

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2015

AUDIT REPORT

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

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2015

TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-7
Independent Auditor's Report	8-10
Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	11
Statement of Activities	12
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Fund Types	17
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund Types	18
Statement of Cash Flows – Proprietary Fund Types	19
Statement of Net Position – Fiduciary Fund Types	20
Statement of Changes in Net Position – Fiduciary Fund Types	21
Notes to Financial Statements	22-51
Required Supplemental Information	
Budgetary Comparison Schedule	52-54
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	55
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	56
Schedule of Proportionate share of the Net Pension	57
Schedule of Contributions	58
Notes to Required Pension Supplementary Information	59-60
Single Audit Section	
Schedule of Expenditures of Federal Awards	61
Notes to the Schedule of Expenditures of Federal Awards	62

SANDERS COUNTY, MONTANA

TABLE OF CONTENTS – Continued

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	63-64
Independent Auditor’s Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	65-66
Schedule of Findings and Questioned Costs	67-69
Report on Prior Audit Recommendations	70

SANDERS COUNTY, MONTANA
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015

ORGANIZATION

Fiscal Year Ended June 30, 2015

BOARD OF COUNTY COMMISSIONERS

Glen Magera
Carol Booker
Anthony Cox

Chairperson
Commissioner
Commissioner

COUNTY OFFICIALS

Robert Zimmerman
Carol Turk
Nichol Scribner
Candace Fisher
Donald Strine
Thomas Rummel

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

This page intentionally left blank

SANDERS COUNTY, MONTANA
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015

Our discussion and analysis of Sanders County's financial performance provides an overview of Fiscal Year 2014-2015 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole, readers should review the basic financial statements found in the annual report to enhance their understanding of the County's financial performance.

FINANCIAL HIGHLIGHTS

- ❖ **Looking forward to FY 2015-16, the property reassessment projections will possibly stabilize due to the DOR reassessment every two years instead of every six years.**
- ❖ **Pilt payments were fully funded this FY. There is uncertainty whether Secure Rural Schools money will be available in the future. This funding ended in FY2012 and is now considered on a year-to-year basis.**
- ❖ **The County received a substantial amount of revenue through numerous grants. Grants included WIC, MCH, Tobacco, Rush Skeleton Weed, we are expecting Eurasian Milfoil Grants to extend into future years, and U.S. Department of Justice Programs on Violence Against Women Grants.**

USING THIS ANNUAL FINANCIAL REPORT

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County of Sanders' basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-wide financial statements

Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities. These statements include all assets and liabilities of the County using the full accrual basis of accounting. 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 the County's Net Positions and changes in them. Net Positions are the difference between assets and liabilities, which is one way to measure the County's financial position. Over time, increases and decreases in the County's Net Positions are an indicator of whether its financial position is improving or deteriorating. Other factors to consider are changes in the property tax base and the condition of infrastructure within the County.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been designated for specific activities or objectives. The County of Sanders uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Sanders County funds are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

SANDERS COUNTY, MONTANA
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015

- **Governmental Funds:** Most of the County's 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 in the future periods. 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 government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources available to finance future county services. The relationship (or differences) between governmental activities (reported in the Statement of Net Positions and the Statement of Activities) and governmental funds is reconciled in the financial statements.

- **Proprietary Funds:** The County of Sanders maintains one proprietary fund, it is an Enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The Sanders County Solid Waste Refuse Disposal District, being our one enterprise fund, provides refuse disposal and recycling services to the residents of Sanders County. Proprietary funds are reported using full accrual accounting the same accounting method used by the Statement of Net Positions and the Statement of Activities.

- **Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the governmental wide financial statements because the resources of those funds are not available to support the County's programs-services. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund and notes to the financial statements can be found in the Annual Report.

SANDERS COUNTY, MONTANA
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015

Sanders County, Montana
MD & A Comparisons
June 30, 2015

Table 1 - Net Position

	Governmental Activities			Business-type Activities		
	FY15	FY14	Change Inc (Dec)	FY15	FY14	Change Inc (Dec)
	Current and other assets	\$ 7,673,800	\$ 7,834,334	\$ (160,534)	\$ 547,535	\$ 612,463
Capital assets	11,073,277	11,251,985	(178,708)	619,792	573,711	46,081
Total assets	\$ 18,747,077	\$ 19,086,319	\$ (339,242)	\$ 1,167,327	\$ 1,186,174	\$ (18,847)
Long-term debt outstanding	\$ 1,361,984	\$ 1,262,080	\$ 99,904	\$ 159,815	\$ 142,882	\$ 16,933
Other liabilities	3,073,562	55,882	3,017,680	315,056	235	314,821
Total liabilities	\$ 4,435,546	\$ 1,317,962	\$ 3,117,584	\$ 474,871	\$ 143,117	\$ 331,754
Net investment in capital assets	\$ 10,823,756	\$ 11,020,246	\$ (196,490)	\$ 619,792	\$ 573,711	\$ 46,081
Restricted	3,970,739	4,338,275	(367,536)	-	-	-
Unrestricted (deficit)	(1,520,973)	2,409,836	(3,930,809)	16,171	469,346	(453,175)
Total net position	\$ 13,273,522	\$ 17,768,357	\$ (4,494,835)	\$ 635,963	\$ 1,043,057	\$ (407,094)

Table 2 - Changes in Net Position

	Governmental Activities			Business-type Activities		
	FY15	FY14	Change Inc (Dec)	FY15	FY14	Change Inc (Dec)
Revenues						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 853,022	\$ 974,490	\$ (121,468)	\$ 138,740	\$ 102,202	\$ 36,538
Operating grants and contributions	2,194,226	2,154,599	39,627	-	-	-
Capital grants and contributions	-	136,415	(136,415)	-	-	-
<i>General revenues (by major source):</i>						
Property taxes for general purposes	3,872,590	4,022,317	(149,727)	746,370	751,256	(4,886)
Liquor tax apportionment	2,650	4,150	(1,500)	-	-	-
Miscellaneous	173,894	209,099	(35,205)	4,228	18,765	(14,537)
Interest/investment earnings	22,071	21,274	797	-	1,197	(1,197)
PILT	304,144	329,947	(25,803)	-	-	-
State entitlement	1,002,479	942,575	59,904	-	-	-
Grants and entitlements not restricted to specific programs	156,255	97,999	58,256	-	-	-
Licenses and permits	10,050	15,056	(5,006)	-	-	-
Contributions & donations	16,460	11,108	5,352	-	-	-
Local option tax	355,381	346,588	8,793	-	-	-
Fire	7,500	24,000	(16,500)	-	-	-
State contributions to retirement	68,346	-	68,346	8,572	-	8,572
Total revenues	\$ 9,039,068	\$ 9,289,617	\$ (250,549)	\$ 897,910	\$ 873,420	\$ 24,490
Program expenses						
General government	\$ 2,349,731	\$ 2,214,119	\$ 135,612			
Public safety	2,307,154	2,151,876	155,278			
Public works	3,412,762	3,044,105	368,657			
Public health	385,457	332,713	52,744			
Social and economic services	406,290	371,463	34,827			
Culture and recreation	413,753	437,691	(23,938)			
Housing and community development	33,353	16,396	16,957			
Debt service - interest	5,354	2,713	2,641			
Internal services	500	-	500			
Miscellaneous	203,167	156,719	46,448			
Solid Waste				\$ 937,501	\$ 909,329	\$ 28,172
Total expenses	\$ 9,517,521	\$ 8,727,795	\$ 789,726	\$ 937,501	\$ 909,329	\$ 28,172
Excess (deficiency) before special items and transfers	(478,453)	561,822	(1,040,275)	(39,591)	(35,909)	(3,682)
Increase (decrease) in net position	\$ (478,453)	\$ 561,822	\$ (1,040,275)	\$ (39,591)	\$ (35,909)	\$ (3,682)

SANDERS COUNTY, MONTANA
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015

Net Position Analysis

By far the largest portion of the County's Net Positions are reflected in capital assets (e.g. land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Unrestricted Net Positions may be used to meet the government's ongoing obligations to citizens and creditors. The net position of both the government-wide and business-type funds decreased in the current year, \$4,494,835 and \$407,094, due in part to the implementation of GASB 68 and recognition of the net pension liability.

GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$9,517,521 as found in the Statement of Activities. Shown on the same statement, expenses for these activities were financed through taxes, charges for services which are costs being paid by those who directly benefited from these services and/or programs or by other governments and organizations that subsidized certain programs with operating grants, other revenues such as interest earnings, entitlement reimbursements, general contributions and other miscellaneous revenues along with remaining cash carryovers from the prior fiscal year.

Unreserved Fund Balance Analysis	<u>General</u>	<u>Road</u>	<u>Law Enforcement</u>
Unreserved Fund Balance – Prior Year	\$ 3,390,118	1,027,114	429,169
Unreserved Fund Balance – Current Year	3,436,742	1,075,565	434,089
Change in unreserved fund balance	46,624	48,451	4,920
% change in unreserved fund balance	1.4 %	4.7%	1.1%

BUSINESS TYPE ACTIVITIES

Enterprise Funds: The County owns and operates the Solid Waste Refusal Disposal District. The program provides disposal for wastes delivered to its central transfer station. The utility is supported by its users. The revenue, which supports this fund, is derived from three sources: 1) property owners are assessed a yearly fee of \$125, 2) interest earnings (which are slowly declining) and 3) miscellaneous revenues (e.g. recycling, non-typical waste disposal fees). The enterprise funds prime objective is to provide both disposal services to its residents and business and recycling opportunities. Under the direction of our current supervisor, the Solid Waste department is more organized and efficient and has increased the revenue for recycling and non-typical waste fees. High fuel prices and tipping fees have continued to affect fund balances. The unrestricted balance of the Solid Waste fund decreased in the current year due to the implementation on GASB 68, and recognizing the Net Pension Liability totaling \$303,156.

SANDERS COUNTY, MONTANA
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015

Unrestricted Net Positions:

	<u>Solid Waste</u>
Current Year	\$ 16,171
Prior Year	\$ 469,346
Change in unreserved retained earnings	(\$ 453,175)
% change in unreserved retained earnings	(96.5)%

CAPITAL ASSETS AND LONG-TERM DEBT

The capital assets of the County are those assets, which are used in the performance of the County's functions including infrastructure. In addition, debt is considered a liability of governmental activities both are reflected in the following charts noting that additional information can be obtained in the notes to the financial statements.

Long Term Debt

In FY 2015 Sanders County reduced its Intercap Loan debt by \$28,389. These funds were used for building improvements and the Sanders County Fairgrounds. Compensated absences balance increased to a total of \$373,887 for governmental funds, and \$34,341 for business type. The OPEB Governmental liability reported is \$864,050. Sanders County implemented GASB 68 and reported a net pension liability of \$2,868,880 in government-wide and \$303,156 in Solid Waste.

Capital Assets

In FY15, Sanders County's governmental fixed assets had a net change, additions to capital assets less depreciation, of \$178,708. During the year there were some new governmental machinery and equipment purchases totaling \$392,336 and some equipment was retired totaling \$15,300. The solid waste fund had an increase of \$116,800 in machinery and equipment. The overall net change in the solid waste fund's capital assets was \$46,800, additions and depreciation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The annual budget assures the efficient, effective and economic uses of the County's resources, as well as establishing that the highest priority objectives are accomplished. Through the budget, the County Board of Commissioners sets the direction of the County, while keeping in mind both the positive and negative events happening within Sanders County the Board is able to allocate its resources and establish its priorities.

SANDERS COUNTY, MONTANA
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015

Situations having a negative impact primarily on revenue, tax receipts, associated losses and services within Sanders County that come to mind are: 1) fluctuating utility prices 2) the rising costs of liability, health and workman compensation insurance premiums 3) Large forest fire season (two in one fiscal year); 4) the 2015 Department of Revenue property assessment, 5) the decrease in available Payment In Lieu of Taxes money as presented in the 2014 Legislature, and 6) the absence of Secure Rural School funding, 7) Collective Bargaining Agreement negotiations, 8) Aging buildings in need of maintenance and repairs on piping, elevators, roofing, etc., 9) The Larchwood South Shore Bridge failure was a huge initial expense for Sanders County, the County is hopeful to recoup some of the cost through litigation; 10) Sanders County had an unexpected cost of building a new courtroom for Justice Court.

At the time of this analysis, economic indicators have stabilized somewhat in Sanders County. The Board of Commissioners recognize that the indicators affecting Sanders County's economy can be attributed to: 1) gasoline and oil prices began to lower which positively impacted Public Safety, Roads, and Solid Waste 2) unemployment rates in FY 14-15 declined slightly from 8.0% in July, 2014 to an approximate level of 7.3% in June, 2015; Sanders County was still double the overall Montana State unemployment rate for 2015. 3) Tourism is a continuing part of our economy, providing the potential for increased sales to local business, snowmobile and ATV activities have increased; 4) various businesses opened and closed this FY. This information is difficult to track due to no county-wide permit system. Information will be available through the Department of Revenue as business owners file their taxes.

Capital expenditures for the coming fiscal year 2015-2016 include Sanders County will purchase a gravel pit in Plains and will purchase and develop a new transfer station for the Thompson Falls Solid Waste, additionally we continue to save towards the 2018 Federal Aviation Administration project at the Thompson Falls Airport. These capital expenditures will be funded by general or program revenues, grant funds, appropriations, and contributions.

Overall, we, the Board of Sanders County Commissioners feel hopeful about the County's finances and overall economy. Some of our positive indicators include the large addition to the Plains School, Quinn's Hot Springs is doing well and expanding, Thompson River Lumber has automated systems and expanded (the county still has an operating lumber mill), and Clark Fork Valley Hospital expanded services and providers. It is our goal to maintain and provide the services needed to the residents of Sanders County. We feel that by striving for a stable economy and reliable revenues, we may be able to effectively provide for our citizen's needs, now and in the future. We continue to work on funding projects in our county that will benefit our citizens, while being fiscally responsible.

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Sanders County
Thompson Falls, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sanders County, Montana, as of and for the Year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sanders County, Montana, as of and for the Year ended June 30, 2015, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB statement No. 68, *Accounting and financial Reporting for Pensions, (an amendment of GASB No. 27)*. 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, budgetary comparison information, schedule of funding for other post-employment benefits other than pensions, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 7, 52 through 55, 56, 57, and 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the Sanders County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sanders County, Montana's internal control over financial reporting and compliance.

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

March 28, 2016

This page intentionally left blank

Sanders County, Montana
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 7,400,732	\$ 367,735	\$ 7,768,467
Taxes and assessments receivable, net	140,291	179,800	320,091
Due from other governments	34,802	-	34,802
Inventories	97,975	-	97,975
Total current assets	<u>\$ 7,673,800</u>	<u>\$ 547,535</u>	<u>\$ 8,221,335</u>
Noncurrent assets			
Capital assets - land	\$ 1,845,432	\$ 54,440	\$ 1,899,872
Capital assets - construction in progress	241,376	-	241,376
Capital assets - depreciable, net	8,986,469	565,352	9,551,821
Total noncurrent assets	<u>\$ 11,073,277</u>	<u>\$ 619,792</u>	<u>\$ 11,693,069</u>
Total assets	<u>\$ 18,747,077</u>	<u>\$ 1,167,327</u>	<u>\$ 19,914,404</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - county contribution	252,147	22,535	274,682
Total deferred outflows of resources	<u>\$ 252,147</u>	<u>\$ 22,535</u>	<u>\$ 274,682</u>
LIABILITIES			
Current liabilities			
Warrants payable	\$ 789	\$ -	\$ 789
Accounts payable	118,526	235	118,761
Accrued payroll	57,814	11,665	69,479
Due to other governments	27,553	-	27,553
Current portion of long-term capital liabilities	85,582	-	85,582
Current portion of compensated absences payable	262,227	19,203	281,430
Total current liabilities	<u>\$ 552,491</u>	<u>\$ 31,103</u>	<u>\$ 583,594</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 738,576	\$ 125,474	\$ 864,050
Noncurrent portion of long-term capital liabilities	163,939	-	163,939
Noncurrent portion of compensated absences	111,660	15,138	126,798
Net pension liability	2,868,880	303,156	3,172,036
Total noncurrent liabilities	<u>\$ 3,883,055</u>	<u>\$ 443,768</u>	<u>\$ 4,326,823</u>
Total liabilities	<u>\$ 4,435,546</u>	<u>\$ 474,871</u>	<u>\$ 4,910,417</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	\$ 1,290,156	\$ 79,028	\$ 1,369,184
Total Deferred Inflows of resources	<u>\$ 1,290,156</u>	<u>\$ 79,028</u>	<u>\$ 1,369,184</u>
NET POSITION			
Net investment in capital assets	\$ 10,823,756	\$ 619,792	\$ 11,443,548
Restricted for special projects	3,970,739	-	3,970,739
Unrestricted	(1,520,973)	16,171	(1,504,802)
Total net position	<u>\$ 13,273,522</u>	<u>\$ 635,963</u>	<u>\$ 13,909,485</u>

See accompanying Notes to the Financial Statements

Sanders County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2015

Functions/Programs	Net (Expenses) Revenues and Changes in Net Position					
	Program Revenues		Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 2,349,731	\$ 140,220	\$ 142,735	\$ (2,066,776)	\$ -	\$ (2,066,776)
Public safety	2,307,154	347,946	276,337	(1,682,871)	-	(1,682,871)
Public works	3,412,762	146,279	1,526,169	(1,740,314)	-	(1,740,314)
Public health	385,457	-	224,875	(160,582)	-	(160,582)
Social and economic services	406,290	-	1,427	(404,863)	-	(404,863)
Culture and recreation	413,753	218,577	-	(195,176)	-	(195,176)
Housing and community development	33,353	-	22,683	(10,670)	-	(10,670)
Debt service - interest	5,354	-	-	(5,354)	-	(5,354)
Internal services	500	-	-	(500)	-	(500)
Miscellaneous	203,167	-	-	(203,167)	-	(203,167)
Total governmental activities	\$ 9,517,521	\$ 853,022	\$ 2,194,226	\$ (6,470,273)	\$ -	\$ (6,470,273)
Business-type activities:						
Solid Waste	\$ 937,501	\$ 138,740	\$ -	\$ -	\$ (798,761)	\$ (798,761)
Total primary government	\$ 10,455,022	\$ 991,762	\$ 2,194,226	\$ (6,470,273)	\$ (798,761)	\$ (7,269,034)
General Revenues:						
Property taxes for general purposes			\$ -	\$ 3,872,590	\$ 746,370	\$ 4,618,960
Liquor tax apportionment				2,650	-	2,650
Miscellaneous				173,894	4,228	178,122
Interest/investment earnings				22,071	-	22,071
PILT				304,144	-	304,144
State entitlement				1,002,479	-	1,002,479
Grants and entitlements not restricted to specific programs				156,255	-	156,255
Licenses and permits				10,050	-	10,050
Contributions & donations				16,460	-	16,460
Local option tax				355,381	-	355,381
Fire				7,500	-	7,500
State contributions to retirement				68,346	8,572	76,918
Total general revenues, special items and transfers			\$ -	\$ 5,991,820	\$ 759,170	\$ 6,750,990
Change in net position			\$ -	\$ (478,453)	\$ (39,591)	\$ (518,044)
Net position - beginning			\$ -	\$ 17,768,357	\$ 1,043,057	\$ 18,811,414
Restatements			\$ -	\$ (4,016,382)	\$ (367,503)	\$ (4,383,885)
Net position - beginning - restated			\$ -	\$ 13,751,975	\$ 675,554	\$ 14,427,529
Net position - end			\$ -	\$ 13,273,522	\$ 635,963	\$ 13,909,485

See accompanying Notes to the Financial Statements

Sanders County, Montana
Balance Sheet
Governmental Funds
June 30, 2015

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Current assets:					
Cash and investments	\$ 3,481,732	\$ 1,021,559	\$ 442,230	\$ 2,452,892	\$ 7,398,413
Taxes and assessments receivable, net	39,326	18,918	44,786	37,261	140,291
Due from other funds	47,129	-	-	1,931	49,060
Due from other governments	3,592	-	-	31,210	34,802
Inventories	-	54,675	-	43,300	97,975
Total assets	<u>\$ 3,571,779</u>	<u>\$ 1,095,152</u>	<u>\$ 487,016</u>	<u>\$ 2,566,594</u>	<u>\$ 7,720,541</u>
Current liabilities:					
Warrants payable	\$ 789	\$ -	\$ -	\$ -	\$ 789
Accounts payable	43,572	669	6,641	67,644	118,526
Accrued payroll	49,339	-	1,500	6,975	57,814
Due to other funds	-	-	-	49,060	49,060
Due to other governments	2,011	-	-	25,542	27,553
Total liabilities	<u>\$ 95,711</u>	<u>\$ 669</u>	<u>\$ 8,141</u>	<u>\$ 149,221</u>	<u>\$ 253,742</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	<u>\$ 39,326</u>	<u>\$ 18,918</u>	<u>\$ 44,786</u>	<u>\$ 37,261</u>	<u>\$ 140,291</u>
FUND BALANCES					
Nonspendable	\$ -	\$ 54,675	\$ -	\$ 43,000	\$ 97,675
Restricted	-	1,020,890	434,089	2,320,659	3,775,638
Committed	-	-	-	99,157	99,157
Unassigned fund balance	3,436,742	-	-	(82,704)	3,354,038
Total fund balance	<u>\$ 3,436,742</u>	<u>\$ 1,075,565</u>	<u>\$ 434,089</u>	<u>\$ 2,380,112</u>	<u>\$ 7,326,508</u>

See accompanying Notes to the Financial Statements

Sanders County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2015

Total fund balances - governmental funds	\$ 7,326,508
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,073,277
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	140,291
An internal service fund is used by management to charge the costs of providing services within the government. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets	2,319
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(1,361,984)
Proportionate share of ending collective net pension liability	(2,868,880)
Deferred outflows related to net pension liability	252,147
Deferred inflows related to net pension liability	(1,290,156)
Total net position - governmental activities	\$ <u><u>13,273,522</u></u>

See accompanying Notes to the Financial Statements

Sanders County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes and assessments	\$ 1,626,849	\$ 1,032,185	\$ 1,480,820	\$ 1,227,105	\$ 5,366,959
Licenses and permits	225	-	9,225	-	9,450
Intergovernmental	326,519	1,210,028	33,624	747,200	2,317,371
Charges for services	255,643	1,150	347,946	392,506	997,245
Fines and forfeitures	51,296	-	-	6,190	57,486
Miscellaneous	57,290	22,307	62,354	192,380	334,331
Investment earnings	20,101	-	-	1,979	22,080
Total revenues	<u>\$ 2,337,923</u>	<u>\$ 2,265,670</u>	<u>\$ 1,933,969</u>	<u>\$ 2,567,360</u>	<u>\$ 9,104,922</u>
EXPENDITURES					
General government	\$ 2,161,643	\$ 11,223	\$ -	\$ 48,970	\$ 2,221,836
Public safety	10,196	-	1,891,527	369,727	2,271,450
Public works	39,619	1,999,516	-	812,617	2,851,752
Public health	225,901	-	-	157,282	383,183
Social and economic services	153,062	-	-	253,228	406,290
Culture and recreation	-	-	-	376,501	376,501
Housing and community development	9,964	-	-	19,264	29,228
Debt service - principal	-	-	16,443	33,134	49,577
Debt service - interest	-	-	3,113	2,241	5,354
Internal services	-	-	-	500	500
Miscellaneous	-	-	-	248,030	248,030
Capital outlay	65,725	259,343	85,685	138,184	548,937
Total expenditures	<u>\$ 2,666,110</u>	<u>\$ 2,270,082</u>	<u>\$ 1,996,768</u>	<u>\$ 2,459,678</u>	<u>\$ 9,392,638</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (328,187)</u>	<u>\$ (4,412)</u>	<u>\$ (62,799)</u>	<u>\$ 107,682</u>	<u>\$ (287,716)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of general long term debt	\$ -	\$ -	\$ 67,359	\$ -	\$ 67,359
Proceeds from the sale of general capital asset disposition	\$ 25,000	\$ 19,863	\$ -	\$ -	\$ 44,863
Transfers in	832,811	33,000	-	-	865,811
Transfers out	(483,000)	-	-	(382,811)	(865,811)
Total other financing sources (uses)	<u>\$ 374,811</u>	<u>\$ 52,863</u>	<u>\$ 67,359</u>	<u>\$ (382,811)</u>	<u>\$ 112,222</u>
Net Change in Fund Balance	<u>\$ 46,624</u>	<u>\$ 48,451</u>	<u>\$ 4,560</u>	<u>\$ (275,129)</u>	<u>\$ (175,494)</u>
Fund balances - beginning	\$ 3,390,118	\$ 1,027,114	\$ 429,169	\$ 2,655,241	\$ 7,501,642
Restatements	-	-	360	-	360
Fund balances - beginning, restated	<u>\$ 3,390,118</u>	<u>\$ 1,027,114</u>	<u>\$ 429,529</u>	<u>\$ 2,655,241</u>	<u>\$ 7,502,002</u>
Fund balance - ending	<u>\$ 3,436,742</u>	<u>\$ 1,075,565</u>	<u>\$ 434,089</u>	<u>\$ 2,380,112</u>	<u>\$ 7,326,508</u>

See accompanying Notes to the Financial Statements

Sanders County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$ (175,494)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
- Capital assets purchased	548,937
- Depreciation expense	(727,645)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
- Long-term receivables (deferred revenue)	(136,519)
The change in compensated absences is shown as an expense in the Statement of Activities	(38,878)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
- Long-term debt principal payments	49,577
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:	
- Proceeds from the sale of long-term debt	(67,359)
- Post-employment benefits other than retirement liability	(43,244)
Internal service funds are used by management to share the costs of certain activities, to individual funds. The net revenue of the internal service funds is reported with the governmental activities of the Government-Wide Statement of Activities net of the amounts allocated to business-type activities and depreciation expense.	2,319
Pension expense related to the net pension liability is shown as an expense on the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance	(210,640)
State aid revenue related to the net pension liability is shown as a revenue on the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance	68,346
Current year contributions to retirement reclassified to deferred outflows	252,147
Change in net position - Statement of Activities	\$ <u>(478,453)</u>

See accompanying Notes to the Financial Statements

Sanders County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-Type Activities - Enterprise Fund		Internal Service Fund
	Solid Waste		
ASSETS			
Current assets:			
Cash and investments	\$ 367,735	\$	2,319
Taxes and assessments receivable, net	179,800		-
Total current assets	\$ 547,535	\$	2,319
Noncurrent assets:			
Capital assets - land	\$ 54,440	\$	-
Capital assets - depreciable, net	565,352		-
Total noncurrent assets	\$ 619,792	\$	-
Total assets	\$ 1,167,327	\$	2,319
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - county contribution	22,535		-
Total deferred outflows of resources	\$ 22,535	\$	-
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 235	\$	-
Accrued payroll	11,665		-
Current portion of compensated absences payable	19,203		-
Total current liabilities	\$ 31,103	\$	-
Noncurrent liabilities:			
Noncurrent portion of long-term liabilities	\$ 125,474	\$	-
Noncurrent portion of compensated absences	15,138		-
Net pension liability	303,156		-
Total noncurrent liabilities	\$ 443,768	\$	-
Total liabilities	\$ 474,871	\$	-
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	79,028		-
Total deferred inflows of resources	\$ 79,028	\$	-
NET POSITION			
Net investment in capital assets	\$ 619,792	\$	-
Unrestricted	16,171		2,319
Total net position	\$ 635,963	\$	2,319
Total liabilities and net position	\$ 1,110,834	\$	2,319

See accompanying Notes to the Financial Statements

Sanders County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	Business-Type Activities - Enterprise Fund		Internal Service Fund
	<u>Solid Waste</u>		
OPERATING REVENUES			
Charges for services	\$ 138,740	\$	-
Miscellaneous revenues	3,150		2,319
Special assessments	746,370		-
State contribution to retirement	8,572		-
Total operating revenues	<u>\$ 896,832</u>	<u>\$</u>	<u>2,319</u>
OPERATING EXPENSES			
Personal services	\$ 395,194	\$	-
Supplies	6,821		-
Purchased services	427,258		-
Fixed charges	14,425		-
Depreciation	93,803		-
Total operating expenses	<u>\$ 937,501</u>	<u>\$</u>	<u>-</u>
Operating income (loss)	<u>\$ (40,669)</u>	<u>\$</u>	<u>2,319</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	1,078		-
Total non-operating revenues (expenses)	<u>\$ 1,078</u>	<u>\$</u>	<u>-</u>
Income (loss) before contributions and transfers	<u>\$ (39,591)</u>	<u>\$</u>	<u>2,319</u>
Change in net position	<u>\$ (39,591)</u>	<u>\$</u>	<u>2,319</u>
Net Position - Beginning of the year	\$ 1,043,057	\$	-
Restatements	(367,503)		-
Net Position - Beginning of the year - Restated	<u>\$ 675,554</u>	<u>\$</u>	<u>-</u>
Net Position - End of the year	<u>\$ 635,963</u>	<u>\$</u>	<u>2,319</u>

See accompanying Notes to the Financial Statements

Sanders County, Montana
Combined Statement of Cash Flows
All Proprietary Fund Types
Fiscal Year Ended June 30, 2015

	Solid Waste	Internal services fund	Totals
Cash flows from operating activities:			
Cash received from providing services	\$ 907,905	\$ -	\$ 907,905
Cash received from miscellaneous sources	11,722	2,319	14,041
Cash payments to suppliers	35,247	-	35,247
Cash payments for professional services	(427,258)	-	(427,258)
Cash payments to employees	(430,943)	-	(430,943)
Net cash provided (used) by operating activities	\$ 96,673	\$ 2,319	\$ 98,992
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	\$ (139,884)	\$ -	\$ (139,884)
Net cash provided (used) by capital and related financing activities	\$ (139,884)	\$ -	\$ (139,884)
Cash flows from non-capital financing activities:			
Tax levies and contributions from the County	\$ -	\$ -	\$ -
Net cash provided (used) from non-capital financing activities	\$ -	\$ -	\$ -
Cash flows from investing activities:			
Interest on investments	\$ 1,078	\$ -	\$ 1,078
Net cash provided (used) by investing activities	\$ 1,078	\$ -	\$ 1,078
Net increase (decrease) in cash and cash equivalents	\$ (42,133)	\$ 2,319	\$ (39,814)
Cash and cash equivalents at beginning	409,868	-	409,868
Cash and cash equivalents at end	\$ 367,735	\$ 2,319	\$ 370,054
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (40,669)	\$ 2,319	\$ (38,350)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	93,803	-	93,803
Other post-employment benefits	14,415	-	14,415
Pension expense	(64,347)		
Changes in assets and liabilities:			
Increase in compensated absences	2,518	-	2,518
Increase in accrued wages	11,665	-	11,665
Net cash provided (used) by operating activities	\$ 96,673	\$ 2,319	\$ 163,339

See accompanying notes to the financial statements

Sanders County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2015

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$ 11,814,290	\$ 1,186,312
Total assets	<u>\$ 11,814,290</u>	<u>\$ 1,186,312</u>
LIABILITIES		
Warrants payable	\$ -	\$ 729,366
Due to others	-	456,946
Total liabilities	<u>\$ -</u>	<u>\$ 1,186,312</u>
NET POSITION		
Assets held in trust	<u>\$ 11,814,290</u>	

See accompanying Notes to the Financial Statements

Sanders County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2015

	<u>Investment Trust Funds</u>
ADDITIONS	
Contributions:	
Contributions to Investment Trust Fund	\$ 11,644,499
Investment earnings:	
Interest and change in fair value of investments	13,949
Total additions	<u>\$ 11,658,448</u>
DEDUCTIONS	
Distributions from investment trust fund	\$ 9,096,611
Change in net position	<u>\$ 2,561,837</u>
Net Position - Beginning of the year	\$ 10,936,930
Restatements	(1,684,477)
Net Position - Beginning of the year - Restated	<u>\$ 9,252,453</u>
Net Position - End of the year	<u><u>\$ 11,814,290</u></u>

See accompanying Notes to the Financial Statements

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Recent Accounting Pronouncements:

The Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for years beginning after June 15, 2014 (fiscal year ended June 30, 2015, for the County). The statement establishes accounting and financial reporting standards for the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan. The statement requires the liability of employers for defined benefit pensions to be measured as the portion of the present, value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position. The statement also requires employers to present, as required supplementary information, information about the changes in the net pension liability and the related ratios, including the plan's fiduciary net position as a percentage of total pension liability, and the net pension liability, as a percentage of covered-employee payroll. As a cost-sharing employer under this statement, the County is required to recognize a liability for its proportionate share of the net pension liability, and to recognize pension expense and report deferred outflows and deferred inflows. The County is further required to present as required supplementary information a 10- year schedule containing the net pension liability and certain related ratios, and information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios. The County adopted GASB Statement No. 68 in 2015 by retroactively restating financial statements for all periods presented.

Financial Reporting Entity

In determining the financial reporting entity, the County complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the County appointed a voting majority of the component units' board; the County is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the County complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the County.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Primary Government

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

Related Organizations

Related organizations are separate legal entities that are related to the primary government because the primary government officials appoint a voting majority of the board members. However, the primary government is not financially accountable because it does not have the ability to impose its will and there is not a potential financial benefit or burden relationship. The County has the following related organizations:

The Cemetery Districts are considered related organizations of the County because the County Commissioners appoint the board members of the districts. However, the County is not financially accountable for the districts because it does not have the ability to impose its will on the districts and there is not a potential financial benefit or burden relationship. The Cemetery Districts are included in the combined balance sheet as agency funds because the County Treasurer must collect and disburse funds for the districts.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The County generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

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

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

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

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

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

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

Major Funds:

The County reports the following major governmental funds:

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

Road Fund – This fund accounts for resources allocated by law, contractual agreement or administrative regulations for, and the payment of, road maintenance, road construction, and other road related costs.

Public Safety Fund – This fund accounts for resources allocated by law, contractual agreement, or administrative regulations for, and the payment of, law enforcement services, purchases, and other related costs.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

Proprietary Funds:

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

Major Funds:

The County reports the following major proprietary funds:

Solid Waste Fund – An enterprise fund that accounts for the activities of the County's solid waste service.

Fiduciary Funds

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

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

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

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2015, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 1,200
Cash in banks:	
Demand deposits	1,791,395
Savings deposits	9,191,863
Time deposits	<u>9,784,611</u>
Total	<u>\$ 20,769,069</u>

Credit Risk

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

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

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

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

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

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

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

The government has no investments that require credit risk disclosure.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2015 the government's bank balance was exposed to custodial credit risk as follows:

	June 30, 2015 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 1,000,000
- Collateral held by the pledging bank's trust department but not in the County's name.	<u>20,393,048</u>
Total deposits and investments	<u><u>\$ 21,393,048</u></u>

Deposit Security

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

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

The amount of collateral held for County deposits at June 30, 2015, equaled or exceeded the amount required by State statutes.

Investment in the Treasurer's Pools

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

The County has one pooled investment trust fund invested in non-negotiable certificates of deposit, savings accounts, and demand deposit accounts. The pooled funds are carried at cost, which approximates fair value.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2015 to support the value of the shares in the pool.

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

Investment Income

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

Condensed statements of investments pools

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2015.

Statement of Net Assets

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$ 7,165,080
Equity of external pool participants	<u>11,814,290</u>
Total equity	<u><u>\$ 18,979,370</u></u>

Condensed Statement of Changes in Net Assets

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 13,949	\$ 5,713
Contributions to trust	11,644,499	6,517,845
Distributions paid	<u>(9,096,611)</u>	<u>(6,809,969)</u>
Net change in net assets	\$ 2,561,837	\$ (286,411)
Net assets at beginning of year	10,936,930	8,498,734
Restatements	<u>(1,684,477)</u>	<u>(1,047,243)</u>
Net assets at end of year	<u><u>\$ 11,814,290</u></u>	<u><u>\$ 7,165,080</u></u>

Cash equivalents

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

NOTE 3. RECEIVABLES

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

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

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

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

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

NOTE 4. INVENTORIES AND PREPAIDS

The cost of inventories are recorded as an expenditure when purchased. Inventories are accounted for under the first in first out method.

NOTE 5. CAPITAL ASSETS

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

Buildings	40 years
Improvements	5 – 30 years
Equipment	5 – 10 years

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2015 Basic Financial Statements.

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

Governmental activities:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 1,845,432	\$ -	\$ -	\$ 1,845,432
Construction in progress	241,376	-	-	241,376
Total capital assets not being depreciated	<u>\$ 2,086,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,086,808</u>
Other capital assets:				
Buildings	\$ 2,596,142	\$ 156,601	\$ (15,300)	\$ 2,737,443
Improvements other than buildings	8,876,105	-	-	8,876,105
Machinery and equipment	8,257,084	392,336	-	8,649,420
Total other capital assets at historical cost	<u>\$ 19,729,331</u>	<u>\$ 548,937</u>	<u>\$ (15,300)</u>	<u>\$ 20,262,968</u>
Less: accumulated depreciation	<u>\$ (10,564,154)</u>	<u>\$ (727,645)</u>	<u>\$ 15,300</u>	<u>\$ (11,276,499)</u>
Total	<u>\$ 11,251,985</u>	<u>\$ (178,708)</u>	<u>\$ -</u>	<u>\$ 11,073,277</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:

General government	\$ 40,049
Public safety	82,934
Public works	561,010
Public Health	2,274
Culture and recreation	37,252
Housing and community development	4,125
Total governmental activities depreciation expense	<u>\$ 727,645</u>

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

Business-type activities:

	Balance July 1, 2014	Additions	Balance June 30, 2015
Capital assets not being depreciated:			
Land	\$ 54,440	\$ -	\$ 54,440
Total capital assets not being depreciated	<u>\$ 54,440</u>	<u>\$ -</u>	<u>\$ 54,440</u>
Other capital assets:			
Buildings	\$ 398,473	\$ -	\$ 398,473
Improvements other than buildings	1,499	23,084	24,583
Machinery and equipment	1,457,571	116,800	1,574,371
Total other capital assets at historical cost	<u>\$ 1,857,543</u>	<u>\$ 139,884</u>	<u>\$ 1,997,427</u>
Less: accumulated depreciation	<u>\$ (1,338,271)</u>	<u>\$ (93,804)</u>	<u>\$ (1,432,075)</u>
Total	<u>\$ 519,272</u>	<u>\$ 46,080</u>	<u>\$ 565,352</u>

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

NOTE 6. LONG TERM DEBT OBLIGATIONS

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

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2015, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance				Balance June 30, 2015	Due Within One Year
	July 1, 2014	Additions	Deletions	Restatements		
Contracted debt	\$ 14,954	\$ -	\$ (4,745)	\$ -	\$ 10,209	\$ 4,982
Compensated absences	335,009	38,878	-	-	373,887	262,227
Intercap loans	164,464	-	(28,389)	-	136,075	29,443
Capital leases	52,321	67,359	(16,443)	-	103,237	51,157
Net Pension Liability**	-	-	(1,147,862)	4,016,742	2,868,880	-
Other post-employment benefits*	695,332	43,244	-	-	738,576	-
Total	\$ 1,262,080	\$ 149,481	\$ (1,197,439)	\$ 4,016,742	\$ 4,230,864	\$ 347,809

*See Note 7

** See Note 9

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

Business-type Activities:

	Balance				Balance June 30, 2015	Due Within One Year
	July 1, 2014	Additions	Deletions	Restatements		
Compensated absences	\$ 31,823	\$ 2,518	\$ -	\$ -	\$ 34,341	\$ 19,203
Net Pension Liability**	-	-	(64,347)	367,503	303,156	-
Other post-employment benefits*	111,059	14,415	-	-	125,474	-
Total	\$ 142,882	\$ 16,933	\$ (64,347)	\$ 367,503	\$ 462,971	\$ 19,203

*See Note 7

** See Note 9

Loans/Contracted Debt

Loans/contracted debts outstanding as of June 30, 2015 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2015
Utility Tractor	8/7/12	4.25%	58 mths	6/20/17	\$ 24,018	\$ 10,209

(1) Reported in the governmental activities.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

Annual requirement to amortize debt:

For Fiscal		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 4,982	\$ 432
2017	5,227	221
Total	<u>\$ 10,209</u>	<u>\$ 653</u>

Intercap Loans

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

Intercap loans outstanding as of June 30, 2015 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2015</u>
Fairgrounds Area Holding Pens Upgrade Concession Stand/ Fairgrounds Imp Draws 1-2	7/11/08	1-4.25%	10 yrs	8/15/18	\$ 140,941	\$ 55,525
Total					<u>\$ 281,497</u>	<u>\$ 136,075</u>

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

For Fiscal		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 29,443	\$ 1,266
2017	30,241	971
2018	31,070	672
2019	22,410	371
2020	14,772	185
2021	8,139	37
Total	<u>\$ 136,075</u>	<u>\$ 3,502</u>

Capital Leases

The County has entered into a several leases which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2015 were as follows:

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2015</u>
2014 Ford Explorer/Interceptor	3/7/14	5.95%	4 yrs	3/7/17	\$ 71,877	\$ 35,878
2015 Ford Expedition	12/23/14	5.95%	4 yrs	12/23/17	<u>67,359</u>	<u>67,359</u>
Total					<u>\$ 139,236</u>	<u>\$ 103,237</u>

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	51,157	5,052
2017	34,783	3,099
2018	<u>17,297</u>	<u>1,029</u>
Total	<u>\$ 103,237</u>	<u>\$ 9,180</u>

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the County's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from County service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post-Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

Funding Policy. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Funding Status and funding Progress. The funded status of the plan as of June 30, 2013, was as follows:

Actuarial Accrued Liability (AAL)	\$	864,050
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	864,050
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	3,403,786
UAAL as a percentage of covered payroll		25.38%

Annual OPEB Cost and Net OPEB Obligation. The government's annual other employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

Annual Required Contribution (ARC)	\$	151,702
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	151,702
Contributions made	\$	-
Increase in net OPEB obligation	\$	57,659
Net OPEB obligation - beginning of year	\$	806,931
Net OPEB obligation - end of year	\$	864,050

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Actuarial Methods and Assumptions. The following actuarial methods and assumptions were used:

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	2.00%
Average salary increase (Consumer Price Index)	2.80%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	
<u>Year</u>	<u>% Increase</u>
2016	6.20%
2017	6.00%
2018	6.40%
2019	6.80%
2020	6.90%
2021	6.70%
2022 and after	6.90%

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2015, was as follows:

Purpose	Receivable Fund	Payable Fund	Amount
To cover negative cash balance	General Fund -- Major Governmental	Sanders County Coalition -- Nonmajor Governmental	\$ 158
To cover negative cash balance	General Fund -- Major Governmental	Eurasian Watermilfoil -- Nonmajor Governmental	477
This was a previous negative balance	General Fund -- Major Governmental	Law Enforcement Block -- Nonmajor Governmental	20,817
This was a previous negative balance	General Fund -- Major Governmental	Special Projects -- Nonmajor Governmental	9,936
To cover negative cash balance	General Fund -- Major Governmental	Public Health Grant -- Nonmajor Governmental	675
This was a previous negative balance	General Fund -- Major Governmental	WIC -- Nonmajor Governmental	997
To cover negative cash balance	General Fund -- Major Governmental	CDBG -- Nonmajor Governmental	14,069
To cover a negative cash balance	Special Projects -- Nonmajor Governmental	CDBG -- Nonmajor Governmental	<u>1,931</u>
Total			<u>\$ 49,060</u>

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2015:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Budgeted Transfer to support operations	General Fund – Major Governmental	**PILT Fund– Major Governmental	\$ 450,000
Budgeted Transfer to support operations	General Fund – Major Governmental	Permissive Medical Levy Fund– Nonmajor Governmental	382,811
Budgeted Transfer to support operations	Road Fund – Major Governmental	**PILT Fund – Major Governmental	<u>33,000</u>
Total			<u>\$ 865,811</u>

**Reported with General Fund as part of GASB 54 requirement.

NOTE 9. NET PENSION LIABILITY

Plan Descriptions

PERS

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

SRS

The Sheriffs' Retirement System (SRS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

PERS

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months; Hired on or after July 1, 2011 -- highest average compensation during any consecutive 60 months; Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011: Age 60, 5 years of membership service;
Age 65, regardless of membership service;
or Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.
Vesting
5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

- 3% for members hired prior to July 1, 2007
 - 1.5% for members hired on or after July 1, 2007
- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

*At this time, as a result of permanent injunction issued in the *AMRPE vs State* litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

SRS

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months; Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months. Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit

20 years of membership service, regardless of age.

Early Retirement

Age 50, 5 years of membership service, actuarially reduced.

Vesting

5 years of membership service

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Total number of members (employees) covered by benefit terms as of June 30, 2015:

- Active plan members: 1,336
- Inactive members entitled to but not yet receiving benefits or a refund: Vested: 81
Non-vested: 342
- Inactive members and beneficiaries currently receiving benefits: Service
Retirements: 523
Disability Retirements: 32
Survivor Benefits: 22

Overview of Contributions

PERS

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
 - a. Local government entities are required to contribution 8.17% of members' compensation.
 - b. School district employers contributed 7.90% of members' compensation.
 - c. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
 - d. Effective July 1, 2013, the additional employer contributions for DCRP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
 - e. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

4. Non Employer Contributions
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes from the Coal Tax Severance fund

SRS

1. Rates are specified by state law for periodic employer and employee contributions.
The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system
 - i. Plan members are required to contribute 9.245% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
3. Employer contributions to the system:
 - i. The employers are required to contribute 9.825% of members' compensation.
 - ii. Effective July 1, 2013, employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Stand-Alone Statements

The PERS and SRS stand-alone financial statements, actuarial valuations and experience studies can be found online at <http://mpera.mt.gov/annualReports.shtml> and <http://mpera.mt.gov/actuarialValuations.asp>.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System(PERS) and Sheriffs' Retirement System (SRS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS and SRS that are used to provide pension benefits to the retired members. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

	<u>PERS NPL as of 6/30/13</u>	<u>PERS NPL as of 6/30/14</u>	<u>Percent of Collective NPL</u>	<u>SRS NPL as of 6/30/13</u>	<u>SRS NPL as of 6/30/14</u>	<u>Percent of Collective NPL</u>	<u>Total NPL as of 6/30/13</u>	<u>Total NPL as of 6/30/14</u>	<u>Percent of Collective NPL</u>
Employer Proportionate Share	\$ 3,500,596	\$ 2,720,291	0.2183%	\$ 1,159,162	451,745	1.0855%	\$ 4,659,758	\$ 3,172,036	1.3038%
State of Montana Proportionate Share associated with Employer	42,748	33,219	0.2773%	-	-	0.0000%	42,748	33,219	0.2773%
Total	<u>\$ 3,543,344</u>	<u>\$ 2,753,510</u>	<u>0.4957%</u>	<u>\$ 1,159,162</u>	<u>451,745</u>	<u>1.0855%</u>	<u>\$ 4,702,506</u>	<u>\$ 3,205,255</u>	<u>1.5811%</u>

At June 30, 2015, the employer recorded a liability of \$3,172,036 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS and SRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS and SRS participating employers. At June 30, 2014, the employer's proportion was 1.3038 percent.

Changes in actuarial assumptions and methods:

PERS

There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability for PERS.

SRS

Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to experience are reported this year. The plan did report a change in assumption because there was an increase in the discount rate resulting in a decrease in the Liability. There were no other changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

Pension Expense as of 6/30/14

	<u>PERS</u>	<u>SRS</u>	<u>Total</u>
Proportionate Share	\$ 131,735	\$ 25,239	\$ 156,974
State of Montana Proportionate Share associated with the Employer	76,918	-	76,918
Total	\$ 208,653	\$ 25,239	\$ 233,892

At June 30, 2015, the employer recognized a Pension Expense of \$156,974 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$76,918 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for the employers FY 2014 contributions of \$274,682.

Deferred Inflows and Outflows

At June 30, 2015, the employer reported its proportionate share of PERS and SRS deferred outflows of resources and deferred inflows of resources related to PERS and SRS from the following sources:

	<u>PERS Deferred Outflows of Resources</u>	<u>PERS Deferred Inflows of Resources</u>	<u>SRS Deferred Outflows Resources</u>	<u>SRS Deferred Inflows of Resources</u>	<u>Total Deferred Outflows of Resources</u>	<u>Total Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ -	\$ -	\$ -	\$ -	-
Changes in actuarial assumptions	-	-	-	460,947	-	460,947
Difference between projected and actual investment earnings	-	702,878	-	199,098	-	901,976
Difference between actual and expected contributions	-	6,261	-	-	-	6,261
Changes in proportion	-	-	-	-	-	-
*Contributions paid subsequent to the measurement date - FY 2015 Contributions	202,213	-	72,469	-	274,682	-
Total	\$ 202,213	\$ 709,139	\$ 72,469	\$ 660,045	\$ 274,682	\$ 1,369,184

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Inflows and Outflows

PERS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	\$ -	\$ 177,807	\$ (177,807)
2017	\$ -	\$ 177,807	\$ (177,807)
2018	\$ -	\$ 177,807	\$ (177,807)
2019	\$ -	\$ 175,720	\$ (175,720)
2020	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

SRS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016		\$ 126,599	\$ (126,599)
2017		\$ 126,599	\$ (126,599)
2018		\$ 126,599	\$ (126,599)
2019		\$ 126,599	\$ (126,599)
2020		\$ 76,825	\$ (76,825)
Thereafter		\$ 76,825	\$ (76,825)

Actuarial Assumptions

PERS and SRS

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases - PERS 0% to 6%
- Merit Increases – SRS 0% to
- Investment Return 7.75%
- Postretirement Benefit Increases
 - 3% for members hired **prior to** July 1, 2007
 - 1.5% for members hired **on or after** July 1, 2007

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

PERS

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

SRS

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

*At this time as a result of permanent injunction issued in the *AMRPE vs State* litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

PERS and SRS

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated.

For PERS, the State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly.

Target Allocations

PERS and SRS

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%
Total	100.00%	

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease -6.75%	Current Discount Rate	1.0% Increase -8.75%
PERS	\$ 4,327,702	\$ 2,720,291	\$ 1,364,597
SRS	\$ 950,764	\$ 451,745	\$ 39,901

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

MPERA (for PERS and SRS) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

NOTE 10. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

The Entity offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all Entity employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	\$ 54,675	Inventories
All Other	<u>43,000</u>	Inventories
Aggregate		
Total	\$ <u>97,675</u>	

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 1,020,890	Road maintenance
Public Safety	434,089	Law enforcement
All Other Aggregate	642,364	Local conservation and maintenance
	593,973	Public Healthcare
	338,333	Employee benefits
	229,035	Law enforcement
	140,651	Road maintenance
	101,426	Airport services
	98,819	Bridge maintenance
	97,927	Community development
	67,497	Weed control
	9,217	Public library
	<u>1,417</u>	Miscellaneous
Total Restricted	\$ <u>3,775,638</u>	

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other	\$ 17,985	Capital Improvements
Aggregate	<u>81,172</u>	Library Improvements
Total	<u>\$ 99,157</u>	

NOTE 12. DEFICIT FUND BALANCES/NET POSITION

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
County Fair	\$ 3,359	The assets are not adequate to cover liabilities	Future tax and fair revenues
Coalition for Families	\$ 158	Outstanding payables and no assets available to cover these payables	Transfer from unrestricted fund
Eurasian Watermilfoil	\$ 40,096	Outstanding payables and no assets available to cover these payables	Future grant revenues
Law Enforcement Block Grant	\$ 20,817	Outstanding payables and no assets available to cover these payables	Transfers from unrestricted fund
CDBG	\$ 6,061	Outstanding payables and no assets available to cover these payables	Future grant revenues
Special Projects	\$ 8,005	The assets are not adequate to cover liabilities	Transfer from unrestricted fund
Miscellaneous Grant	\$ 675	Outstanding payables and no assets available to cover these payables	Transfer from unrestricted fund
Niarada Cemetery	\$ 3,353	Outstanding payables and no assets available to cover these payables	Transfer from unrestricted fund

NOTE 13. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Public Safety	\$ 360	Restate prior year due from other government
Government-Wide	(4,016,742)	Recognition of net pension liability
Solid Waste	<u>(367,503)</u>	Recognition of net pension liability
Total	<u>\$ (4,383,885)</u>	

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 14. JOINT VENTURES

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

County Library

The operations of the City-County Library are included in the financial statements of the Special Revenue Fund. The City-County Library District is operated under an interlocal agreement between Sanders County and the Town of Plains. The Library operates under the supervision and control of the City-County Library Board. The Board consists of five members, two who are appointed by the Town Council, two who are appointed by the County Board of Commissioners, and one who is appointed jointly by the Town Council and the County Board of Commissioners. The Library is financed through the Library District which can levy up to five mills.

NOTE 15. SERVICES PROVIDED TO OTHER GOVERNMENTS

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

NOTE 16. RISK MANAGEMENT

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

Insurance Policies:

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

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

Insurance Pools:

The County has joined with other Montana counties to form a self-insurance pool offering workers' compensation coverage. This pool, named the Montana Association of Counties Workers' Compensation Trust, has entered into an agreement with a private management firm to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The Counties do not exercise specific control over the budgeting and financing of the Trust's activities.

Separate audited financial statements are available from the Montana Association of Counties Workers' Compensation Trust.

The County has joined with 28 other Montana Counties to form a self-insurance pool offering liability and general insurance coverage. This pool, named the Montana Association of Counties Joint Powers Insurance Authority Trust, provides for property, liability, public officials errors and omissions, and crime coverage in the amount of \$50,000 each. The Trust also provides for additional coverage for the above areas through excess insurance lines for varying amounts. The Trust has entered into an agreement with a private insurance agency to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The counties do not exercise control over the budgeting and financing of the Trust's activities.

Separate audited financial statements are available from the Montana Association of Counties Joint Powers Insurance Trust.

NOTE 17. PENDING LITIGATION

The County Attorney has made no evaluation as to the outcome of each case.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
<i>Sanders County vs Muth Consulting Engineers, Sandry Construction, Gene Jopling</i>	Not Stated	Not Stated
<i>Sanders County vs. Troy Scribner, grievance</i>	Not Stated	Not Stated

NOTE 18. SUBSEQUENT EVENTS

Sanders County is in the process of purchasing the Bache Gravel Pit for a total cost of \$500,000. The County is waiting on a permit from DEQ, and plans to purchase the property through a note payable. The County will pay \$100,000 a year over the next five years. The gravel pit will be used by the Road Department to produce its own gravel used on County roads.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

The Thompson Falls Transfer Site lease is ending at the end of fiscal year 2016, and the County does not plan to renew the lease. The transfer site will be moved to a new property in the future as the County is currently looking to purchase property to build a transfer station. The County is currently contracted with Great West Engineers who is providing planning services to find grants, a site for the transfer station, and plans for building the facility. No construction has occurred to date, but is expected in future years.

The County had a pipe break and leak on the Election Systems machine damaging it. The insurance company refused to cover the costs of purchasing a new system. The determined to purchases a new Election Systems Scanner and software system to replace the damage equipment at a total cost of \$112,375.

This page intentionally left blank

**REQUIRED SUPPLEMENTAL
INFORMATION**

This page intentionally left blank

Sanders County, Montana
 Budgetary Comparison Schedule - Continued
 For the Fiscal Year Ended June 30, 2015

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 1,884,996	\$ 1,884,996	\$ 1,626,849	\$ (258,147)
Licenses and permits	7,600	7,600	225	(7,375)
Intergovernmental	34,986	44,986	22,375	(22,611)
Charges for services	170,268	170,268	255,643	85,375
Fines and forfeitures	66,600	66,600	51,296	(15,304)
Miscellaneous	74,050	74,050	57,290	(16,760)
Investment earnings	25,000	25,000	20,101	(4,899)
Amounts available for appropriation	<u>\$ 2,263,500</u>	<u>\$ 2,273,500</u>	<u>\$ 2,033,779</u>	<u>\$ (239,721)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 2,331,013	\$ 2,558,687	\$ 2,161,643	\$ 397,044
Public safety	42,072	42,072	10,196	31,876
Public works	-	-	39,619	(39,619)
Public health	244,847	255,409	225,901	29,508
Social and economic services	161,153	161,153	153,062	8,091
Housing and community development	10,000	10,000	9,964	36
Capital outlay	942,500	942,500	65,725	876,775
Total charges to appropriations	<u>\$ 3,731,585</u>	<u>\$ 3,969,821</u>	<u>\$ 2,666,110</u>	<u>\$ 1,303,711</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital asset disposition	\$ -	\$ 25,000	\$ 25,000	\$ -
Transfers in	-	-	832,811	832,811
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 857,811</u>	<u>\$ 832,811</u>
Net change in fund balance			<u>\$ 225,480</u>	
Fund balance - beginning of the year			<u>\$ 2,756,507</u>	
Fund balance - end of the year			<u>\$ 2,981,987</u>	

Sanders County, Montana
 Budgetary Comparison Schedule - Continued
 For the Fiscal Year Ended June 30, 2015

	Road			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 862,034	\$ 862,034	\$ 1,032,185	\$ 170,151
Intergovernmental	299,076	299,076	1,210,028	910,952
Charges for services	3,500	3,500	1,150	(2,350)
Miscellaneous	8,000	8,000	22,307	14,307
Amounts available for appropriation	<u>\$ 1,172,610</u>	<u>\$ 1,172,610</u>	<u>\$ 2,265,670</u>	<u>\$ 1,093,060</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 15,100	\$ 15,100	\$ 11,223	\$ 3,877
Public works	2,402,947	2,402,947	1,999,516	403,431
Capital outlay	330,000	345,976	259,343	86,633
Total charges to appropriations	<u>\$ 2,748,047</u>	<u>\$ 2,764,023</u>	<u>\$ 2,270,082</u>	<u>\$ 493,941</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital asset disposition	\$ -	\$ 20,339	\$ 19,863	\$ (476)
Transfers in	633,611	633,611	33,000	(600,611)
Total other financing sources (uses)	<u>\$ 633,611</u>	<u>\$ 653,950</u>	<u>\$ 52,863</u>	<u>\$ (601,087)</u>
Net change in fund balance			<u>\$ 48,451</u>	
Fund balance - beginning of the year			\$ 1,027,114	
Fund balance - end of the year			<u>\$ 1,075,565</u>	

Sanders County, Montana
 Budgetary Comparison Schedule - Continued
 For the Fiscal Year Ended June 30, 2015

	Public Safety			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 1,364,884	\$ 1,364,884	\$ 1,480,820	\$ 115,936
Intergovernmental	34,800	34,800	33,624	(1,176)
Charges for services	268,000	268,000	347,946	79,946
Miscellaneous	10,760	10,760	62,354	51,594
Amounts available for appropriation	<u>\$ 1,686,694</u>	<u>\$ 1,686,694</u>	<u>\$ 1,933,969</u>	<u>\$ 247,275</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Public safety	\$ 1,919,607	\$ 1,958,607	\$ 1,891,527	\$ 67,080
Debt service - principal	-	-	16,443	(16,443)
Debt service - interest	-	-	3,113	(3,113)
Capital outlay	49,000	10,000	85,685	(75,685)
Total charges to appropriations	<u>\$ 1,968,607</u>	<u>\$ 1,968,607</u>	<u>\$ 1,996,768</u>	<u>\$ (28,161)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of general long term debt	\$ -	\$ -	\$ 67,359	\$ 67,359
Proceeds from the sale of general capital asset disposition	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,359</u>	<u>\$ 67,359</u>
Net change in fund balance			<u>\$ 4,560</u>	
Fund balance - beginning of the year			<u>\$ 429,169</u>	
Fund balance - end of the year			<u>\$ 434,089</u>	

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

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

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>
Sources/Inflows of resources			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,033,779	\$ 2,265,670	\$ 1,933,969
Combined funds (GASBS 54) revenues	<u>304,144</u>		
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,337,923</u>	<u>\$ 2,265,670</u>	<u>\$ 1,933,969</u>
Uses/Outflows of resources			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,666,110	\$ 2,270,082	\$ 1,996,768
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,666,110</u>	<u>\$ 2,270,082</u>	<u>\$ 1,996,768</u>

**Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 850,762	\$ 850,762	0%	\$ 3,385,692	25.1%
July 1, 2012	\$ -	\$ 864,050	\$ 864,050	0%	\$ 3,403,786	25.4%

Sanders County, Montana
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2015

	<u>PERS</u>	<u>SRS</u>
	<u>2015</u>	<u>2015</u>
Employer's proportion of the net pension liability	\$ 2,720,291	\$ 451,745
Employer's proportionate share of the net pension liability associated with the Employer	0.218320%	1.08548%
State of Montana's proportionate share of the net pension liability associated with the Employer	33,219	-
Total	<u>\$ 2,753,510</u>	<u>\$ 451,745</u>
Employer's covered-employee payroll	<u>\$ 2,471,378</u>	<u>\$ 702,009</u>
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	110.072%	64.35%
Plan fiduciary net position as a percentage of the total pension liability	79.9%	87.2%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Sanders County, Montana
Required Supplementary Information
Schedule of Contributions
For the Year Ended June 30, 2015

Schedule of Contributions	<u>PERS</u> <u>2015</u>	<u>SRS</u> <u>2015</u>
Contractually required contributions	\$ 202,902	\$ 72,611
Contributions in relation to the contractually required contributions	\$ 202,902	\$ 72,611
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 2,471,378	\$ 702,009
Contributions as a percentage of covered-employee payroll	8.210%	10.343%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Sanders County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2015

Public Employees' Retirement System of Montana(PERS)

Changes of assumptions:

Assumptions related to future member contribution rates have been updated based on revised projections, which incorporate Plan experience over the year ending on the valuation date.

Assumptions related to the Guaranteed Annual Benefit Adjustment (GABA) for members hired on or after July 1, 2013 have been added, given new guidance on the GABA applicable to these members.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Inflation	3 percent
Rate of Increase in Total Payroll	4 percent
Investment rate of return	7.75 percent

Sheriffs' Retirement System of Montana (SRS)

Changes of assumptions: None

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Inflation	3 percent
Rate of Increase in Total Payroll	4 percent
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

This page intentionally left blank

SINGLE AUDIT SECTION

This page intentionally left blank

Sanders County, Montana
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditure June 30, 2015</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed through Montana Department of Health and Human Services:</i>			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	14-07-5-21-017-0	\$ 22,919
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	15-07-5-21-017-0	42,140
<i>Passed through Montana State Auditor's Office:</i>			
School's and Roads - Grant to States	10.665	N/A	1,260,950
<i>Passed through Montana Department of Agriculture:</i>			
Forest Health Protection	10.680	MDA 2013-707	2,111
Forest Health Protection	10.680	MDA 2014-703	13,223
Total U.S. Department of Agriculture			\$ 1,341,343
<u>U.S. Department of Housing and Urban Development</u>			
<i>Montana Department of Commerce</i>			
Community Development Block Grant	14.228	MT-CDBG-13PL-19	10,000
Community Development Block Grant	14.228	MT-CDBG-EDPG14-01	16,000
Total U.S. Department of Housing and Urban Development			26,000
<u>U.S. Department of Justice</u>			
<i>Passed through Sanders County Coalition for Families</i>			
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Progra	16.589	OVM-2013-3396	\$ 67,399
<i>Direct</i>			
Public Safety Partnership and Community Policing Grants	16.710	2011UMWX0110	25,027
Total U.S. Department of Justice			\$ 92,426
<u>U.S. Department of Transportation</u>			
<i>Passed through Montana Department of Transportation:</i>			
Highway Planning and Construction	20.205	7866	2,744
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	CTS-107355	10,974
<i>Passed through Montana Sheriffs and Peace Officers Association:</i>			
State and Community Highway Safety	20.600	N/A	493
Total U.S. Department of Education			\$ 14,211
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through Montana Department of Health and Human Services:</i>			
Public Health Emergency Preparedness	93.069	15-07-6-11-047-0	\$ 34,938
Immunization Cooperative Agreements	93.268	15-07-4-31-141-0	3,412
PPHF Capacity Building Assistance to Strengthen Public Health Immunization			
Infrastructure and Performance Financed in part by Prevention and Public Health Funds	93.539	14-07-4-31-177-0	6,300
Maternal and Child Health Services Block Grant to States	93.994	15-07-5-01-045-0	8,468
Maternal and Child Health Services Block Grant to States	93.994	14-07-5-01-045-0	2,352
Total U.S. Department of Justice			\$ 55,470
<u>U.S. Department of Homeland Security</u>			
<i>Passed through Montana Department of Military Affairs:</i>			
Disaster Grants - Public Assistance	97.036	FEMA-4172-DR-MT	67,028
Emergency Management Performance Grants	97.042	EMW-2013-EP-00044-S01	9,455
Emergency Management Performance Grants	97.042	N/A	12,591
Total U.S. Department of Justice			\$ 89,074
Total Federal Financial Assistance			\$ 1,618,524

SANDERS COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2015

Basis of Presentation

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

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

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

**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**

Board of County Commissioners
Sanders County
Thompson Falls, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sanders County, Montana, as of and for the Year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Sanders County's basic financial statements and have issued our report thereon dated March 28, 2016.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies listed as item 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sanders County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-002.

Sanders County's Response to Findings

Sanders County's response to the findings identified in our audit is described in the Auditee's Response to Findings. Sanders County's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

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

March 28, 2016

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

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

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

Board of County Commissioners
Sanders County
Thompson Falls, Montana

Report on Compliance for Each Major Federal Program

We have audited Sanders County, Montana's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Sanders County's major federal programs for the Year ended June 30, 2015. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Sanders County, Montana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the Year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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.

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

March 28, 2016

SANDERS COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No

Identification of major programs:

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Section II – Financial Statement Findings

2015-001 Inventory Balances

Condition:

The County's reported inventory in the Road and Weed funds have not been adjusted since fiscal year ending June 30, 2013. The reported inventories were determined to be misstatements in the Road fund \$53,420, the Weed fund \$1,473, and the Bridge fund \$3,156 as the amounts reported were not update for inventory at June 30, 2015.

Context:

During substantive testing of the County's inventory balances using inquiry and analyticals, we found that the County inventory balances had remained the same over the last couple of years.

Criteria:

The County recognizes inventory under the purchase method which requires inventories to be recorded as an expense when purchased, and then at year-end determine the value of the inventory on hand and record as an asset. Once the inventory has been used it is expensed.

Effect:

The value of the inventory at June 30, 2015 is unknown, and the inventory balances reported were determined to be misstated in the Road, Weed, and Bridge funds.

Cause:

The County does not have controls in place requiring departments to determine their inventory values at the end of the year to determine the adjustments needed.

Recommendation:

We recommend that the County require the Road, Weed, and Bridge departments perform physical inventory counts at the end of the year, and report those counts to the Clerk and Recorder's office so they can adjust the accounting records

Auditee Response:

The County plans to perform physical inventory counts at the end of the year, and report those counts to the Clerk and Recorder's office so the accounting records can be adjusted.

2015-002 Exceeding Budget Authority

Condition:

The County exceeded its budgetary authority in the following funds during fiscal year 2015:

- Road Fund: \$106,059
- Public Safety Fund: \$28,161
- Sanders County Coalition for Families Fund: \$13,570
- PILT Fund: \$1,083,000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Context:

During our review of the County budget's we found that the County exceeded its budgets in multiple funds during fiscal years 2015. Per further review we did not find any budget amendments indicating an increase in budgetary authority.

Criteria:

MCA 7-6-4005 states "Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund. A local government official who violates subsection is liable for the amount of the excess disbursement, expenditure, or obligation personally. The subsequent claims approval process may not be considered as the making of a disbursement or an expenditure or as incurring an obligation and does not otherwise limit or mitigate the local government official's personal liability."

Effect:

The County is not in compliance with the laws and regulations of the budgets (MCA 7-6-4005).

Cause:

Inadequate monitoring of budgeted expenditures compared to actual expenditures.

Recommendation:

1) We recommend the County monitor the actual expenditures monthly, quarterly, or semi-annual, 2) We recommend that if a fund is expected to exceed its budget to take the appropriate measures (budget amendments) to account for increase in budget.

Auditee Response:

The County plans to address the issues by requiring department heads to be more accountable for budgets, and the clerk and recorder/commissioners being more active in monitoring budgets.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

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

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

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of County Commissioners
Sanders County
Thompson Falls, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
2014-1 Trust Account and Receipts	Implemented
2014-2 Dual Signatures on Treasurers Checks	Implemented
2014-3 Sheriff's Office	Implemented
2014-4 Exceed Mill Levy Limitations	Implemented

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

March 28, 2016