

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

**AUDIT REPORT**

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

# SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

## TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-8
Independent Auditor's Report	9-11
<b>Financial Statements</b>	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	12
Statement of Activities	13
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Position – Proprietary Fund Types	18
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund Types	19
Statement of Cash Flows – Proprietary Fund Types	20
Statement of Net Position – Fiduciary Fund Types	21
Statement of Changes in Net Position – Fiduciary Fund Types	22
Notes to Financial Statements	23-55
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule	56-59
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	60
Schedule of Changes in the Entity's Total OPEB Liability and Related Ratios	61
Schedule of Proportionate Share of the Net Pension Liability	62
Schedule of Contributions	63
Notes to Required Pension Supplementary Information	64-67
<b>Single Audit Section</b>	
Schedule of Expenditures of Federal Awards	68
Notes to the Schedule of Expenditures of Federal Awards	69

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	70-71
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 Uniform Guidance	72-73
Schedule of Findings and Questioned Costs	74-75
Report on Prior Audit Recommendations	76
Corrective Action Plan	77

SANDERS COUNTY, MONTANA  
**ORGANIZATION**

Fiscal Year Ended June 30, 2016

**BOARD OF COUNTY COMMISSIONERS**

Glen Megera  
Carol Brooker  
Anthony Cox

Commissioner  
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

SANDERS COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS

Our discussion and analysis of Sanders County's financial performance provides an overview of Fiscal Year 2015-16 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 2016-17, the property reassessment projections will stabilize due to the DOR reassessment every two years instead of every six years. In addition, there should be approximately 675 new homes added to the Sanders County tax rolls.**
- ❖ **Pilt payments were fully funded this FY. There is dire 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.**
- ❖ **The County purchased a gravel pit and will begin crushing gravel.**
- ❖ **The County is in the process of moving the Solid Waste Transfer Site to a piece of County owned property.**

### **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 Asset 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 Position and changes in them. Net Position 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.

- **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 Position 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 Position 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.

# Condensed Final Statements

Sanders County, Montana  
MD & A Comparisons  
June 30, 2016

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY16</u>	<u>FY15</u>	<u>Change Inc (Dec)</u>	<u>FY16</u>	<u>FY15</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 8,342,982	\$ 7,925,947	\$ 417,035	\$ 580,096	\$ 570,070	\$ 10,026
Capital assets	11,501,603	11,073,277	428,326	726,396	619,792	106,604
Total assets	\$ 19,844,585	\$ 18,999,224	\$ 845,361	\$ 1,306,492	\$ 1,189,862	\$ 116,630
Long-term debt outstanding	\$ 1,106,176	\$ 1,361,984	\$ (255,808)	\$ 141,014	\$ 159,815	\$ (18,801)
Other liabilities	4,840,521	4,363,718	476,803	248,597	394,084	(145,487)
Total liabilities	\$ 5,946,697	\$ 5,725,702	\$ 220,995	\$ 389,611	\$ 553,899	\$ (164,288)
Net investment in capital assets	\$ 10,832,795	\$ 10,823,756	\$ 9,039	\$ 625,361	\$ 619,792	\$ 5,569
Restricted	3,779,759	3,970,739	(190,980)	-	-	-
Unrestricted (deficit)	(714,666)	(1,520,973)	806,307	291,520	16,171	275,349
Total net position	\$ 13,897,888	\$ 13,273,522	\$ 624,366	\$ 916,881	\$ 635,963	\$ 280,918

**Sanders County, Montana**  
**MD & A Comparisons**  
**June 30, 2016**

**Table 2 - Changes in Net Position**

	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b><u>FY16</u></b>	<b><u>FY15</u></b>	<b><u>Change Inc (Dec)</u></b>	<b><u>FY16</u></b>	<b><u>FY15</u></b>	<b><u>Change Inc (Dec)</u></b>
<b>Revenues</b>						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 823,287	\$ 853,022	\$ (29,735)	\$ 163,598	\$ 138,740	\$ 24,858
Operating grants and contributions	1,964,877	2,194,226	(229,349)	-	-	-
Capital grants and contributions	50,951	-	50,951	-	-	-
<i>General revenues (by major source):</i>						
Property taxes for general purposes	4,225,998	3,872,590	353,408	732,251	746,370	(14,119)
Liquor tax apportionment	4,375	2,650	1,725	-	-	-
Miscellaneous	205,942	173,894	32,048	1,500	4,228	(2,728)
Interest/investment earnings	17,742	22,071	(4,329)	855	-	855
PILT	359,505	304,144	55,361	-	-	-
State entitlement	1,016,844	1,002,479	14,365	-	-	-
Grants and entitlements not restricted to specific programs	60,413	156,255	(95,842)	-	-	-
Licenses and permits	6,400	10,050	(3,650)	-	-	-
Contributions & donations	14,855	16,460	(1,605)	-	-	-
Local option tax	375,923	355,381	20,542	-	-	-
Fire	3,500	7,500	(4,000)	-	-	-
State contributions to retirement	70,460	68,346	2,114	5,487	8,572	(3,085)
Total revenues	<u>\$ 9,201,072</u>	<u>\$ 9,039,068</u>	<u>\$ 162,004</u>	<u>\$ 903,691</u>	<u>\$ 897,910</u>	<u>\$ 5,781</u>
<b>Program expenses</b>						
General government	\$ 2,279,155	\$ 2,349,731	\$ (70,576)			
Public safety	2,278,957.00	2,307,154.00	(28,197.00)			
Public works	3,226,971.00	3,412,762.00	(185,791.00)			
Public health	408,558.00	385,457.00	23,101.00			
Social and economic services	368,942.00	406,290.00	(37,348.00)			
Culture and recreation	403,556.00	413,753.00	(10,197.00)			
Housing and community development	16,148.00	33,353.00	(17,205.00)			
Debt service - interest	9,207.00	5,354.00	3,853.00			
Internal services	-	500.00	(500.00)			
Miscellaneous	153,318.00	203,167.00	(49,849.00)			
Solid Waste				\$ 870,408	\$ 937,501	\$ (67,093)
Total expenses	<u>\$ 9,144,812</u>	<u>\$ 9,517,521</u>	<u>\$ (372,709)</u>	<u>\$ 870,408</u>	<u>\$ 937,501</u>	<u>\$ (67,093)</u>
Excess (deficiency) before special items and transfers	56,260	(478,453)	534,713	33,283	(39,591)	72,874
<b>Increase (decrease) in net position</b>	<u>\$ 56,260</u>	<u>\$ (478,453)</u>	<u>\$ 534,713</u>	<u>\$ 33,283</u>	<u>\$ (39,591)</u>	<u>\$ 72,874</u>



## 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 increased in the current year \$624,366 and \$280,918. The changes are mainly related to the implementation of GASB 75 – OPEB liabilities, and an updated assumption assuming only 10% of participation in post-employment benefits. This caused restatement of \$680,037 in the Government wide and \$121,067 in the business type.

## GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$9,144,812 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.

<b>Unreserved Fund Balance Analysis</b>	Law		
	<u>General</u>	<u>Road</u>	<u>Enforcement</u>
Unreserved Fund Balance – Prior Year	\$ 3,436,742	1,075,565	434,089
Unreserved Fund Balance – Current Year	3,656,519	791,702	404,824
Change in unreserved fund balance	(219,777)	(283,863)	(29,265)
% change in unreserved fund balance	6.39 %	26.39%	6.74%

## 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 prior year due to the implementation on GASB 68 in FY 2015, and recognizing the Net Pension Liability totaling \$221,507 as of FY16. This balance increased in the current year to \$291,520 mainly due to re allocation of NPL and restatement of OPEB liability.

## Unrestricted Net Position:

	<u>Solid Waste</u>
Current Year	\$ 291,520
Prior Year	\$ 16,171
Change in unreserved retained earnings	\$275,349
% change in unreserved retained earnings	170%

## 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 2016 Sanders County reduced its Intercap Loan debt by \$29,286. These funds were used for building improvements and the Sanders County Fairgrounds. Compensated absences balance decreased to a total of \$3,977 for governmental funds, and increased \$4,044 for business type. The OPEB liability reported is \$69,052. Sanders County implemented GASB 68 in FY 2015, the report net pension liability of \$3,961,507 in government-wide and \$221,507 in Solid Waste for the current year.

### Capital Assets

In FY16, Sanders County's governmental fixed assets had a net change, additions to capital assets less depreciation, of \$428,326. During the year there were some new governmental machinery and equipment purchases totaling \$918,444, including two new road graders, and some equipment was retired totaling \$133,600. The solid waste fund had an increase of \$147,364 in machinery and equipment. The overall net change in the solid waste fund's capital assets was \$106,604, 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.

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; 4) the decrease in available Payment In Lieu of Taxes money as presented in the 2014 Legislature, and 5) the uncertainty of Secure Rural School funding, 6) Collective Bargaining Agreement negotiations, 7) Aging buildings in need of maintenance and repairs on piping, elevators, roofing, etc.

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 lowered and stabilized which positively impacted Public Safety, Roads, and Solid Waste 2) unemployment rates in FY 15-16 declined slightly from 8.0% in July, 2015 to an approximate level of 7.3% in June, 2016; Sanders County was still double the overall Montana State unemployment rate for 2016. 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.

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 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, 2016, 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, 2016, 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 2016, the District adopted new accounting guidance, GASB statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, (an amendment of GASB No. 45). 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 8, 56 through 59, 60, 61 62, and 63 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 Title 2 U.S., *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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, 2017, 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, CPA's, P.C.*

March 28, 2017

**Sanders County, Montana**  
**Statement of Net Position**  
**June 30, 2016**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 7,180,590	\$ 387,487	\$ 7,568,077
Taxes and assessments receivable, net	113,180	160,490	273,670
Due from other governments	72,223	15,000	87,223
Inventories	195,658	-	195,658
Total current assets	<u>\$ 7,561,651</u>	<u>\$ 562,977</u>	<u>\$ 8,124,628</u>
Noncurrent assets			
Restricted cash and investments	\$ 500	\$ -	\$ 500
Capital assets - land	1,845,432	54,440	1,899,872
Capital assets - construction in progress	217,721	52,001	269,722
Capital assets - depreciable, net	9,438,450	619,955	10,058,405
Total noncurrent assets	<u>\$ 11,502,103</u>	<u>\$ 726,396</u>	<u>\$ 12,228,499</u>
Total assets	<u>\$ 19,063,754</u>	<u>\$ 1,289,373</u>	<u>\$ 20,353,127</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources	\$ 780,831	\$ 17,119	\$ 797,950
Total deferred outflows of resources	<u>\$ 780,831</u>	<u>\$ 17,119</u>	<u>\$ 797,950</u>
<b>LIABILITIES</b>			
Current liabilities			
Warrants payable	\$ 790	\$ -	\$ 790
Accounts payable	12,599	235	12,834
Accrued payroll	66,685	5,214	71,899
Due to other governments	25,490	-	25,490
Current portion of long-term capital liabilities	108,656	12,059	120,715
Current portion of compensated absences payable	260,255	19,382	279,637
Total current liabilities	<u>\$ 474,475</u>	<u>\$ 36,890</u>	<u>\$ 511,365</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 64,218	\$ 4,834	\$ 69,052
Noncurrent portion of long-term capital liabilities	560,152	88,976	649,128
Noncurrent portion of compensated absences	112,895	15,763	128,658
Net pension liability	3,961,507	221,507	4,183,014
Total noncurrent liabilities	<u>\$ 4,698,772</u>	<u>\$ 331,080</u>	<u>\$ 5,029,852</u>
Total liabilities	<u>\$ 5,173,247</u>	<u>\$ 367,970</u>	<u>\$ 5,541,217</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources	\$ 773,450	\$ 21,641	\$ 795,091
Total Deferred Inflows of resources	<u>\$ 773,450</u>	<u>\$ 21,641</u>	<u>\$ 795,091</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 10,832,795	\$ 625,361	\$ 11,458,156
Restricted for special projects	3,779,759	-	3,779,759
Unrestricted	(714,666)	291,520	(423,146)
Total net position	<u>\$ 13,897,888</u>	<u>\$ 916,881</u>	<u>\$ 14,814,769</u>

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenues and Changes in Net Position</u>		
	<u>Indirect Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,339,155	147,376	\$ 150,536	\$ -	\$ (2,041,243)	\$ -	\$ (2,041,243)
Public safety	2,278,957	313,562	216,732	-	(1,748,663)	-	(1,748,663)
Public works	3,226,971	132,627	1,351,806	21,951	(1,720,587)	-	(1,720,587)
Public health	408,558	-	225,347	-	(183,211)	-	(183,211)
Social and economic services	368,942	-	1,421	-	(367,521)	-	(367,521)
Culture and recreation	403,556	229,722	1,731	29,000	(143,103)	-	(143,103)
Housing and community development	16,148	-	17,304	-	1,156	-	1,156
Debt service - interest	9,207	-	-	-	(9,207)	-	(9,207)
Miscellaneous	153,318	-	-	-	(153,318)	-	(153,318)
Total governmental activities	\$ 9,204,812	823,287	\$ 1,964,877	\$ 50,951	\$ (6,365,697)	\$ -	\$ (6,365,697)
Business-type activities:							
Solid Waste	\$ 870,408	163,598	\$ -	\$ -	\$ -	(706,810)	(706,810)
Total primary government	\$ 10,075,220	986,885	\$ 1,964,877	\$ 50,951	\$ (6,365,697)	\$ (706,810)	\$ (7,072,507)
General Revenues:							
Property taxes for general purposes					\$ 4,225,998	\$ 732,251	\$ 4,958,249
Liquor tax apportionment					4,375	-	4,375
Miscellaneous					205,942	1,500	207,442
Interest/investment earnings					17,742	855	18,597
PILT					359,505	-	359,505
State entitlement					1,016,844	-	1,016,844
Grants and entitlements not restricted to specific programs					60,413	-	60,413
Licenses and permits					6,400	-	6,400
Contributions & donations					14,855	-	14,855
Local option tax					375,923	-	375,923
Fire					3,500	-	3,500
State contributions to retirement					70,460	5,487	75,947
Total general revenues, special items and transfers					\$ 6,421,957	\$ 740,093	\$ 7,162,050
Change in net position					\$ 56,260	\$ 33,283	\$ 89,543
Net position - beginning					\$ 13,273,522	\$ 635,963	\$ 13,909,485
Restatements					568,106	247,635	815,741
Net position - beginning - restated					\$ 13,841,628	\$ 883,598	\$ 14,725,226
Net position - end					\$ 13,897,888	\$ 916,881	\$ 14,814,769

See accompanying Notes to the Financial Statements



**Sanders County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

	<u>General</u>	<u>Road</u>	<u>Comprehensive Insurance</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 3,567,102	\$ 668,424	\$ -	\$ 431,076	\$ 2,509,944	\$ 7,176,546
Taxes and assessments receivable, net	32,759	13,770	618	37,217	28,816	113,180
Due from other funds	99,956	-	-	-	-	99,956
Due from other governments	16,361	-	-	-	55,862	72,223
Inventories	-	137,980	-	-	57,678	195,658
Total current assets	<u>\$ 3,716,178</u>	<u>\$ 820,174</u>	<u>\$ 618</u>	<u>\$ 468,293</u>	<u>\$ 2,652,300</u>	<u>\$ 7,657,563</u>
Noncurrent assets:						
Restricted cash and investments	\$ 500	-	-	-	-	\$ 500
Total assets	<u>\$ 3,716,678</u>	<u>\$ 820,174</u>	<u>\$ 618</u>	<u>\$ 468,293</u>	<u>\$ 2,652,300</u>	<u>\$ 7,658,063</u>
Current liabilities:						
Warrants payable	\$ 790	-	-	-	-	\$ 790
Accounts payable	2,546	73	-	5,603	4,377	12,599
Accrued payroll	24,064	14,629	-	20,649	6,518	65,860
Due to other funds	-	-	50,079	-	49,877	99,956
Due to other governments	-	-	-	-	25,490	25,490
Total liabilities	<u>\$ 27,400</u>	<u>\$ 14,702</u>	<u>\$ 50,079</u>	<u>\$ 26,252</u>	<u>\$ 86,262</u>	<u>\$ 204,695</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows of resources	\$ 32,759	\$ 13,770	\$ 618	\$ 37,217	\$ 28,816	\$ 113,180
Total deferred inflows of resources	<u>\$ 32,759</u>	<u>\$ 13,770</u>	<u>\$ 618</u>	<u>\$ 37,217</u>	<u>\$ 28,816</u>	<u>\$ 113,180</u>
<b>FUND BALANCES</b>						
Nonspendable	\$ -	\$ 137,980	\$ -	\$ -	\$ 57,678	\$ 195,658
Restricted	-	653,722	-	404,824	2,449,855	3,508,401
Committed	-	-	-	-	81,475	81,475
Unassigned fund balance	3,656,519	-	(50,079)	-	(51,786)	3,554,654
Total fund balance	<u>\$ 3,656,519</u>	<u>\$ 791,702</u>	<u>\$ (50,079)</u>	<u>\$ 404,824</u>	<u>\$ 2,537,222</u>	<u>\$ 7,340,188</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, 2016**

<b>Total fund balances - governmental funds</b>	\$	7,340,188
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		11,501,603
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.		113,180
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		(21)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,102,936)
Proportionate share of ending collective net pension liability		(3,961,507)
Deferred outflows related to net pension liability		780,831
Deferred inflows related to net pension liability		(773,450)
<b>Total net position - governmental activities</b>	<b>\$</b>	<u><u>13,897,888</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, 2016**

	<u>General</u>	<u>Road</u>	<u>Comprehensive Insurance</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Taxes and assessments	\$ 1,792,822	\$ 992,982	\$ 44,359	\$ 1,604,052	\$ 1,210,689	\$ 5,644,904
Licenses and permits	650	-	-	10,385	-	11,035
Intergovernmental	405,928	1,133,283	-	5,800	627,668	2,172,679
Charges for services	256,287	560	-	271,565	479,547	1,007,959
Fines and forfeitures	56,554	-	-	-	1,162	57,716
Miscellaneous	137,019	518	42,669	10,540	54,942	245,688
Investment earnings	16,353	-	-	-	1,389	17,742
Total revenues	<u>\$ 2,665,613</u>	<u>\$ 2,127,343</u>	<u>\$ 87,028</u>	<u>\$ 1,902,342</u>	<u>\$ 2,375,397</u>	<u>\$ 9,157,723</u>
<b>EXPENDITURES</b>						
General government	\$ 2,195,085	\$ 3,849	\$ -	\$ -	\$ 45,376	\$ 2,244,310
Public safety	19,409	-	-	1,855,612	335,879	2,210,900
Public works	-	2,194,557	-	-	503,724	2,698,281
Public health	244,865	-	-	-	163,693	408,558
Social and economic services	151,680	-	-	-	217,262	368,942
Culture and recreation	-	-	-	-	364,512	364,512
Housing and community development	9,563	-	-	-	2,460	12,023
Debt service - principal	-	-	-	46,480	34,255	80,735
Debt service - interest	-	-	-	7,153	2,054	9,207
Miscellaneous	-	-	150,008	-	3,310	153,318
Capital outlay	235,896	675,151	-	78,360	118,510	1,107,917
Total expenditures	<u>\$ 2,856,498</u>	<u>\$ 2,873,557</u>	<u>\$ 150,008</u>	<u>\$ 1,987,605</u>	<u>\$ 1,791,035</u>	<u>\$ 9,658,703</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (190,885)</u>	<u>\$ (746,214)</u>	<u>\$ (62,980)</u>	<u>\$ (85,263)</u>	<u>\$ 584,362</u>	<u>\$ (500,980)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds of general long term debt	\$ -	\$ 462,351	\$ -	\$ 55,998	\$ -	\$ 518,349
Transfers in	433,651	-	-	-	25,000	458,651
Transfers out	(25,000)	-	-	-	(433,651)	(458,651)
Total other financing sources (uses)	<u>\$ 408,651</u>	<u>\$ 462,351</u>	<u>\$ -</u>	<u>\$ 55,998</u>	<u>\$ (408,651)</u>	<u>\$ 518,349</u>
Net Change in Fund Balance	<u>\$ 217,766</u>	<u>\$ (283,863)</u>	<u>\$ (62,980)</u>	<u>\$ (29,265)</u>	<u>\$ 175,711</u>	<u>\$ 17,369</u>
Fund balances - beginning	\$ 3,436,742	\$ 1,075,565	\$ 12,901	\$ 434,089	\$ 2,367,211	\$ 7,326,508
Restatements	2,011	-	-	-	(5,700)	(3,689)
Fund balances - beginning, restated	<u>\$ 3,438,753</u>	<u>\$ 1,075,565</u>	<u>\$ 12,901</u>	<u>\$ 434,089</u>	<u>\$ 2,361,511</u>	<u>\$ 7,322,819</u>
Fund balance - ending	<u>\$ 3,656,519</u>	<u>\$ 791,702</u>	<u>\$ (50,079)</u>	<u>\$ 404,824</u>	<u>\$ 2,537,222</u>	<u>\$ 7,340,188</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, 2016**

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

<b>Net change in fund balances - total governmental funds</b>	\$ 17,369
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	1,107,917
- Depreciation expense	(679,591)
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)	(27,111)
The change in compensated absences is shown as an expense in the Statement of Activities	
	3,977
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	80,735
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	(518,349)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:	
- Post-employment benefits other than retirement liability	(5,679)
Internal service funds are used by management to chare 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.	
	(2,340)
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	
	(283,057)
State aid revenue related to 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	
	70,460
Current year contributions to retirement reclassified to deferred inflows	
	291,929
<b>Change in net position - Statement of Activities</b>	<b>\$ <u>56,260</u></b>

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities Internal Service Funds</b>
	<u>Solid Waste</u>	<u>Funds</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 387,487	\$ 4,044
Taxes and assessments receivable, net	160,490	-
Due from other governments	15,000	-
Total current assets	<u>\$ 562,977</u>	<u>\$ 4,044</u>
Noncurrent assets:		
Capital assets - land	\$ 54,440	\$ -
Capital assets - construction in progress	52,001	-
Capital assets - depreciable, net	619,955	-
Total noncurrent assets	<u>\$ 726,396</u>	<u>\$ -</u>
Total assets	<u>\$ 1,289,373</u>	<u>\$ 4,044</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources	-	-
Total deferred outflows of resources	<u>\$ 17,119</u>	<u>\$ -</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 235	\$ -
Accrued payroll	5,214	825
Current portion of long-term capital liabilities	12,059	-
Current portion of compensated absences payable	19,382	2,600
Total current liabilities	<u>\$ 36,890</u>	<u>\$ 3,425</u>
Noncurrent liabilities:		
Noncurrent portion of long-term liabilities	\$ 4,834	\$ -
Noncurrent portion of long-term capital liabilities	88,976	-
Noncurrent portion of compensated absences	15,763	640
Net pension liability	221,507	-
Total noncurrent liabilities	<u>\$ 331,080</u>	<u>\$ 640</u>
Total liabilities	<u>\$ 367,970</u>	<u>\$ 4,065</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources	21,641	-
Total deferred inflows of resources	<u>\$ 21,641</u>	<u>\$ -</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 625,361	\$ -
Unrestricted	291,520	(21)
Total net position	<u>\$ 916,881</u>	<u>\$ (21)</u>
Total liabilities and net position	<u>\$ 1,284,851</u>	<u>\$ 4,044</u>

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, 2016**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities Internal Service Funds</b>
	<u>Solid Waste</u>	
<b>OPERATING REVENUES</b>		
Charges for services	\$ 148,599	\$ 60,000
Miscellaneous revenues	6,986	-
Special assessments	732,251	-
Total operating revenues	<u>\$ 887,836</u>	<u>\$ 60,000</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$ 373,386	\$ 62,340
Supplies	1,948	-
Purchased services	385,628	-
Fixed charges	16,685	-
Depreciation	92,761	-
Total operating expenses	<u>\$ 870,408</u>	<u>\$ 62,340</u>
Operating income (loss)	<u>\$ 17,428</u>	<u>\$ (2,340)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Intergovernmental revenue	\$ 15,000	\$ -
Interest revenue	855	-
Total non-operating revenues (expenses)	<u>\$ 15,855</u>	<u>\$ -</u>
Income (loss) before contributions and transfers	<u>\$ 33,283</u>	<u>\$ (2,340)</u>
Change in net position	<u>\$ 33,283</u>	<u>\$ (2,340)</u>
Net Position - Beginning of the year	\$ 635,963	\$ 2,319
Restatements	247,635	-
Net Position - Beginning of the year - Restated	<u>\$ 883,598</u>	<u>\$ 2,319</u>
Net Position - End of the year	<u>\$ 916,881</u>	<u>\$ (21)</u>

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Fiscal Year Ended June 30, 2016**

	<b>Business - Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b>Solid Waste</b>	<b>Internal Service</b>
<b>Cash flows from operating activities:</b>		
Cash received from providing services	\$ 885,160	\$ 60,000
Cash received from miscellaneous sources	6,986	-
Cash payments to suppliers	(18,633)	-
Cash payments for professional services	(385,628)	-
Cash payments to employees	(385,658)	(58,275)
Net cash provided (used) by operating activities	\$ 102,227	\$ 1,725
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	\$ (199,365)	\$ -
Principal paid on debt	(12,382)	-
Proceeds from bonds, loans and advances	113,417	-
Net cash provided (used) by capital and related financing activities	\$ (98,330)	\$ -
<b>Cash flows from non-capital financing activities:</b>		
Cash received from other sources	\$ 15,000	\$ -
Net cash provided (used) from non-capital financing activities	\$ 15,000	\$ -
<b>Cash flows from investing activities:</b>		
Interest on investments	\$ 855	\$ -
Net cash provided (used) by investing activities	\$ 855	\$ -
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ 19,752	\$ 1,725
<b>Cash and cash equivalents at beginning</b>	\$ 367,735	\$ 2,319
<b>Cash and cash equivalents at end</b>	\$ 387,487	\$ 4,044
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 17,428	\$ (2,340)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	\$ 92,761	\$ -
Pension liability	(7,052)	-
Changes in assets and liabilities:		
accounts receivable	\$ (15,000)	\$ -
compensated absences liability	804	3,240
assessment receivables	19,310	-
accrued wages	(6,451)	825
Net cash provided (used) by operating activities	\$ 102,227	\$ 1,725

See accompanying notes to the financial statements

**Sanders County, Montana**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and short-term investments	\$ 11,484,492	\$ 1,738,550
Taxes receivable	-	361,692
Total assets	\$ 11,484,492	\$ 2,100,242
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 996,507
Due to others	-	1,103,735
Total liabilities	\$ -	\$ 2,100,242
<b>NET POSITION</b>		
Assets held in trust	\$ 11,484,492	

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, 2016**

		<u>Investment Trust Funds</u>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$	9,592,536
Investment earnings:		
Interest and change in fair value of investments	\$	<u>30,223</u>
Total additions	\$	<u>9,622,759</u>
 <b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	<u>9,952,557</u>
Change in net position	\$	<u>(329,798)</u>
Net Position - Beginning of the year	\$	11,814,290
Net Position - End of the year	\$	<u><u>11,484,492</u></u>

See accompanying Notes to the Financial Statements

SANDERS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**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:**

GASB No. 75 *Accounting and Financial Report for Postemployment Benefits Other than Pension (OPEB)*, is effective for years beginning after June 15, 2017 with early implementation encouraged. The statement fully amends the previously issued GASB No. 45 *Accounting and Financial Report for Postemployment Benefits Other than Pension*. GASB 75 established standards for recognition and measurement of the liabilities, deferred outflows and inflows of resources, and expense/expenditures related to OPEB. Different distinctions are made regarding the particular requirements depending upon whether the OPEB plans are administered through a trust that meets criteria identified in the statement. The statement also identifies the methods and assumptions required in projecting benefit payments, discounting those payments to actuarial present value, and applying that present value to periods of employee service in the County. The disclosure requirements for OPEB plans is defined in this statement, that includes further detail on the County's plan and benefits provided, the assumptions used in the valuations, sensitivity analysis, and number of employees in the plan. Lastly, it increased the required supplementary information requiring 10 most recent fiscal years summarizing sources of change in OPEB liability, its components, and other related ratios. These changes are similar to pension GASB No. 68 that became effective in the prior fiscal year.

**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.

*Primary Government*

The County is a political subdivision of the State of Montana governed by 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.

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

*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.

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.

SANDERS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

*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, 2016

*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* – A special revenue fund for resources allocated by law, contractual agreement or administrative regulations for and the payment of, road maintenance, road construction, and other road related costs.

*Comprehensive Liability Fund* – A special revenue fund that is used to account for the tax and reimbursement revenues for paying the County property and casualty insurance premiums.

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

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

***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 consists 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, 2016

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2016, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 1,200
Cash in banks:	
Demand deposits	1,511,049
Savings deposits	9,490,000
Time deposits	9,789,370
Total	\$ 20,791,619

**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.

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

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.

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, 2016, the government's bank balance of was exposed to custodial credit risk as follows:

	June 30, 2016 <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	19,796,550
Total deposits and investments	<u>\$ 20,796,550</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, 2016, 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.



SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

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.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2016 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 position for the Treasurer's Pool as of June 30, 2016.

**Statement of Net Position**

Net position held in trust for all pool participants:

Equity of internal pool participants	\$	8,294,878
Equity of external pool participants		11,484,492
Total equity	\$	19,779,370

**Condensed Statement of Changes in Net Position**

	External	Internal
Investment earnings	\$ 30,223	\$ 18,868
Contributions to trust	9,592,536	7,896,786
Distributions paid	(9,952,557)	(6,785,856)
Net change in net position	\$ (329,798)	\$ 1,129,798
Net position at beginning of year	11,814,290	7,165,080
Net position at end of year	\$ 11,484,492	\$ 8,294,878

**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.

SANDERS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**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.

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**

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:

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2016 Basic Financial Statements.

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

Governmental activities:

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance <u>June 30, 2016</u>
Capital assets not being depreciated:					
Land	\$ 1,845,432	\$ -	\$ -	\$ -	\$ 1,845,432
Construction in progress	241,376	36,951		(60,606)	217,721
Total capital assets not being depreciated	<u>\$ 2,086,808</u>	<u>\$ 36,951</u>	<u>\$ -</u>	<u>\$ (60,606)</u>	<u>\$ 2,063,153</u>
Other capital assets:					
Buildings	\$ 2,737,443	\$ 112,705	\$ -	\$ -	\$ 2,850,148
Improvements other than buildings	8,876,105	39,817		60,606	8,976,528
Machinery and equipment	8,649,420	918,444	(133,600)	-	9,434,264
Total other capital assets at historical cost	\$ 20,262,968	\$ 1,070,966	\$ (133,600)	\$ 60,606	\$ 21,260,940
Less: accumulated depreciation	\$ (11,276,499)	\$ (679,591)	\$ 133,600	\$ -	\$ (11,822,490)
Total	<u>\$ 11,073,277</u>	<u>\$ 428,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,501,603</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 39,675
Public safety	68,057
Public works	528,690
Culture and recreation	39,044
Housing and community development	4,125
Total governmental activities depreciation expense	<u>\$ 679,591</u>

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

**SANDERS COUNTY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

Business-type activities:

	Balance				Balance
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2016</u>
Capital assets not being depreciated:					
Land	\$ 54,440	\$ -	\$ -	\$ -	\$ 54,440
Construction in progress	-	52,001	-	-	52,001
Total capital assets not being depreciated	<u>\$ 54,440</u>	<u>\$ 52,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,441</u>
Other capital assets:					
Buildings	\$ 398,473	\$ -	\$ -	\$ -	\$ 398,473
Improvements other than buildings	24,583	-	-	-	24,583
Machinery and equipment	1,574,371	147,364	-	-	1,721,735
Total other capital assets at historical cost	<u>\$ 1,997,427</u>	<u>\$ 147,364</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,144,791</u>
Less: accumulated depreciation	<u>\$ (1,432,075)</u>	<u>\$ (92,761)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,524,836)</u>
Total	<u>\$ 619,792</u>	<u>\$ 106,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 726,396</u>

**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, 2016, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance				Balance	Due Within
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2016</u>	<u>One Year</u>
Contracted debt	\$ 10,209	\$ -	\$ (4,969)	\$ -	\$ 5,240	\$ 5,240
Compensated absences	373,887	3,240	(3,977)	-	373,150	260,255
Intercap loans	136,075	-	(29,286)	-	106,789	30,240
Capital leases	103,237	518,349	(46,480)	(18,327)	556,779	73,176
Net pension liability**	2,868,880	966,059	-	126,568	3,961,507	-
Other post-employment benefits*	738,576	5,679	-	(680,037)	64,218	-
Total	<u>\$ 4,230,864</u>	<u>\$ 1,493,327</u>	<u>\$ (84,712)</u>	<u>\$ (571,796)</u>	<u>\$ 5,067,683</u>	<u>\$ 368,911</u>

\*See Note 7

\*\*See Note 9

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

Business-type Activities:

	Balance				Balance	Due Within
	July 1, 2015	Additions	Deletions	Restatements		
Compensated absences	\$ 34,341	\$ 804	\$ -	\$ -	\$ 35,145	\$ 19,382
Capital leases	-	113,417	(12,382)	-	101,035	12,059
Net pension liability**	303,156	-	44,919	(126,568)	221,507	-
Other post-employment benefits*	125,474	427	-	(121,067)	4,834	-
Total	\$ 462,971	\$ 114,648	\$ 32,537	\$ (247,635)	\$ 362,521	\$ 31,441

\*See Note 7

\*\*See Note 9

**Loans/Contracted Debt**

Loans/contracted debts outstanding as of June 30, 2016 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2016
Utility Tractor	8/7/12	4.25%	58 mths	6/20/17	\$ 24,018	\$ 5,240

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

For Fiscal

Year Ended	Principal	Interest
2017	\$ 5,240	\$ 221

**Intercap Loans**

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

Intercap loans outstanding as of June 30, 2016 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2016
Fairgrounds Area	7/11/08	1-4.25%	10 yrs.	8/15/18	\$ 140,941	\$ 40,276
Holding Pens Upgrade Concession Stand/ Fairgrounds Imp Draws 1-2	7/30/10	1-1.95%	10 yrs.	8/15/20	140,556	66,513
Total					\$ 281,497	\$ 106,789

(1) Reported in the governmental activities.

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 30,240	\$ 971
2018	31,070	672
2019	22,410	371
2020	14,772	185
2021	8,297	37
<b>Total</b>	<b>\$ <u>106,789</u></b>	<b>\$ <u>2,236</u></b>

**Capital Leases**

The County has entered into 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, 2016 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, 2016</u>
2014 Ford Explorer/Interceptor(1)	3/7/14	5.95%	4 yrs	3/7/17	\$ 71,877	\$ 18,457
2015 Ford Expedition(1)	12/23/14	5.95%	4 yrs	12/23/17	67,359	33,623
2016 Dodge Rams (1)	6/15/16	15.39%	4 yrs	6/14/20	54,598	42,348
RD #1 Motor Grader(1)	3/10/16	3.20%	5 yrs	3/10/21	219,348	219,348
RD #3 Motor Grader(1)	3/10/16	3.20%	5 yrs	3/10/21	243,003	243,003
Caterpillar Backhoe Loader(2)	4/12/16	3.20%	5 yrs	4/21/21	<u>113,417</u>	<u>101,035</u>
Total					\$ <u>769,602</u>	\$ <u>657,814</u>

- (1) Reported in the governmental activities.
- (2) Reporting in business-type activities

Annual requirement to amortize debt:

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 85,235	\$ 19,851
2018	69,545	16,951
2019	52,604	15,066
2020	91,938	12,550
2021	<u>358,492</u>	<u>11,472</u>
Total	<u>\$ 657,814</u>	<u>\$ 75,890</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. This creates a defined benefit Other Post-Employment Benefits Plan (OPEB), since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. The OPEB plan is a single-employer defined benefit plan administered by the County. The government has not created a trust to accumulate assets to assist in covering the defined benefit plan costs, and covers these when they come due. 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.

*Benefits Provided.* The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in MCA 2-18-704. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums, but may pay the same premiums as the other members in the group health plan.

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

*Employees covered by benefit terms.* At June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments		1
Active employees		80
Total employees		81

Total OPEB Liability

The County's total OPEB liability of \$69,052 at June 30, 2016, and was determined by using the alternative measurement method as of that date.

*Actuarial assumptions and other input.* The total OPEB liability in the June 30, 2016 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	3.80%
Average salary increase (Consumer Price Index)	2.70%

Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2015	6.20%
2016	5.10%
2017	5.30%
2018	6.20%
2019	6.30%
2020	6.10%
2021	6.30%
2022	6.30%
2022	6.30%
2023	6.30%
2024	6.10%
2025 and after	5.90%

The discount rate was based on the 20 year General obligation (GO) bond index.

Life expectancy of employees was based on the United States Life Tables, 2011 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 64, No. 11, September 22, 2015.



SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

The turnover rates were determined from the periodic experience studies of the Montana public retirement systems for the covered groups as documented in the GASB 68 actuarial valuations.

Changes in the Total OPEB Liability

Balance at 6/30/2015	\$	864,050
Changes for the year:		
Service Cost	\$	6,106
Restatement	\$	(801,105)
Net Changes	\$	(794,998)
Balance at 6/30/2016	\$	69,052

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following summarizes the total OPEB liability reported, and how that liability would change if the discount rate used to calculate the OPEB liability were to decrease or increase 1%:

	<u>1% Decrease (2.80%)</u>	<u>Discount Rate (3.80%)</u>	<u>1% Increase (4.80%)</u>
Total OPEB Liability \$	74,946	\$ 69,052	\$ 63,836

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following summarizes the total OPEB liability reported, and how that liability would change if the healthcare trend rates used in projecting the benefit payments were to decrease or increase 1%:

	<u>1% Decrease</u>	<u>Healthcare Cost Trends*</u>	<u>1% Increase</u>
Total OPEB Liability \$	62,235	\$ 69,052	\$ 76,934

*\*Reference the assumptions footnotes to determine the healthcare cost trends used to calculate the OPEB liability.*

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2016, the County recognized an OPEB expense of \$6,106. The County does not report any deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since the County records costs as they come due there are no deferred outflows of resources for contributions to the OPEB plan trust.

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

**NOTE 8. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2016, was as follows:

<u>Purpose</u>	<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
To cover negative cash balance	County Fair-Non Major Governmental	General – Major Governmental	\$1,446
To cover negative cash balance	Comprehensive Insurance – Major Governmental	General – Major Governmental	50,079
To cover negative cash balance	Library – Nonmajor Governmental	General – Major Governmental	3,612
To cover negative cash balance	Sanders County Coalition – Nonmajor Governmental	General – Major Governmental	1,891
To cover negative cash balance	Record Preservation – Nonmajor Governmental	General – Major Governmental	366
To cover negative cash balance	Noxious Weed - Nonmajor Governmental	General – Major Governmental	2,586
To cover negative cash balance	Eurasian Watermilfoil – Nonmajor Governmental	General – Major Governmental	478
To cover negative cash balance	Law Enforcement Block Grant – Nonmajor	General – Major Governmental	20,817
To cover negative cash balance	Special Projects – Nonmajor Governmental	General – Major Governmental	10,925
To cover negative cash balance	Public Health Misc. – Nonmajor Governmental	General – Major Governmental	675
To cover negative cash balance	WIC – Nonmajor Governmental	General – Major Governmental	5,664
To cover negative cash balance	JMV Capital Improvements – Nonmajor Governmental	General – Major Governmental	<u>1,417</u>
Total			<u>\$ 99,956</u>

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2016:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Offset health insurance costs	General Fund – Major Governmental	Permissive Medical Levy – Nonmajor Governmental	\$ 433,651
Funds for barn repairs	Search & Rescue – Nonmajor Governmental	General Fund – Major Governmental	25,000
Total			\$ <u><u>458,651</u></u>

**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, 2016

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

*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;

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

*Compensation Cap*

- Hired on or after July 1, 2013-110% annual cap on compensation considered as a part of a member's highest average compensation.

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.

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)

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.

- 3% for members hired **prior** to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more.

SRS

**Eligibility for benefit**

20 years of membership service, regardless of age.

Other Retirement Option

Age 50, 5 years of membership service. This benefit is the actuarial equivalent of the service benefit.

**Vesting**

5 years of membership service

**Member's highest average compensation (HAC)**

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;

SANDERS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.

**Compensation Cap**

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member’s highest average compensation.

**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 applicable percentage (provided below) each January, inclusive of all other adjustments to the benefit.

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

**Overview of Contributions**

**PERS**

1. Rates are specified by state law for periodic employer and employee contributions.
  - a. 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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

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. The portion of the employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
  - e. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
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 a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

**SRS**

Rates are specified by state law for periodic member and employer contributions and are a percentage member's compensation. Contributions are deducted from each member's salary and remitted by employers. The State legislature has the authority to establish and amend contribution rates to the plan. and employer contribution rates are shown in the table below.

<b><u>Fiscal</u></b>	<b><u>Member</u></b>	<b><u>Employer</u></b>
<b><u>Year</u></b>		
2010-2016	9.245%	10.115%
2008-2009	9.245%	9.825%
1998-2007	9.245%	9.535%

**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>

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

**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, 2016 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.

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. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2016 and June 30, 2015 (reporting dates).

	<u>PERS NPL as of 6/30/15</u>	<u>PERS NPL as of 6/30/16</u>	<u>Percent of Collective NPL</u>	<u>SRS NPL as of 6/30/15</u>	<u>SRS NPL as of 6/30/16</u>	<u>Percent of Collective NPL</u>	<u>Total NPL as of 6/30/15</u>	<u>Total NPL as of 6/30/16</u>	<u>Percent of Collective NPL</u>
<b>Employer Proportionate Share State of Montana Proportionate Share associated with Employer</b>	\$ 2,720,291	\$ 3,066,972	0.2194%	\$ 451,745	\$ 1,116,042	1.1577%	\$ 3,172,036	\$ 4,183,014	1.3771%
	33,219	37,672	0.0027%	-	-	0.0000%	33,219	37,672	0.0027%
<b>Total</b>	<u>\$ 2,753,510</u>	<u>\$ 3,104,644</u>	<u>0.2221%</u>	<u>\$ 451,745</u>	<u>\$ 1,116,042</u>	<u>1.1577%</u>	<u>\$ 3,205,255</u>	<u>\$ 4,220,686</u>	<u>1.3798%</u>

At June 30, 2016, the employer recorded a liability of \$4,183,014 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERS and SRS participating employers. At June 30, 2016, the employer's proportion was 1.3771 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.



SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

**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.

**Pension Expense as of 6/30/16**

	<u>PERS</u>	<u>SRS</u>	<u>Total</u>
Proportionate Share State of Montana	\$ 126,660	\$ 95,085	\$ 221,745
Proportionate Share associated with the Employer	75,945	-	75,945
<b>Total</b>	<b><u>\$ 202,605</u></b>	<b><u>\$ 95,085</u></b>	<b><u>\$ 297,690</u></b>

At June 30, 2016, the employer recognized a Pension Expense of \$297,690 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$75,945 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, 2016, the employer recognized a beginning deferred outflow of resources for the employers FY 2015 contributions of \$274,682.

**Deferred Inflows and Outflows**

At June 30, 2016, 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:

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

	<b>PERS Deferred Outflows of Resources</b>	<b>PERS Deferred Inflows of Resources</b>	<b>SRS Deferred Outflows Resources</b>	<b>SRS Deferred Inflows of Resources</b>	<b>Total Deferred Outflows of Resources</b>	<b>Total Deferred Inflows of Resources</b>
<b>Differences between expected and actual economic experience</b>	\$ -	\$ 18,555	\$ -	\$ 1,881	\$ -	\$ 20,436
<b>Changes in actuarial assumptions</b>	-	-	415,416	409,691	415,416	409,691
<b>Difference between projected and actual investment earnings</b>	-	259,652	-	76,436	-	336,088
<b>Difference between actual and expected contributions</b>	-	11,203	-	-	-	11,203
<b>Changes in proportion</b>	12,734	-	61,671	-	74,405	-
<b>*Contributions paid subsequent to the measurement date - FY 2016 Contributions</b>	224,288	-	83,840	-	308,128	-
<b>Total</b>	<u>\$ 237,022</u>	<u>\$ 289,410</u>	<u>\$ 560,927</u>	<u>\$ 488,008</u>	<u>\$ 797,949</u>	<u>\$ 777,418</u>

\*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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

**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
2017	\$ -	\$ 115,421	\$ (115,421)
2018	\$ -	\$ 115,421	\$ (115,421)
2019	\$ -	\$ 113,364	\$ (113,364)
2020	\$ -	\$ (67,530)	\$ 67,530
2021	\$ -	\$ -	\$ -
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
2017		\$ 19,278	\$ (19,278)
2018		\$ 19,278	\$ (19,278)
2019		\$ 19,278	\$ (19,278)
2020		\$ (33,810)	\$ 33,810
2021		\$ (13,103)	\$ 13,103
Thereafter		\$ -	\$ -

**Actuarial Assumptions**

**PERS and SRS**

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 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 0% to 6%
- Investment Return 7.75%
- Admin Expense as a % of Payroll .27%.
- Postretirement Benefit Increases

**Guaranteed Annual Benefit Adjustment(GABA)**

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.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Member hired on or after July 1, 2013:

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

- 1.5% for each year PERS is funded at or above 90%;
- 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
- 0% whenever the amortization period for PERS is 40 years or more.
- 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.

**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.

**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. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

**Target Allocations**

**PERS and SRS**

<b><u>Asset Class</u></b>	<b><u>Target Asset Allocation</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	<u>8.00%</u>	4.25%
Total	<u>100.00%</u>	

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

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 June 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, 2015, is summarized in the above table.

**Sensitivity Analysis**

	<b>1.0% Decrease</b>	<b>Current</b>	<b>1.0% Increase</b>
	<b><u>-6.75%</u></b>	<b><u>Discount Rate</u></b>	<b><u>-8.75%</u></b>
<b>PERS</b>	\$ 4,728,605	\$ 3,066,971	\$ 1,663,759
<b>SRS</b>	\$ 1,792,290	\$ 1,116,042	\$ 561,684

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**

The Montana Public Employee Retirement Administration, 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, 2016

**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	\$ 137,980	Inventory
Weed	\$ 57,678	Inventory
Total	<u>\$ 195,658</u>	

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 653,722	Road maintenance
Public Safety	404,824	Law enforcement
All Other Aggregate	533,841	Law enforcement
	481,473	Local conservation
	393,045	Public wellness and safety
	331,753	Employee benefits
	145,421	Road maintenance
	132,375	Airport services
	129,026	Bridge maintenance
	95,034	Community development
	84,640	Weed control
	83,549	Parks and recreation
	36,895	Miscellaneous
	2,803	Senior living
Total Restricted	<u>\$ 3,508,401</u>	

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2016

**Committed Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other Aggregate	\$ 98	Capital Improvements
	<u>\$ 81,377</u>	Library Improvements
Total	<u>\$ 81,475</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>
Comprehensive Liability	\$ 50,079	Outstanding payables and no funds available to cover these payables	Future tax revenues and entitlement monies
Fair	\$ 2,716	Outstanding payables and no funds available to cover these payables.	County fair revenues
Library	\$ 4,160	Outstanding payables and no funds available to cover these payables.	Future tax revenues
Coalitions for Families	\$ 2,879	Outstanding payables and no funds available to cover these payables.	Transfer from unrestricted funds
Records Preservation	\$ 802	Outstanding payables and no funds available to cover these payables.	Transfer from unrestricted funds.
Noxious Weed	\$ 2,994	Outstanding payables and no funds available to cover these payables.	Future grant revenues
Eurasian Water Milfoil	\$ 478	Outstanding payables and no funds available to cover these payables.	Future grant revenues
Law Enforcement Block Grant	\$ 20,817	Outstanding payables and no funds available to cover these payables.	Transfer from unrestricted funds
Special Projects	\$ 10,925	Outstanding payables and no funds available to cover these payables.	Transfer from unrestricted funds
Public Health Misc. Grant	\$ 675	Outstanding payables and no funds available to cover these payables.	Transfer from unrestricted funds

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

JMV Capital Improvements	\$ 1,515	Outstanding payables and no funds available to cover these payables.	Transfer from unrestricted funds
Nirada Cemetery	\$ 3,901	Outstanding payables and no funds available to cover these payables.	Transfer from unrestricted funds.

**NOTE 13. RESTATEMENTS**

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ 2,011	Write-off due from other government from prior years
Sanders County Crime Stoppers	(5,700)	Recognize revenues in correct period
Solid Waste	126,568	Change in allocation percentages in determining net pension liability
Solid Waste	121,067	Change in OPEB liability for updated AMM calculation
Governmental Activities	(126,569)	Change in allocation percentages in determining net pension liability
Governmental Activities	680,037	Change in OPEB liability for updated AMM calculation
Governmental Activities	18,327	Prior year principal payment not recognized in long-term debt
Total	<u>\$ 815,741</u>	

**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.



SANDERS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**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.

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.

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2016

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>Ross Fratzke v. Sanders County, DV-14-22</i>	Settled	Not Stated
<i>Troy Scribner v. Sanders County, arbitration</i>		
<i>Troy Scribner v. Sanders County, grievance – Complaint filed with the Human Right Bureau and the Equal Employment Opportunity Commission alleging discrimination</i>		
<i>Nichol Scribner, Potential Injury Claim</i>		

**NOTE 18. SUBSEQUENT EVENTS**

In July 2016, the County closed on the Bache Gravel Pit at a total cost of \$500,530. The DEQ permit was obtained during fiscal year 2016. The County determined to finance the purchase with a note totaling \$400,000 to Lloyd Bache and Sons, and paid for the remaining \$100,530 with County Road funds. The County will be able to produce its own gravel.

The Thompson Falls Transfer Site lease ended in fiscal year 2016, and in December 2016 obtained a piece of land for the new transfer site at a total cost of \$123,168. The County is currently contracted with Great West Engineering in planning the construction of the new facility. No construction has occurred to date, but project is progressing as expected.

The County was awarded two Federal Aviation Administration (FAA) grants for the Plains and Thomson Falls. The Plains award totaled \$133,000 for the rehabilitation of the aprons, taxiways, and runway. The Thomson Falls airport award totaled \$344,021 to be used to install runway vertical and visual guidance system, construction of fuel farm, and remove runway obstructions. In the months following June 30, 2016, the County began construction at both the Plains and Thomson Falls airports. As of March 2017, the County had spent \$491,796 total, \$120,123 at Plains Airport and \$371,673 at the Thomson Falls Airport. Of these costs only 10% of were funded by the County and the remaining 90% reimbursed by the FAA awards.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Sanders County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2016**

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,584,918	\$ 1,584,918	\$ 1,792,822	\$ 207,904
Licenses and permits	150	150	650	500
Intergovernmental	20,726	20,726	46,423	25,697
Charges for services	256,789	256,789	256,287	(502)
Fines and forfeitures	51,296	51,296	56,554	5,258
Miscellaneous	57,160	57,160	137,019	79,859
Investment earnings	18,083	18,083	16,353	(1,730)
Amounts available for appropriation	\$ 1,989,122	\$ 1,989,122	\$ 2,306,108	\$ 316,986
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 2,685,560	\$ 2,685,560	\$ 2,135,085	\$ 550,475
Public safety	42,072	42,072	19,409	22,663
Public health	264,192	264,192	244,865	19,327
Social and economic services	166,049	166,049	151,680	14,369
Housing and community development	10,000	10,000	9,563	437
Capital outlay	927,500	927,500	235,896	691,604
Total charges to appropriations	\$ 4,095,373	\$ 4,095,373	\$ 2,796,498	\$ 1,298,875
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 450,000	\$ 450,000	\$ 433,651	\$ (16,349)
Transfers out	(325,000)	(325,000)	(85,000)	240,000
Total other financing sources (uses)	\$ 125,000	\$ 125,000	\$ 348,651	\$ 223,651
Net change in fund balance			\$ (141,739)	
Fund balance - beginning of the year			\$ 2,981,987	
Restatements			2,011	
Fund balance - beginning of the year - restated			\$ 2,983,998	
<b>Fund balance - end of the year</b>			\$ 2,842,259	

**Sanders County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Road</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>	<b>WITH FINAL</b>
			<b>(BUDGETARY</b>	<b>BUDGET</b>
			<b>See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,023,458	\$ 1,023,458	\$ 992,982	\$ (30,476)
Intergovernmental	1,210,028	1,210,028	1,133,283	(76,745)
Charges for services	900	900	560	(340)
Miscellaneous	22,307	22,307	518	(21,789)
Amounts available for appropriation	<u>\$ 2,256,693</u>	<u>\$ 2,256,693</u>	<u>\$ 2,127,343</u>	<u>\$ (129,350)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 15,100	\$ 15,100	\$ 3,849	\$ 11,251
Public works	2,719,460	2,719,460	2,194,557	524,903
Capital outlay	356,650	356,650	675,151	(318,501)
Total charges to appropriations	<u>\$ 3,091,210</u>	<u>\$ 3,091,210</u>	<u>\$ 2,873,557</u>	<u>\$ 217,653</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ 462,351	\$ 462,351
Transfers in	633,000	633,000	-	(633,000)
Total other financing sources (uses)	<u>\$ 633,000</u>	<u>\$ 633,000</u>	<u>\$ 462,351</u>	<u>\$ (170,649)</u>
Net change in fund balance			<u>\$ (283,863)</u>	
Fund balance - beginning of the year			\$ 1,075,565	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 1,075,565</u>	
<b>Fund balance - end of the year</b>			<u>\$ 791,702</u>	

**Sanders County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Comprehensive Insurance</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 109,934	\$ 109,934	\$ 44,359	\$ (65,575)
Miscellaneous	41,711	41,711	42,669	958
Amounts available for appropriation	\$ 151,645	\$ 151,645	\$ 87,028	\$ (64,617)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Miscellaneous	247,926	247,926	150,008	97,918
Total charges to appropriations	\$ 247,926	\$ 247,926	\$ 150,008	\$ 97,918
Net change in fund balance			\$ (62,980)	
Fund balance - beginning of the year			\$ 12,901	
Restatements			-	
Fund balance - beginning of the year - restated			\$ 12,901	
<b>Fund balance - end of the year</b>			\$ (50,079)	

**Sanders County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Public Safety</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b><u>ORIGINAL</u></b>	<b><u>FINAL</u></b>	<b>(BUDGETARY</b>	<b>WITH FINAL</b>
			<b><u>BASIS) See Note A</u></b>	<b><u>BUDGET</u></b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,605,784	\$ 1,605,784	\$ 1,604,052	\$ (1,732)
Licenses and permits	9,225	9,255	10,385	1,130
Intergovernmental	33,624	33,624	5,800	(27,824)
Charges for services	254,872	254,872	271,565	16,693
Miscellaneous	13,820	13,820	10,540	(3,280)
Amounts available for appropriation	<u>\$ 1,917,325</u>	<u>\$ 1,917,355</u>	<u>\$ 1,902,342</u>	<u>\$ (15,013)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public safety	\$ 2,048,329	\$ 2,083,329	\$ 1,855,612	\$ 227,717
Debt service - principal	-	-	46,480	(46,480)
Debt service - interest	-	-	7,153	(7,153)
Capital outlay	81,800	81,800	78,360	3,440
Total charges to appropriations	<u>\$ 2,130,129</u>	<u>\$ 2,165,129</u>	<u>\$ 1,987,605</u>	<u>\$ 177,524</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ 55,998	\$ 55,998
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,998</u>	<u>\$ 55,998</u>
Net change in fund balance			<u>\$ (29,265)</u>	
Fund balance - beginning of the year			\$ 434,089	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 434,089</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 404,824</u></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>Comprehensive Insurance</u>	<u>Public Safety</u>
<b>Sources/Inflows of resources</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,306,108	\$ 2,127,343	\$ 87,028	\$ 1,902,342
Combined funds (GASBS 54) revenues	<u>359,505</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,665,613</u>	<u>\$ 2,127,343</u>	<u>\$ 87,028</u>	<u>\$ 1,902,342</u>
<b>Uses/Outflows of resources</b>				
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ <u>2,796,498</u>	\$ <u>2,873,557</u>	\$ <u>150,008</u>	\$ <u>1,987,605</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,796,498</u>	<u>\$ 2,873,557</u>	<u>\$ 150,008</u>	<u>\$ 1,987,605</u>



**Sanders County, Montana**  
**Required Supplementary Information**  
**Schedule of Changes in the County's Total OPEB Liability and Related Ratio**  
**For the Year Ended June 30, 2016**

	2016
<b>Total OPEB liability</b>	
Service Cost	\$ 6,106
Net change in total OPEB liability	6,106
Total OPEB Liability - beginning	864,050
Restatement	(801,105)
Total OPEB Liability - ending	\$ 69,052
Covered-employee payroll	\$ 3,127,928
 Total OPEB liability as a percentage of covered -employee payroll	2%

*\*The above schedule is presented by combining the required schedules from GASB 75 paragraphs 170a and 170b. The GASB requires that 10 years of information related to the OPEB liability be presented, but due to this being the first year of implementation only one year of data is available.*

**Sanders County, Montana**  
**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**For the Year Ended June 30, 2016**

	<u>PERS</u>	<u>PERS</u>	<u>SRS</u>	<u>SRS</u>
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability	\$ 2,720,291	\$ 3,066,971	\$ 451,745	\$ 1,116,042
Employer's proportionate share of the net pension liability associated with the Employer	0.218320%	0.219403%	1.08548%	1.15773%
State of Montana's proportionate share of the net pension liability associated with the Employer	33,219	37,672	-	-
Total	<u>\$ 2,753,510</u>	<u>\$ 3,104,643</u>	<u>\$ 451,745</u>	<u>\$ 1,116,042</u>
Employer's covered-employee payroll	\$ 2,471,378	\$ 2,560,475	\$ 702,009	\$ 787,786
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	110.072%	119.781%	64.35%	141.67%
Plan fiduciary net position as a percentage of the total pension liability	79.9%	78.4%	87.2%	75.4%

*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, 2016**

	PERS <u>2015</u>	PERS <u>2016</u>	SRS <u>2015</u>	SRS <u>2016</u>
Contractually required contributions	\$ 202,902	\$ 224,287	\$ 72,611	\$ 83,840
Contributions in relation to the contractually required contributions	202,902	224,287	72,611	83,840
Contribution deficiency (excess)	-		-	
District's covered-employee payroll	\$ 2,471,378	\$ 2,650,677	\$ 702,009	\$ 808,915
Contributions as a percentage of covered-employee payroll	8.210%	8.461%	10.343%	10.365%

*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, 2016**

**Public Employees' Retirement System of Montana(PERS)**

**Changes of Benefit Terms**

The following changes to the plan provision were made as identified:

**2013 Legislative Changes:**

Working Retirees - House Bill 95 - PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

**Guaranteed Annual Benefit Adjustment (GABA) - for 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 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 and **before** July 1, 2013
- Members hired **on or after** July 1, 2013
  - a. 1.5% each year PERS is funded at or above 90%;
  - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  - c. 0% whenever the amortization period for PERS is 40 years or more.

## 2015 Legislative Changes:

General Revisions - House Bill 101, effective January 1, 2016

### Second Retirement Benefit - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire

before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement.

2) For members who retire **before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:**

- member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
- GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and,
- GABA starts again in the January immediately following second retirement.

4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:**

- member receives same retirement benefit as prior to return to service;
- member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
- GABA starts on both benefits in January after member receives original and new benefit for 12

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

### **Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP**

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

## Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

<b>Admin Expense as % of Payroll</b>	<b>0.27%</b>
--------------------------------------	--------------

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

## Sheriffs' Retirement System of Montana (SRS)

### Changes of Benefit Terms

The following changes to the plan provision were made as identified:

#### 2013 Legislative Changes:

Working Retirees - House Bill 95 - PERS, SRS, and FURS, effective July 1, 2013

- Law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. SRS retirees may still work up to 480 hours a without returning to active service.

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

- All SRS members hired on or after July 1, 2013 are subject to a 110% annual cap on considered as part of a member's highest or final average compensation.
- All bonuses paid to SRS members on or after July 1, 2013 will not be treated as retirement purposes.

**2015 Legislative Changes:** none

**Changes in Actuarial Assumptions and Methods**

Method and assumptions used in calculations of actuarially determined contributions

The following change to the actuarial assumptions was adopted in 2015:

<b>SRS Discount rate - Used to measure the TPL</b>	<b>6.86 percent, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%.</b>
--	---

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.17%
SRS Discount rate - Used to measure the	7.75 percent, which is the assumed long-term expected rate of return on System's

The following change to the actuarial assumptions was adopted in 2013:

<b>SRS Discount rate - Used to measure the TPL</b>	<b>6.68 percent, which is a blend of the assumed long-term expected rate of return of 7.82% on System's investments and a municipal bond index rate of 4.27%.</b>
--	---

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

# **SINGLE AUDIT SECTION**



Sanders County, Montana				
Schedule of Expenditures of Federal Awards				
For the Fiscal Year End June 30, 2016				
<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Grantor Number</i>		<i>Federal Expenditures(\$)</i>
<b>Other Programs</b>				
<b>United States Department of Homeland Security</b>				
<i>Passed through Montana Department of Military Affairs</i>				
Emergency Management Performance Grants	97.042	N/A	\$	9,435
Emergency Management Performance Grants	97.042	2015-EP-00004		11,190
<b>Total United States Department of Homeland Security</b>			\$	20,625
<b>United States Department of Justice</b>				
<i>Passed through Sanders County Coalition for Families</i>				
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	OVW-2013-3396	\$	68,065
<b>Total United States Department of Justice</b>			\$	68,065
<b>United States Department of Transportation</b>				
<i>Passed through Montana Department of Transportation</i>				
Highway Planning and Construction	20.205	7866	\$	2,460
<i>Total Other - Montana Department of Transportation</i>			\$	2,460
<i>Direct</i>				
Airport Improvement Program	20.106	N/A	\$	21,951
<i>Total Other - Direct</i>			\$	21,951
<b>Total United States Department of Transportation</b>			\$	24,411
<b>United States Department of Health and Human Services</b>				
<i>Passed through Montana Department of Health &amp; Human Services</i>				
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	16-07-611-047-0	\$	41,346
Immunization Cooperative Agreements	93.268	15-07-4-31141-0		3,412
Immunization Cooperative Agreements	93.268	16-07-4-31-141-0		3,412
Maternal and Child Health Services Block Grant to the States	93.994	15-07-5-01-045-0		1,178
Maternal and Child Health Services Block Grant to the States	93.994	16-07-5-01-045-0		8,658
<b>Total United States Department of Health and Human Services</b>			\$	58,006
<b>United States Department of Housing and Urban Development</b>				
<i>Passed through Montana Department of Commerce</i>				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	MT-CDBG-14PL-18	\$	9,564
<b>Total United States Department of Housing and Urban Development</b>			\$	9,564
<b>United States Department of Agriculture</b>				
<i>Passed through Montana Department of Health &amp; Human Services</i>				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	07-5-21-017-0	\$	15,937
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	07-5-21-017-0		42,085
<i>Total Other - Montana Department of Health &amp; Human Services</i>			\$	58,022
<i>Passed through Montana State Auditors Office</i>				
Schools and Roads Grants to States	10.665	N/A	\$	1,161,988
<i>Total Other - Montana State Auditors Office</i>			\$	1,161,988
<i>Passed through Montana Department of Agriculture</i>				
Forest Health Protection	10.680	MDA 2015-707	\$	9,198
Forest Health Protection	10.680	MDA 2014-703		12,270
<i>Total Other - Montana Department of Agriculture</i>			\$	21,468
<b>Total United States Department of Agriculture</b>			\$	1,241,478
<b>Total Other Programs</b>			\$	1,422,149
<b>Total Expenditures of Federal Awards</b>			\$	1,422,149
The accompanying notes are an integral part of this schedule.				

SANDERS COUNTY, MONTANA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2016

*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 Uniform Guidance. 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, 2016, 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, 2017.

**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 over financial reporting.

*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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses listed as item 2016-001.

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

### **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.

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

March 28, 2017

***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  
THE UNIFORM GUIDANCE**

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) 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, 2016. 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 Title 2 U.S., *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion 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, 2016.

### **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 the Uniform Guidance, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

March 28, 2017

SANDERS COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2016

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued	<i>Unmodified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**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>\$ 750,000</u>
Auditee qualified as low-risk auditee?	No

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section II – Financial Statement Findings

#### 2016-001      Deficit Fund Balances

**Condition:**

The County overspent the available resources in the Comprehensive Liability, Law Enforcement Block Grants, and Special Projects funds causing the funds to have a deficit fund balance because there aren't any assets to cover outstanding payables.

**Context:**

The auditor performed an analysis of the funds with deficit funds balances and the reason for the deficit.

**Criteria:**

Internal control procedures should be in place to review the funds balances periodically and ensure there are available resources prior to expending costs.

**Effect:**

There are deficiencies in the Comprehensive liability fund - \$50,079, Law Enforcement Block Grant fund - \$20,817, and Special Projects fund - \$10,925 that the County will need to review and determine how to correct.

**Cause:**

1. In the comprehensive liability fund, the County didn't levy any floating mills in fiscal year 2016 causing a reduction in funding totaling about \$66,000.
2. The Law Enforcement Block Grant and Special Projects funds have been deficit balances for several years due to overspending on grants or not meeting match requirements.

**Recommendation:**

The auditor recommends that the comprehensive liability fund receive a transfer from the general fund at the end of the year to cover loss of mill levies, and transfer funds to the law enforcement block grant and special project funds to close out these funds as they have been inactive for several years.

### 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 two recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
2015-001 Inventory Balances	Implemented
2015-002 Exceeding Budget Authority	Implemented

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

March 28, 2017



**Nichol Scribner**  
**Sanders County Clerk & Recorder/Assessor/Surveyor**  
PO Box 519  
Thompson Falls, MT 59873  
406-827-6922 (Phone)  
406-827-6970 (Fax)  
nscribner@sanderscounty.mt.gov

March 27, 2017

Contact Person:

Nichol Scribner  
Clerk and Recorder  
PO Box 519  
Sanders County, MT  
406-827-6922

Expected Completion Date of Corrective Action Plan:

June 30, 2017

**CORRECTIVE ACTION PLAN**

**FINDING 2016-001: The County overspent the available resources in the Comprehensive Liability, Law Enforcement Block Grants, and Special Projects funds causing the funds to have a deficit fund balance because there aren't any assets to cover outstanding payables.**

Response: The County will implement internal control procedures to review the fund balances quarterly and ensure there are available resources prior to expending costs. The county will transfer funds from the general fund to the Comprehensive liability fund at the end of each fiscal year to cover loss of mill levies, and transfer funds to the law enforcement block grant and special project funds to close out these funds as they have been inactive for several years.

**STATUS OF PRIOR AUDIT FINDINGS**

**2015-001 Inventory Balances** 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.

**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.—*In progress to be completed for FY 2017-18*

**2015-002 Exceeding Budget Authority** Inadequate monitoring of budgeted expenditures compared to actual expenditures.

**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. – *COMPLETE*