	<u>\$ (8,000)</u>

Transfers consist of funding capital improvements, grant matching and closing inactive funds.

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:

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

	Governmental Activities
Machinery and equipment	\$ 93,420
Less: accumulated depreciation	(6,228)
	<u>\$ 87,192</u>

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2013, are as follows:

	Year ending June 30,	Governmental Activities
	2014	\$ 18,808
	2015	18,808
	2016	18,808
	2017	18,808
	2018	9,189
Total minimum lease payments		84,421
Less: amount representing interest		(9,809)
Present value of minimum lease payments		<u>\$ 74,612</u>

Long-Term Debt

Notes payable currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2013
Rock crusher for road-2008 (1)	\$ 50,000	10 yr	1.00%	\$ 27,978
Harris Creek bridge-2011 (1)	180,000	10 yr	1.00%	137,864
Motor grader-2011 (1)	120,000	7 yr	1.00%	78,977
Motor grader-2009 (1)	110,000	5 yr	1.00%	34,892
(1) Through INTERCAP. Interest adjusted each February 1, maximum to 15 percent.				<u>\$ 279,711</u>

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

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 62,403	\$ 2,640	\$ 65,043
2015	52,081	2,013	54,094
2016	41,201	1,549	42,750
2017	42,173	1,138	43,311
2018	33,924	710	34,634
2019-2021	47,929	718	48,647
	<u>\$ 279,711</u>	<u>\$ 8,768</u>	<u>\$ 288,479</u>

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
Governmental activities:					
Notes payable	\$ 340,484	\$ -	\$ (60,774)	\$ 279,710	\$ 62,403
Capital leases	-	93,420	(18,808)	74,612	15,359
Compensated absences	376,667	5,900	-	382,567	38,257
Governmental activity long-term liabilities	<u>\$ 717,151</u>	<u>\$ 99,320</u>	<u>\$ (79,582)</u>	<u>\$ 736,889</u>	<u>\$ 116,019</u>

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Internal service funds predominantly serve the governmental funds. Accordingly, internal service fund long-term liabilities are included as part of the governmental activities. At year end, \$6,937 of the internal service fund compensated absences is included in the above amounts. Also, for the governmental activities, notes payable are liquidated by the road and bridge funds. Compensated absences are generally liquidated by the general fund.

Conduit Debt

To provide for the refinancing of existing debt and construction of improvements to the Eastern Montana Community Mental Health Center (EMCMHC), a Montana nonprofit corporation, the County issued Industrial Development Revenue Bonds/Notes amounting to \$850,000. These bonds/notes are special limited obligations of the County, payable solely from and secured by payments to be made by EMCMHC's under the loan agreement. The bonds/notes do not constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers, and accordingly have not been reported in the accompanying financial statements. As of June 30, 2013, Industrial Development Revenue Bonds/Notes outstanding were \$634,217.

Landfill Closure/Postclosure

State and federal laws and regulations require the government to place a final cover on its landfill sites when it stops 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 landfill stops 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 \$894,378 reported as a landfill closure and postclosure care liability as of June 30, 2013, represents the cumulative amount reported to date based on the use of 23 percent of the estimated capacity of the landfill. The government will recognize the remaining estimated cost of closure and postclosure care of \$593,822 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, 2013. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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. The government is in compliance with the requirements, and, as of June 30, 2013, \$1,171,159 had been set aside for this purpose. The amount set aside is restricted and reported as "restricted net 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, 2013:

Balance July 1, 2012	Additions	Subtractions	Balance June 30, 2013
\$ 806,184	\$ 88,194	\$ -	\$ 894,378

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

Interlocal Agreements

The City of Miles City maintains the accounting records for agreements related to the operation of the library, central dispatch, animal control and ambulance. The County levies or makes contributions to the City for these shared services. For the year ended June 30, 2013, the County contributed \$121,000 to the City for these services.

Contingencies

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.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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 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	10.115%	9.245%	19.360%
PERS (hired prior to 7-1-2011)	7.070%	6.900%	13.970%
PERS (hired on or after 7-1-2011)	7.070%	7.900%	14.970%

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.

The amounts contributed to the plans during the years ended June 30, 2013, 2012 and 2011 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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
SRS	\$ 94,347	\$ 91,947	\$ 90,929
PERS	<u>318,358</u>	<u>304,111</u>	<u>298,113</u>
	<u>\$412,705</u>	<u>\$396,058</u>	<u>\$389,042</u>

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 69 - Government Combinations and Disposals of Government Operations. Effective Date: The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. .

REQUIRED SUPPLEMENTARY INFORMATION

CUSTER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual
	Original	Final	Amounts
REVENUES			
Taxes/assessments	\$1,180,592	\$ 1,180,592	\$ 1,196,695
Fees and fines	81,050	81,050	120,851
Licenses and permits	2,500	2,500	3,185
Intergovernmental	502,996	572,996	555,379
Charges for services	147,905	147,905	151,667
Investment earnings	45,300	45,300	23,239
Miscellaneous	38,000	38,000	50,460
Total revenues	1,998,343	2,068,343	2,101,476
EXPENDITURES			
Current:			
General government	1,559,218	1,629,368	1,332,144
Public safety	454,996	454,996	364,439
Public health	203,258	203,258	196,898
Social and economic services	37,000	37,000	24,910
Housing and community development	5,000	5,000	8,314
Capital outlay	-	-	131,368
Total expenditures	2,259,472	2,329,622	2,058,073
Excess (deficiency) of revenues over expenditures	(261,129)	(261,279)	43,403
OTHER FINANCING SOURCES (USES)			
Transfers in	108,000	108,000	8,000
Transfers out	(24,313)	(24,313)	(24,313)
Total other financing sources (uses)	83,687	83,687	(16,313)
Net change in fund balance	\$ (177,442)	\$ (177,592)	27,090
Fund balance - beginning			378,328
Fund balance - ending			\$ 405,418

CUSTER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Public Safety Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 967,600	\$ 967,600	\$ 970,615
Licenses and permits	800	800	840
Intergovernmental	159,350	178,850	129,281
Charges for services	97,200	97,200	75,059
Investment earnings	10	10	2
Miscellaneous	18,500	18,500	7,593
Total revenues	<u>1,243,460</u>	<u>1,262,960</u>	<u>1,183,390</u>
EXPENDITURES			
Current:			
Public safety	1,365,203	1,365,203	1,299,210
Public health	3,500	3,500	2,137
Capital outlay	36,000	36,000	-
Total expenditures	<u>1,404,703</u>	<u>1,404,703</u>	<u>1,301,347</u>
Excess (deficiency) of revenues over expenditures	<u>(161,243)</u>	<u>(141,743)</u>	<u>(117,957)</u>
OTHER FINANCING SOURCES			
Transfers in	50,000	50,000	50,000
Total other financing sources	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Net change in fund balance	<u>\$ (111,243)</u>	<u>\$ (91,743)</u>	<u>(67,957)</u>
Fund balance - beginning			<u>237,188</u>
Fund balance - ending			<u>\$ 169,231</u>

CUSTER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PILT Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Intergovernmental	\$ 500,000	\$ 500,000	\$ 792,468
Charges for services	1,800	1,800	16,417
Total revenues	<u>501,800</u>	<u>501,800</u>	<u>808,885</u>
EXPENDITURES:			
Current:			
General government	100	100	-
Public health	21,618	21,618	28,888
Social and economic services	1,500	1,500	1,500
Culture and recreation	2,000	2,000	2,000
Total expenditures	<u>25,218</u>	<u>25,218</u>	<u>32,388</u>
Excess (deficiency) of revenues over expenditures	<u>476,582</u>	<u>476,582</u>	<u>776,497</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	20,000	20,000	10,000
Transfers out	(611,133)	(661,067)	(661,067)
Total other financing sources (uses)	<u>(591,133)</u>	<u>(641,067)</u>	<u>(651,067)</u>
Net change in fund balance	<u>\$ (114,551)</u>	<u>\$ (164,485)</u>	125,430
Fund balance - beginning			<u>994,205</u>
Fund balance - ending			<u>\$ 1,119,635</u>

CUSTER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Road Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 254,368	\$ 254,368	\$ 254,781
Intergovernmental	252,106	252,106	172,983
Charges for services	550	550	1,708
Miscellaneous	34,000	34,000	8,169
Total revenues	<u>541,024</u>	<u>541,024</u>	<u>437,641</u>
EXPENDITURES			
Current:			
Public works	896,744	896,744	792,280
Debt service:			
Principal	43,811	43,811	43,811
Interest and other charges	2,184	2,184	2,184
Capital outlay	60,000	60,000	116,791
Total expenditures	<u>1,002,739</u>	<u>1,002,739</u>	<u>955,066</u>
Excess (deficiency) of revenues over expenditures	<u>(461,715)</u>	<u>(461,715)</u>	<u>(517,425)</u>
OTHER FINANCING SOURCES			
Long-term debt issued	7,000	7,000	-
Sale of capital assets	-	-	52,600
Transfers in	400,000	400,000	401,363
Total other financing sources	<u>407,000</u>	<u>407,000</u>	<u>453,963</u>
Net change in fund balance	<u>\$ (54,715)</u>	<u>\$ (54,715)</u>	<u>(63,462)</u>
Fund balance - beginning			<u>376,074</u>
Fund balance - ending			<u>\$ 312,612</u>

CUSTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2013

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Money may not be disbursed, expended or obligated except pursuant to an appropriation for which working capital is or will be available. The final budget is legally enacted by the governing body by the later of the first Thursday in September or within 30 calendar days after receiving certified taxable values from the Department of Revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

OTHER SUPPLEMENTARY INFORMATION

CUSTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2012	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2013
<u>U.S. Department of Transportation:</u>								
Passed through the Montana Department of Transportation:								
Highway Planning and Construction	20.205	105756	\$ 7,782	\$ -	\$ 5,693	\$ 2,964	\$ (2,729)	\$ -
Subtotal				-	5,693	2,964	(2,729)	-
Passed through Healthy Mothers Healthy Babies - The Montana Coalition:								
State and Community Highway Safety	20.600	N/A	20,000	(865)	7,522	6,657	-	-
State and Community Highway Safety	20.600	N/A	20,000	-	9,402	11,100	-	(1,698)
Subtotal				(865)	16,924	17,757	-	(1,698)
Total U.S. Department of Transportation				(865)	22,617	20,721	(2,729)	(1,698)
<u>U.S. Department of Justice:</u>								
Passed through the Montana Board of Crime Control:								
Crime Victim Assistance	16.575	12-V01-91193	18,227	-	16,257	18,227	-	(1,970)
Crime Victim Assistance	16.575	11-V01-90992	19,854	(409)	409	-	-	-
Total U.S. Department of Justice				(409)	16,666	18,227	-	(1,970)
<u>U.S. Department of Housing and Urban Development:</u>								
Passed through the Montana Department of Commerce								
Community Development Block Grant - States Program	14.228	MT-CDBG-12PL-15	60,000	-	-	58,000	-	(58,000)
Community Development Block Grant - States Program	14.228	MT-CDBG-ED11-03	397,500	-	-	-	-	-
Community Development Block Grant - States Program	14.228	MT-CDBG-11PF-02	450,000	(53,630)	70,584	38,600	-	(21,646)
Community Development Block Grant - States Program	14.228	MT-CDBG-09DR-02	105,000	-	4,452	2,374	(2,078)	-
Total U.S. Department of Housing and Urban Development				(53,630)	75,036	98,974	(2,078)	(79,646)
<u>U.S. Department of Homeland Security:</u>								
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Disaster Grants-Public Assistance	97.036	FEMA-1996-DR-MT	1,096,960	(49,232)	13,337	16,054	-	(51,949)
Subtotal				(49,232)	13,337	16,054	-	(51,949)
Homeland Security Grant Program	97.067	2008-GE-T8-0023	180,582	-	180,582	180,582	-	-
Homeland Security Grant Program	97.067	EMW-2011-SS-00052	208,200	-	208,200	208,200	-	-
Subtotal				-	388,782	388,782	-	-
Emergency Management Performance Grants	97.042	EMW-2011-EP-00035	30,498	(2,009)	2,009	-	-	-
Emergency Management Performance Grants	97.042	EMW-2012-SS-00143-S01	33,000	-	20,898	27,377	-	(6,479)
Subtotal				(2,009)	22,907	27,377	-	(6,479)
Total U.S. Department of Homeland Security				(51,241)	425,026	432,213	-	(58,428)
<u>U.S. Department of Commerce:</u>								
Direct Program:								
Investments for Public Works and Economic Development Facilities	11.300	05-01-05332	367,956	-	-	-	-	-
Total U.S. Department of Commerce				-	-	-	-	-

CUSTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2012	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2013
<u>U.S. Department of Health and Human Services:</u>								
Passed through Montana State University:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	13-07-3-01-093-0	20,000	-	11,250	6,130	(5,120)	-
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	12-07-3-01-093-0	15,000	(3,750)	3,750	-	-	-
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	N/A	2,000	1,641	-	205	(1,436)	-
Passed through the Montana Department of Public Health and Human Services:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	13-07-3-01-004-0	50,330	-	48,215	48,215	-	-
Subtotal				(2,109)	63,215	54,550	(6,556)	-
Maternal and Child Health Services								
Block Grant to the States	93.994	13-07-5-01-009-0	13,147	-	13,147	13,147	-	-
Maternal and Child Health Services Block Grant to the States	93.994	13-07-5-11-011-0	983	-	983	983	-	-
Subtotal				-	14,130	14,130	-	-
Immunization Grants	93.268	12-07-4-31-109-0	5,648	-	1,412	-	(1,412)	-
Immunization Grants	93.268	13-07-4-31-109-0	5,648	-	2,824	5,648	-	(2,824)
Subtotal				-	4,236	5,648	(1,412)	(2,824)
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program								
	93.505	13-07-5-31-24-0	159,274	-	85,500	137,675	-	(52,175)
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	12-07-5-31-24-0	100,000	-	50,000	50,000	-	-
Subtotal				-	135,500	187,675	-	(52,175)
Public Health Emergency Preparedness	93.069	12-07-6-11-013-0	30,980	-	9,294	-	(9,294)	-
Public Health Emergency Preparedness	93.069	13-07-6-11-013-0	42,375	-	32,839	42,373	-	(9,534)
Subtotal				-	42,133	42,373	(9,294)	(9,534)
Affordable Care Act (ACA) Personal Responsibility Education Program								
	93.092	13-07-5-11-016-0	20,000	-	20,000	17,074	(2,926)	-
Subtotal				-	20,000	17,074	(2,926)	-
Family Planning Services	93.217	13-07-5-11-011-0	65,612	-	65,612	65,612	-	-
Family Planning Services	93.217	12-07-5-11-011-0	67,945	(3,699)	3,699	-	-	-
Subtotal				(3,699)	69,311	65,612	-	-
Passed through Action for Eastern Montana:								
Aging Cluster:								
Special Programs for the Aging-								
Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	2012-001-02	21,031	(1,750)	1,750	-	-	-
Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	2013-001-02	19,851	-	16,969	19,851	-	(2,882)
Title III, Part C-Nutrition Services	93.045	2013-001-02	47,517	-	38,826	41,072	-	(2,246)
Title III, Part C-Nutrition Services	93.045	2012-001-02	45,448	(3,559)	3,559	-	-	-
Aging Cluster Subtotal				(5,309)	61,104	60,923	-	(5,128)
Title III, Part D-Disease Prevention and Health Promotion Services	93.043	2013-001-02	1,696	-	-	-	-	-
Subtotal				-	-	-	-	-
National Family Caregiver Support, Title III, Part E	93.052	2012-001-02	6,896	(550)	550	-	-	-
National Family Caregiver Support, Title III, Part E	93.052	2013-001-02	7,932	-	6,631	7,932	-	(1,301)
Subtotal				(550)	7,181	7,932	-	(1,301)
Total U.S. Department of Health and Human Services				(11,667)	416,810	455,917	(20,188)	(70,962)

CUSTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2012	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2013
<u>U.S. Department of the Interior:</u>								
Direct Programs:								
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L09AC15490-0011	73,000	-	46,841	46,589	(252)	-
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L09AC15490-0009	37,521	(17,651)	37,521	19,870	-	-
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L09AC15490-0010	11,500	-	11,500	11,500	-	-
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L09AC15490-0008	107,380	14,717	-	14,717	(14,717)	(14,717)
Subtotal				(2,934)	95,862	92,676	(14,969)	(14,717)
Bankhead Jones Farm Tenant Act	15.999	N/A	4,873	-	-	4,873	-	(4,873)
Subtotal				-	-	4,873	-	(4,873)
Total direct programs				(2,934)	95,862	97,549	(14,969)	(19,590)
Passed through State Department of Natural Resources and Conservation:								
National Fire Plan - Rural Fire Assistance	15.242	VFA-12-090	5,000	(467)	467	-	-	-
Subtotal				(467)	467	-	-	-
Total U.S. Department of the Interior				(3,401)	96,329	97,549	(14,969)	(19,590)
<u>U.S. Department of Agriculture:</u>								
Direct Programs:								
Water and Waste Disposal Systems For Rural Communities	10.760	N/A	388,000	-	-	-	-	-
Water and Waste Disposal Systems For Rural Communities	10.760	N/A	288,000	-	-	-	-	-
Total U.S. Department of Agriculture				-	-	-	-	-
Total Federal Awards				\$ (121,213)	\$ 1,052,484	\$ 1,123,601	\$ (39,964)	\$ (232,294)

Notes to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is a summary of cash receipts and federal expenditures related to the County's federal award programs. This schedule is presented in accordance with grant terms and conditions, which are not on the accrual basis of accounting as contemplated by generally accepted accounting principles.

NOTE B - SUBRECIPIENTS

Certain federal funds are provided to Valley and Powder River Counties, as subrecipient organizations of the County. \$9,000 and \$2,000, respectively, in expenditures (CFDA No. 93.217) incurred by Valley and Powder River Counties were reimbursed by the County and included on the schedule as part of non-major program pass-through awards for the year ended June 30, 2013.

Certain federal funds are provided to the Southeastern Montana Health Coalition, a subrecipient organization of the County. \$127,137 in expenditures (CFDA No. 93.505) incurred by the Southeastern Montana Health Coalition were reimbursed by the County and included on the schedule as part of major program pass-through awards for the year ended June 30, 2013.

CUSTER COUNTY
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL
AWARD FINDINGS AND QUESTIONED COSTS

2012-12. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT

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

Condition: We selected 10 of the 56 FEMA approved Project Worksheets (PW's) for review, which constitutes approximately 20 percent of the total worksheets and 62 percent of the total program dollars. The County Force Account Labor schedules for supervisory employees (road foreman and secretary) used on each individual project worksheet were not supported by employee timesheets for all PW's reviewed.

Questioned Costs: None

Cause: Unknown

Effect: Non-compliance with program terms and conditions

Recommendation: The Force Account Labor worksheets should be complete and supported by employee timesheets and other adequate documentation for all Project Worksheets (PW's) approved by FEMA.

Current Status: No longer valid.

Criteria: For category C (non-emergent) projects, grant terms and conditions require the County to follow its own procurement guidelines and state procurement laws when contracting for goods and services.

Condition: The County purchased culverts and contracted for the repair and hazard mitigation plan of Site #36 (Tongue River Road) where the total purchase was in excess of \$50,000 and, therefore, requires the purchase to be competitively bid in accordance with state law. The County did not formally bid these purchases.

Questioned Costs: None

Cause: Unknown

Effect: Non-compliance with program terms and conditions

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

Current Status: No longer valid.

2012-13. All Major Programs

Criteria: We engaged our auditors to assist in the preparation of the government's financial statements and schedule of expenditures of federal awards (SEFA). The government ensures the quality of its financial statements and SEFA by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: We did not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements and SEFA.

Cause: We are a small organization with limited resources.

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

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

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs.

CUSTER COUNTY
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL
AWARD FINDINGS AND QUESTIONED COSTS

2012-14. All Major Programs

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The auditors recommended that we continue to evaluate our segregation of duties and when possible assign tasks to strengthen controls.

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs.

OLNESS & ASSOCIATES, P. C.

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

To the Board of County Commissioners
Custer County
Miles City, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer County, Montana (the government) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated November 8, 2013. The report included explanatory paragraphs to describe changes in accounting principles. The report on governmental activities, the road fund and aggregate remaining fund information was qualified because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit retroactive tests of inventory quantities. In addition, the report on governmental activities, the business-type activities and proprietary funds was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2013-1 through 2013-10)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (Findings 2013-11)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-12 and 2013-13.

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

The Government's Response to Findings

The government did not respond to the findings and questioned costs identified in our audit as described in the accompanying schedule of findings and questioned costs. 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.

Purpose of this Report

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

Olmstead & Associates, PC

November 8, 2013

OLNESS & ASSOCIATES, P. C.

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

To the Board of County Commissioners
Custer County
Miles City, Montana

Report on Compliance for Each Major Federal Program

We have audited Custer County, Montana's (the government) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the government's major federal programs for the year ended June 30, 2013. The government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the government's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the government's compliance.

Basis for Qualified Opinions on Homeland Security Grant Program and Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program

As described in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding the Homeland Security Grant Program, CFDA No. 97.067, as described in finding 2013-16 for special tests and provisions. Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to that program.

As described in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding the Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program, CFDA No. 93.505, as described in finding 2013-17 for reporting. Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to that program.

Qualified Opinion on Homeland Security Grant Program and Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraphs, the government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect the on Homeland Security Grant Program and Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program for the year ended June 30, 2013.

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

Other Matters

The government did not respond to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-14 through 2013-17 to be material weaknesses.

The government did not respond to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

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

O'Hess & Associates, PC

November 8, 2013

CUSTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified? √ yes no
- Significant deficiency(ies) identified? √ yes none reported

Noncompliance material to the financial statements noted?

 √ yes no

FEDERAL AWARDS:

Internal control over major programs:

- Material weaknesses identified? √ yes no
- Significant deficiency(ies) identified? yes √ none reported

Type of auditor's report issued on compliance for major programs:

- Qualified for Homeland Security Grant Program
- Qualified for Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

 √ yes no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
97.067	Homeland Security Grant Program
93.505	Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program

Dollar threshold used to distinguish between type A and type B programs?

\$300,000

Auditee qualified as low-risk auditee?

 yes √ no

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-1. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements and schedule of expenditures of federal awards (SEFA). The government ensures the quality of its financial statements and SEFA by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements and SEFA.

Cause: The government is a small organization with limited resources.

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

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

2013-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2013.

Effect: The governmental activities, business-type activities and proprietary funds' liabilities are understated, net position is overstated and expenses are understated.

Recommendation: The government should engage an actuarial firm to determine the OPEB liability and related expense.

2013-3. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

2013-4. TREASURER'S OFFICE

Criteria: The Treasurer's office has several duties, including, but not limited to; receipting, disbursing, reconciling and investing cash, billing, collecting and accounting for property taxes and reporting.

Condition: During our audit, we noted the following:

- Cash and investments were not reconciled in a timely manner.
- Unknown differences existed on the checking account reconciliations.
- Receipts and deposits to the bank were not reconciled at the end of each month.
- Several old items were carried on the checking account reconciliation that were deposited in the account, but not receipted.
- Interest earnings were not receipted in the proper period.
- An undistributed cash balance existed in the interest clearing fund at the end of the year.
- Unreceipted interest existed in three of the five brokerage accounts.
- Amounts had been receipted into Partial Tax Payment fund (fund number 7171) and not disbursed by the end of the year.
- The protested tax fund, the protested taxpayer list and protested taxes receivable were not reconciled at year-end.

CUSTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

- Interest earnings were not allocated to the protested tax fund during the year.
- Examples were found where month end reports were not provided in a timely manner to the state of Montana, school districts located within the county and other government agencies the treasurer's office is required to report to.

Cause: The Treasurer was new in fiscal year 2013. She was unaware of several of the items above.

Effect: While none of the items above had a significant impact on the county's 2013 financial statements, the potential exists for significant errors to exist and not be discovered in a timely manner, or at all.

Recommendation: The Treasurer should review and/or add procedures to address the deficiencies discussed above.

2013-5. LANDFILL CHARGE SLIPS

Criteria: To ensure the completeness of solid waste billing, the numerical sequence of the prenumbered charge slips should be accounted for by the solid waste secretary.

Condition: The numerical sequence of the prenumbered charge slips is not accounted for by the solid waste secretary.

Cause: The prenumbered charge slips are used for solid waste charges and cash collections at the landfill. Additionally, the charge slips for cash collections are not forwarded to the solid waste secretary.

Effect: By not accounting for the numerical sequence of the charge slips, all customers may not be billed.

Recommendation: Two separate prenumbered charge slips books should be used, one for charges and one for cash sales. Additionally, the charge slips for cash collections should be forwarded to the solid waste secretary.

2013-6. LANDFILL CASH COLLECTIONS

Criteria: Cash collections made at the landfill by the landfill contractor, Dispose All, LLC, are not deposited intact and on a daily basis.

Condition: The landfill contractor removes the cash on hand at the landfill and remits a check to the County.

Cause: In response to this continued finding, Dispose All, LLC, has stated that it is impractical for the funds to be turned into the County Treasurer on a daily basis, as the landfill hours are longer than those of the County Treasurer. Additionally, they stated daily deposits would require extra time and expense on Dispose All, LLC's part.

Effect: Holding receipts exposes the government to loss.

Recommendation: To simplify the accounting for landfill cash collections, the County should negotiate an annual flat fee with Dispose All, LLC. By establishing an annual flat fee, risk of loss would be minimized.

2013-7. SHERIFF CIVIL ACCOUNT

Criteria: The sole purpose of the Sheriff's civil trust account is to act as a clearing account for the collection and disbursement of civil processing fees, garnishments and executions. Civil fees collected are remitted to the Treasurer's office monthly and garnishments/executions are forwarded to the injured party.

Condition: Errors on the bank reconciliation and unreconciled/unlocated differences between the reconciled bank balance and the control ledger maintained by the secretary were noted.

Cause: Unknown.

Effect: At the end of June 30, 2013, the unreconciled amount was \$336.42.

Recommendation: All reconciliation errors and unreconciled/unlocated differences between the reconciled bank balance and the control ledger should be followed up on and resolved immediately. The reconciliation should be reviewed and signed by the Sheriff on a monthly basis.

CUSTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

2013-8. COUNTY FAIR

Criteria: Strong internal control procedures suggest all disbursements be supported by adequate documentation prior to being approved for payment.

Condition: Fair claims were paid for without complete and adequate documentation (contracts, invoices and receipts) to support each disbursement. Further, the fair secretary does not provide a formal accounting of the use of startup funds at the conclusion of the fair.

Cause: Unknown.

Effect: The risk of errors, irregularities or inappropriate charges occurring and not being detected is increased if supporting documentation is not attached to all disbursements.

Recommendation: The fair board should be required to attach complete and adequate documentation to claims when they are presented for payment. Additionally, we recommend the fair secretary provide a formal accounting of the startup funds to the County Commissioners at the conclusion of the fair.

Criteria: Since cash is so readily subject to error and mishandling, effective control of checks, currency, and other cash items should begin at the time of receipt and continue through deposit.

Condition: Formal ticket reconciliations were not completed for gate admissions.

Cause: Unknown.

Effect: Not preparing formal ticket reconciliations for all gate admissions exposes the government to risk of loss or theft.

Recommendation: The fair board should develop procedures that will provide for accountability over beer sales. Additionally, formal ticket reconciliations should be completed for all events.

2013-9. DISTRICT COURT TRUST

Criteria: A complete and accurate reconciliation of the trust account that is compared to a list of items being held in the accounts provides evidence that all cash transactions have been recorded properly and helps to discover bank and departmental errors.

Condition: The trust and fee account reconciliations contained errors, adjustments, unknown items and incorrect information. Further, documentation to support the reconciled balances (ie: bonds, civil, criminal, restitution, invested funds, etc.) did not agree to the reconciled balances.

Cause: Unknown.

Effect: Erroneous reconciliations and not maintaining a list to support the reconciled balances in the accounts means that errors or other problems might not be recognized and resolved on a timely basis.

Recommendation: The Clerk of District Court should contact the Montana Supreme Court for assistance in clearing out all differences and errors. Once completed, the court activity maintained in the Full Court system should be balanced to the county treasurer's statement on a monthly basis.

2013-10. TAX ABATEMENTS/CORRECTIONS

Criteria: Reconciling tax abatements/corrections initiated through the local Department of Revenue office ensures all changes are valid and approved by the local Department of Revenue office and County Commissioners.

Condition: Tax abatements/corrections initiated through the local Department of Revenue office were not reconciled to the general ledger by the Clerk and Recorder's office.

Cause: Unknown.

CUSTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

Effect: Exposes the government to risk of loss or theft.

Recommendation: The Clerk and Recorder's office should reconcile the tax abatements/corrections forms to the general ledger on a monthly basis. The reconciliations should be retained for future reference.

2013-11. CAPITAL ASSETS

Criteria: Policy requires each department to submit an annual inventory report to the Clerk and Recorder's office by July 1 of each year. Additionally, transfers or disposals of capital assets are to be reported to the Clerk and Recorder's office.

Condition: County policy is not being followed by department heads.

Cause: Unknown.

Effect: By not following policy, internal control over capital assets is weakened.

Recommendation: Department heads should follow policy.

2013-12. HOMELAND SECURITY GRANT PROGRAM, CFDA No. 97.067, GRANT No. EMW-2011-SS-00052

Criteria: The Buy American Act (the Act) requires that all iron, steel, and manufactured goods used in any project funded wholly or partially by federal funding involving a governmental entity, be produced in the United States. The Act requires that "substantially all" of the acquisition be attributable to American-made components. Regulations have interpreted this requirement to mean that at least 50% of the cost must be attributable to American content. Grant terms and conditions require the county to invoke the Buy American Act when using federal funding.

Condition: The County lacked adequate procedures and controls to ensure that it purchased products that were manufactured in the United States in accordance with the Buy American Act. This was evidenced by the county failing to obtain documentation to support whether the materials and manufactured goods purchased under the program were manufactured in the United States in compliance with the Act.

Questioned Costs: None.

Cause: County personnel were unaware of the Buy American requirements.

Effect: Non-compliance with program terms and conditions.

Recommendation: The County should develop procedures and controls to ensure that it purchases products that are manufactured in the United States in accordance with the Buy American Act.

2013-13. AFFORDABLE CARE ACT (ACA) MATERNAL, INFANT AND EARLY CHILDHOOD HOME VISITING PROGRAM, CFDA No. 93.505, GRANT No. 13-07-5-31-24-0

Criteria: Grant terms and conditions require reports submitted to the federal awarding agency include all activity of the reporting period, be supported by underlying accounting records and be filed within the timelines imposed by the granting agency.

Condition: The reports filed for fiscal year 2013 did not agree to the general ledger.

Cause: The reports were filed using the accounting records of the county's grant subrecipient agency, not the county's general ledger.

Effect: Non-compliance with grant terms and conditions.

Questioned Cost: None

Recommendation: Custer County Health should file grant reports from the amounts recorded in the county's general ledger.

CUSTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2013-14. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2013-01 applies to these federal award programs.

2013-15. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2013-03 applies to these federal award programs.

U.S. DEPARTMENT OF HOMELAND SECURITY:

2013-16. HOMELAND SECURITY GRANT PROGRAM, CFDA No. 97.067, GRANT No. EMW-2011-SS-00052

Finding 2013-12 applies to this federal award program.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

2013-17. AFFORDABLE CARE ACT (ACA) MATERNAL, INFANT AND EARLY CHILDHOOD HOME VISITING PROGRAM, CFDA No. 93.505, GRANT No. 13-07-5-31-24-0

Finding 2013-13 applies to this federal award program.

CUSTER COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2012-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2012-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2012-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2012-4. LANDFILL CHARGE SLIPS	NOT IMPLEMENTED
2012-5. LANDFILL CASH COLLECTIONS	NOT IMPLEMENTED
2012-6. SHERIFF CIVIL ACCOUNT	NOT IMPLEMENTED
2012-7. COUNTY FAIR	NOT IMPLEMENTED
2012-8. TAX ABATEMENTS/CORRECTIONS	NOT IMPLEMENTED
2012-9. CAPITAL ASSETS	NOT IMPLEMENTED
2012-10. SINGLE AUDIT REPORTING PACKAGE NOT SUBMITTED BY DUE DATE	IMPLEMENTED
2012-11. DISASTER GRANTS – PUBLIC ASSISTANCE CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT	NO LONGER VALID