

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2020

AUDIT REPORT

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

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2020

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SANDERS COUNTY, MONTANA

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SANDERS COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2020

BOARD OF COUNTY COMMISSIONERS

| | |
|----------------|--------------|
| Carol Brooker | Commissioner |
| Anthony B. Cox | Commissioner |
| Glen E. Magera | Commissioner |

COUNTY OFFICIALS

| | |
|------------------------|--|
| Nichol Scribner | Clerk & Recorder/Elections Administrator |
| Candace "Candy" Fisher | Clerk of Court |
| Tom Rummel | Sheriff |
| Douglas S. Dryden | Justice of the Peace |
| Naomi Leisz | County Attorney |

Sanders County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Our discussion and analysis of Sanders County's financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the County's financial statements.

USING THIS ANNUAL REPORT

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

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps determine if the County as a whole is better off or worse as a result of the year's activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

In the Statement of Net Position and the Statement of Activities the County has two activities:

- **Governmental Activities:** The County's basic services are reported here, including the sheriff's department, road department, and general administration. Property taxes and state and federal grants finance most of these activities.
- **Business-Type Activities -** These services have a charge based upon the amount of usage. The solid waste fund is the county's only business type activity fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds-not the County as a whole. The County's funds can be divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds: The County's services are reported in governmental funds. The governmental fund statements provide a detailed short-term view of cash, the fund operations, and the basic services it provides. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a separate reconciliation.

Proprietary Funds: The County maintains only one Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for their solid waste activities.

Sanders County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Fiduciary Funds: All the County's fiduciary activities are reported in the Statement of Fiduciary Net Position and Changes in Fiduciary Net Position. Fiduciary activities are excluded from the County's other financial statements because the County cannot use these assets to finance operations, but is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the governmental-wide and fund financial statements. The notes to the financial statements begin after the financial statements.

THE COUNTY AS A WHOLE

Table 1 - Net Position

| | Governmental Activities | | | Business-type Activities | | | Change Inc (Dec) |
|----------------------------------|-------------------------|---------------|-----------------------------|--------------------------|--------------|-----------------------------|---------------------|
| | FY20 | FY19 | Change Inc (Dec) | FY20 | FY19 | Change Inc (Dec) | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Current and other assets | \$ 12,762,312 | \$ 13,316,154 | \$ (553,842) | \$ 582,637 | \$ 565,130 | \$ 17,507 | |
| Capital assets | 28,688,828 | 12,086,651 | 16,602,177 | 5,421,141 | 1,667,650 | 3,753,491 | |
| Total assets | \$ 41,451,140 | \$ 25,402,805 | \$ 16,048,335 | \$ 6,003,778 | \$ 2,232,780 | \$ 3,770,998 | |
| Long-term debt outstanding | \$ 5,319,522 | \$ 5,312,116 | \$ 7,406 | \$ 5,358,362 | \$ 1,456,897 | \$ 3,901,465 | |
| Other liabilities | 2,572,495 | 2,937,688 | (365,193) | 81,326 | 77,494 | 3,832 | |
| Total liabilities | \$ 7,892,017 | \$ 8,249,804 | \$ (357,787) | \$ 5,439,688 | \$ 1,534,391 | \$ 3,905,297 | |
| Net investment in capital assets | \$ 28,035,441 | \$ 11,234,200 | \$ 16,801,241 | \$ 439,159 | \$ 583,582 | \$ (144,423) | |
| Restricted | 4,210,445 | 4,722,694 | (512,249) | 38,806 | - | 38,806 | |
| Unrestricted (deficit) | 1,313,237 | 1,196,107 | 117,130 | 86,125 | 114,807 | (28,682) | |
| Total net position | \$ 33,559,123 | \$ 17,153,001 | \$ 16,406,122 | \$ 564,090 | \$ 698,389 | \$ (134,299) | |

Governmental Activities:

Net position of the County's governmental activities increased \$16,406,122 or 95.6 percent in 2020. This is primarily due to the county taking ownership of the new Heron bridge. The bridge construction was completed by the state; however, at completion, the ownership was transferred to the county. The cost of the new bridge was \$16,169,186.

Business Type Activities:

Net position of the County's business type activities decreased \$134,299 or 19.2 percent in 2020. This is primarily due to a decrease in net investment in capital assets. The solid waste department completed the construction of their new transfer station with a total cost of \$4,562,940. The new transfer station was paid for with revenue bonds which is the primary reason for the increase in long term debt outstanding. Lastly, the county disposed of capital assets during fiscal year 2020 at a loss of \$104,090.

Sanders County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Table 2 - Changes in Net Position

| | Governmental Activities | | | Business-type Activities | | | Change Inc (Dec) | |
|--|-------------------------|-------------------|---------------------|--------------------------|--------------------|-----------------|---------------------|--|
| | FY20 | FY19 | Change Inc (Dec) | FY20 | FY19 | | | |
| Revenues | | | | | | | | |
| <i>Program revenues (by major source):</i> | | | | | | | | |
| Charges for services | \$ 952,773 | \$ 1,374,230 | \$ (421,457) | \$ 1,317,903 | \$ 968,696 | \$ 349,207 | | |
| Operating grants and contributions | 2,745,581 | 1,604,324 | 1,141,257 | - | - | - | | |
| Capital grants and contributions | 50,000 | - | 50,000 | - | - | - | | |
| <i>General revenues (by major source):</i> | | | | | | | | |
| Property taxes for general purposes | 6,391,103 | 6,040,857 | 350,246 | - | - | - | | |
| Licenses and permits | 13,585 | 11,685 | 1,900 | - | - | - | | |
| State on behalf payments | - | - | - | 7,423 | - | - | 7,423 | |
| Miscellaneous | 34,856 | 88,901 | (54,045) | - | 185 | (185) | | |
| Interest/investment earnings | 118,913 | 133,024 | (14,111) | 6,238 | 4,934 | 1,304 | | |
| Unrestricted federal/state shared revenues | 650,599 | 567,870 | 82,729 | - | - | - | | |
| State entitlement | 1,095,091 | 1,057,232 | 37,859 | - | - | - | | |
| State on behalf | - | - | - | - | 7,150 | (7,150) | | |
| Total revenues | \$ 12,052,501 | \$ 10,878,123 | \$ 1,174,378 | \$ 1,331,564 | \$ 980,965 | \$ 350,599 | | |
| Program expenses | | | | | | | | |
| General government | \$ 2,317,588 | \$ 2,511,060 | \$ (193,472) | \$ - | \$ - | \$ - | | |
| Public safety | 2,601,639 | 2,916,375 | (314,736) | - | - | - | | |
| Public works | 4,479,668 | 3,614,327 | 865,341 | - | - | - | | |
| Public health | 396,939 | 404,831 | (7,892) | - | - | - | | |
| Social and economic services | 342,359 | 427,433 | (85,074) | - | - | - | | |
| Culture and recreation | 408,652 | 487,182 | (78,530) | - | - | - | | |
| Housing and community development | 38,160 | 9,944 | 28,216 | - | - | - | | |
| Debt service - principal | - | 37,747 | (37,747) | - | - | - | | |
| Debt service - interest | 31,589 | - | 31,589 | - | - | - | | |
| Miscellaneous | 4,504 | 2,765 | 1,739 | - | - | - | | |
| Solid waste | - | - | - | 1,283,953 | 1,041,804 | 242,149 | | |
| Total expenses | \$ 10,621,098 | \$ 10,411,664 | \$ 209,434 | \$ 1,283,953 | \$ 1,041,804 | \$ 242,149 | | |
| Excess (deficiency) before special items and transfers | 1,431,403 | 466,459 | 964,944 | 47,611 | (60,839) | 108,450 | | |
| Gain (loss) on sale of capital assets | (58,968) | 35,709 | (94,677) | (104,090) | - | (104,090) | | |
| Extraordinary item - fire insurance proceeds | 81,353 | 478,330 | (396,977) | - | - | - | | |
| Increase (decrease) in net position | \$ 1,453,788 | \$ 980,498 | \$ 473,290 | \$ (56,479) | \$ (60,839) | \$ 4,360 | | |

Governmental Activities: Line items with more significant changes over the prior year include operating grants and contributions which increased \$1,141,257. The county received Cares Act grants for Covid-19 in FY 2020 as follows: Public Safety \$339,690, 911 Emergency \$115,711 and PHEP Covid \$16,528. In addition, the county received an FAA grant, milfoil grant and homeland security grant not received in the prior year. Another significant variance can be found in the extraordinary item line which decreased \$396,977. This line item represents insurance proceeds for a road department building that was destroyed in FY 2019. The \$81,353 is the final insurance payment for the road department building.

Business Type Activities: The cost of all County enterprise activities for the year ending June 30, 2020 was \$1,283,953 compared to \$1,041,804 for the year ending June 30, 2019, an increase of \$242,149 or 23.2 percent. The primary reason for the increase is due to increased hauling fees paid to a third party. Also, charges for services increased \$349,207 due to the county increasing user rates in fiscal year 2020.

Sanders County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

THE COUNTY FUNDS

Following is an analysis of balances in the County's major funds:

General Fund (Governmental Fund) - The General fund had a decrease in fund balance of \$211,643. The General fund transferred \$1,471,920 to other funds which included \$651,920 to partially pay for a new road shop, and \$600,000 to a capital projects fund.

Road Fund (Governmental Fund) - The Road fund had a decrease in fund balance of \$1,120,570 in 2020. Reasons for the decrease are due to the county transferring \$498,080 to pay for the construction of a new road shop and increased road projects during fiscal year 2020.

Public Safety Fund (Governmental Fund) - The Public Safety fund had an increase of \$278,486 in fund balance due to receiving cares act grant funds (covid -19) in the amount of \$339,690.

Building Improvement Fund (Governmental Fund) - The Building Improvement fund had an increase of \$602,676 in fund balance primarily due to a \$600,000 transfer from the general fund.

Solid Waste Fund (Enterprise Fund) – Solid waste had a decrease in net position in FY 2020 of \$56,479. The cost of solid waste activities for the year ending June 30, 2020 was \$1,283,953 compared to \$1,041,804 for the year ending June 30, 2019, an increase of \$242,149 or 23.2 percent. The primary reason for the increase is due to increased hauling fees paid to a third party. Also, charges for services increased \$349,207 due to the county increasing user rates in fiscal year 2020.

GENERAL FUND BUDGETARY HIGHLIGHTS (ORIGINAL VS. FINAL VS. ACTUAL)

| | General Fund | | | |
|--|--------------------|--------------------|------------------|--------------------------|
| | Original Budget | Final Budget | Actual | Actual to Final Variance |
| Resources (Inflows): | | | | |
| Taxes/assessments | \$ 2,103,824 | \$ 2,103,824 | \$ 2,155,357 | \$ 51,533 |
| Licenses and permits | 600 | 600 | - | (600) |
| Intergovernmental revenues | 1,200,897 | 1,200,897 | 1,329,965 | \$ 129,068 |
| Charges for services | 291,311 | 291,311 | 330,542 | \$ 39,231 |
| Fines and forfeitures | 67,130 | 67,130 | 65,586 | \$ (1,544) |
| Miscellaneous | 141,630 | 141,630 | 18,808 | \$ (122,822) |
| Investment and royalty earnings | 105,000 | 105,000 | 112,653 | \$ 7,653 |
| Amounts available for appropriation | <u>3,910,392</u> | <u>3,910,392</u> | <u>4,012,911</u> | <u>102,519</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government | 2,680,289 | 2,680,289 | 2,457,142 | 223,147 |
| Public safety | - | - | - | - |
| Public health | 300,210 | 300,210 | 232,094 | 68,116 |
| Social and economic services | 152,491 | 152,491 | 134,481 | 18,010 |
| Housing and Community Development | 10,000 | 10,000 | 12,660 | (2,660) |
| Miscellaneous | - | - | - | - |
| Capital outlay | 445,000 | 445,000 | 239,312 | 205,688 |
| Total charges to appropriations | <u>3,587,990</u> | <u>3,587,990</u> | <u>3,075,689</u> | <u>512,301</u> |
| OTHER FINANCING SOURCES/USES: | | | | |
| Proceeds from sale of capital assets | - | - | 4,600 | 4,600 |
| Fund transfers in | 253,736 | 253,736 | 318,454 | 64,718 |
| Fund transfers (out) | (1,350,000) | (1,350,000) | (645,000) | 705,000 |
| Total other financing sources/uses | <u>(1,096,264)</u> | <u>(1,096,264)</u> | <u>(321,946)</u> | <u>774,318</u> |

**Sanders County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020**

Final budget to actual variances for 2020 is as follows:

The favorable variance in general government expenditures in the amount of \$223,147 is not due to any particular item, but rather the majority of departments within the general fund spending less than budgeted. The favorable variance in capital outlay expenditures in the amount of \$205,688 is due to the county budgeting for building repairs that did not materialize in FY 2020. Lastly, transfers out did not materialize as budgeted.

Budget amendments were approved as follows:

There were no general fund budget amendments during fiscal year 2020.

DEBT ADMINISTRATION

Total long-term debt, increased in fiscal year 2020 due to the completion of the Solid Waste Transfer Station which was funded with revenue bonds. There was no new debt in the governmental funds. Compensated absence increased \$48,505 in governmental funds and decreased \$12,368 in the enterprise fund. The total OPEB liability reported is \$294,522. Sanders County implemented GASB 68 in FY 2015 and reported a net pension liability of \$4,203,878 and \$336,867 in the governmental and enterprise funds, respectively.

CAPITAL ASSETS

At the end of fiscal year 2020, the County had \$28,688,828 (governmental funds) and \$5,421,141 (enterprise funds) invested in a broad range of capital assets (net of depreciation). Governmental activity and enterprise assets increased \$16,602,177 and \$3,753,491 over the prior year.

The governmental activity increase is primarily due to the county taking ownership of the new Heron bridge. The bridge construction was completed by the state; however, at completion, the ownership was transferred to the county. The cost of the new bridge was \$16,169,186.

The solid waste department (business type activity) completed the construction of their new transfer station with a total cost of \$4,562,940, which is the primary reason for the increase in capital assets.

Sanders County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

| | Governmental Activities | | <u>Variance</u> |
|----------------------------|-------------------------|----------------------|----------------------|
| | <u>2020</u> | <u>2019</u> | |
| Land | \$ 2,345,924 | \$ 2,345,924 | \$ - |
| Construction in progress | 129,102 | 98,144 | 30,958 |
| Depreciable capital assets | 26,213,802 | 9,642,583 | 16,571,219 |
| Total | \$ 28,688,828 | \$ 12,086,651 | \$ 16,602,177 |

| | Business Type Activities | | <u>Variance</u> |
|----------------------------|--------------------------|---------------------|---------------------|
| | <u>2020</u> | <u>2019</u> | |
| Land | \$ 177,608 | \$ 177,608 | \$ - |
| Construction in progress | - | 1,068,540 | (1,068,540) |
| Depreciable capital assets | 5,243,533 | 421,503 | 4,822,030 |
| Total | \$ 5,421,141 | \$ 1,667,651 | \$ 3,753,490 |

ECONOMIC FACTORS, BUDGETS AND RATES

The annual budget assures the efficient, effective and economic uses of the County's resources, as well as establishing what projects and objectives are carried out according to prioritized planning. Through the budget, the County Commissioners set the direction of the County and allocates its resources.

Situations having a negative impact primarily on revenue, tax receipts, associated losses and services with Sanders County are: 1) Fluctuating utility prices. 2) Rising costs of liability, health and workers compensation insurance premiums. 3) Risk of large forest fires. 4) Uncertainty of Secure Rural Schools funding and PILT. 5) Costs of repairs on aging buildings.

At the time of this analysis, gasoline and oil prices have stabilized which positively impacts Public Safety, Roads and Solid Waste. Tourism is a continuing strength in the economy and appears to be on the rise. Also, the lumber industry is doing well.

The following factors were considered in preparing the budget for the 2020 fiscal year:

- Capital improvements such as road repairs, road equipment, public safety vehicles, building repairs, and data processing machinery and equipment replacement were budgeted for in fiscal year 2021.
- Taxable value increased from \$44,210,679 in fiscal year 2020 to \$45,016,056 in fiscal year 2021.
- Revenues are expected to remain relatively consistent with the prior year.

It is our goal to maintain and provide the services needed to the residents of Sanders County. We feel by striving for a stable economy and reliable revenue sources, 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.

**Sanders County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020**

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors of the County with a general overview of the County's finances and to show the accountability for the money it receives and expends. If you have any questions about this report or need additional financial information, contact: Clerk and Recorder, PO BOX 519, Thompson Falls, MT 59873

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, 2020, 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, 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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2020, the County adopted new accounting guidance, GASB statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 14, the previously issued financial statements of the governmental activities and solid waste fund have been restated for the correction of a misstatement in the respective period totaling \$1,101,277 and \$77,820 related to the County's reporting of the total OPEB liability under the alternative measurement method. This restatement did not affect our opinion as it was determined to be appropriate.

As discussed in Note 14, the previously issued financial statements of the governmental activities have been restated for the correction of a misstatement in the respective period totaling a net \$16,067,299 related to the County's reporting of the new Herron Bridge capital asset and related accumulated depreciation that was not previously recognized in capital assets. This restatement did not affect our opinion as it was determined to be appropriate.

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 changes in the total OPEB liability and related ratios, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 8, and 63 through 69 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 23, 2021, 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 the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sanders County, Montana's internal control over financial reporting and compliance.

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

March 23, 2021

Sanders County, Montana
Statement of Net Position
June 30, 2020

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments | \$ 10,494,180 | \$ 277,037 | \$ 10,771,217 |
| Taxes and assessments receivable, net | 160,628 | 206,975 | 367,603 |
| Due from other governments | 703,840 | - | 703,840 |
| Inventories | 270,694 | - | 270,694 |
| Total current assets | <u>\$ 11,629,342</u> | <u>\$ 484,012</u> | <u>\$ 12,113,354</u> |
| Noncurrent assets | | | |
| Restricted cash and investments | \$ - | \$ 38,806 | \$ 38,806 |
| Capital assets - land | 2,345,924 | 177,608 | 2,523,532 |
| Capital assets - construction in progress | 129,102 | - | 129,102 |
| Capital assets - depreciable, net | 26,213,802 | 5,243,533 | 31,457,335 |
| Total noncurrent assets | <u>\$ 28,688,828</u> | <u>\$ 5,459,947</u> | <u>\$ 34,148,775</u> |
| Total assets | <u>\$ 40,318,170</u> | <u>\$ 5,943,959</u> | <u>\$ 46,262,129</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources - pensions | 1,132,970 | \$ 59,819 | 1,192,789 |
| Total deferred outflows of resources | <u>\$ 1,132,970</u> | <u>\$ 59,819</u> | <u>\$ 1,192,789</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | |
| | <u>\$ 41,451,140</u> | <u>\$ 6,003,778</u> | <u>\$ 47,454,918</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Warrants payable | \$ 1,144,271 | \$ - | \$ 1,144,271 |
| Accounts payable | 11,549 | - | 11,549 |
| Accrued payables | 70,078 | 5,877 | 75,955 |
| Current portion of long-term capital liabilities | 500,934 | 150,357 | 651,291 |
| Current portion of compensated absences payable | 346,693 | 29,635 | 376,328 |
| Total current liabilities | <u>\$ 2,073,525</u> | <u>\$ 185,869</u> | <u>\$ 2,259,394</u> |
| Noncurrent liabilities | | | |
| Deposits payable | \$ 504 | \$ - | \$ 504 |
| Noncurrent portion of OPEB | 275,084 | 19,438 | 294,522 |
| Noncurrent portion of long-term capital liabilities | 152,453 | 4,831,625 | 4,984,078 |
| Noncurrent portion of compensated absences | 115,564 | 9,878 | 125,442 |
| Net pension liability | 4,203,878 | 336,867 | 4,540,745 |
| Total noncurrent liabilities | <u>\$ 4,747,483</u> | <u>\$ 5,197,808</u> | <u>\$ 9,945,291</u> |
| Total liabilities | <u>\$ 6,821,008</u> | <u>\$ 5,383,677</u> | <u>\$ 12,204,685</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources - pensions | \$ 1,071,009 | \$ 56,011 | \$ 1,127,020 |
| Total deferred inflows of resources | <u>\$ 1,071,009</u> | <u>\$ 56,011</u> | <u>\$ 1,127,020</u> |
| NET POSITION | | | |
| Net investment in capital assets | \$ 28,035,441 | \$ 439,159 | \$ 28,474,600 |
| Restricted for debt service | - | 38,806 | 38,806 |
| Restricted for special projects | 4,210,445 | - | 4,210,445 |
| Unrestricted | 1,313,237 | 86,125 | 1,399,362 |
| Total net position | <u>\$ 33,559,123</u> | <u>\$ 564,090</u> | <u>\$ 34,123,213</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | | |
| | <u>\$ 41,451,140</u> | <u>\$ 6,003,778</u> | <u>\$ 47,454,918</u> |

See accompanying Notes to the Financial Statements

Sanders County, Montana
 Statement of Activities
 For the Fiscal Year Ended June 30, 2020

| Functions/Programs | Net (Expenses) Revenues and Changes in Net Position | | | | | Primary Government Business-type Activities | |
|---|--|--|--|----------------------------|-----------------------------|---|--|
| | Program Revenues | | | Primary Government | | | |
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 2,317,588 | \$ 121,159 | \$ 304,593 | \$ (1,891,836) | \$ (1,891,836) | | |
| Public safety | 2,601,639 | 379,260 | 201,573 | (2,020,806) | (2,020,806) | | |
| Public works | 4,479,668 | 178,272 | 1,431,634 | (2,819,762) | (2,819,762) | | |
| Public health | 396,939 | 606 | 749,196 | 352,863 | 352,863 | | |
| Social and economic services | 342,359 | - | 11,119 | (331,240) | (331,240) | | |
| Culture and recreation | 408,652 | 273,476 | - | (135,176) | (135,176) | | |
| Housing and community development | 38,160 | - | 47,466 | 9,306 | 9,306 | | |
| Debt service - interest | 31,589 | - | - | (31,589) | (31,589) | | |
| Miscellaneous | 4,504 | - | - | (4,504) | (4,504) | | |
| Total governmental activities | \$ 10,621,098 | \$ 952,773 | \$ 2,745,581 | \$ 50,000 | \$ (6,872,744) | \$ (6,872,744) | |
| Business-type activities: | | | | | | | |
| Solid waste | \$ 1,283,953 | \$ 1,317,903 | \$ - | \$ - | \$ 33,950 | \$ 33,950 | |
| Total business-type activities | \$ 1,283,953 | \$ 1,317,903 | \$ - | \$ - | \$ 33,950 | \$ 33,950 | |
| Total primary government | \$ 11,905,051 | \$ 2,270,676 | \$ 2,745,581 | \$ 50,000 | \$ (6,872,744) | \$ 33,950 | |
| General Revenues: | | | | | | | |
| Property taxes for general purposes | \$ - | \$ 6,391,103 | \$ - | \$ - | \$ 6,391,103 | \$ - | |
| Licenses and permits | \$ - | \$ 13,585 | \$ - | \$ - | \$ 13,585 | \$ - | |
| State on behalf payments | \$ - | \$ - | \$ - | \$ 7,423 | \$ 7,423 | \$ - | |
| Miscellaneous | \$ 34,856 | \$ - | \$ - | \$ - | \$ 34,856 | \$ - | |
| Interest/investment earnings | \$ 118,913 | \$ - | \$ - | \$ 6,238 | \$ 6,238 | \$ 125,151 | |
| Unrestricted federal/state shared revenues | \$ 650,599 | \$ - | \$ - | \$ - | \$ 650,599 | \$ - | |
| State entitlement | \$ 1,095,091 | \$ - | \$ - | \$ - | \$ 1,095,091 | \$ - | |
| Gain (loss) on sale of capital assets | \$ (58,968) | \$ - | \$ - | \$ (104,090) | \$ (104,090) | \$ (163,058) | |
| Extraordinary item - fire insurance proceeds | \$ 81,353 | \$ - | \$ - | \$ - | \$ 81,353 | \$ - | |
| Total general revenues, special items and transfers | \$ 8,236,532 | \$ - | \$ (90,429) | \$ - | \$ 8,236,103 | \$ - | |
| Change in net position | \$ 1,453,788 | \$ - | \$ (56,479) | \$ - | \$ 1,397,309 | \$ - | |
| Net position - beginning | \$ 17,153,001 | \$ 698,389 | \$ 17,851,390 | \$ 17,851,390 | \$ 17,851,390 | \$ 17,851,390 | |
| Restatements | \$ 14,922,334 | \$ (77,820) | \$ 14,847,514 | \$ 14,847,514 | \$ 14,847,514 | \$ 14,847,514 | |
| Net position - beginning - restated | \$ 32,105,335 | \$ 620,569 | \$ 32,725,904 | \$ 32,725,904 | \$ 32,725,904 | \$ 32,725,904 | |
| Net position - end | \$ 33,559,123 | \$ 564,090 | \$ 34,123,213 | \$ 34,123,213 | \$ 34,123,213 | \$ 34,123,213 | |

See accompanying Notes to the Financial Statements

Sanders County, Montana
 Balance Sheet
 Governmental Funds
 June 30, 2020

| | General | Road | Public Safety | Building Improvements | Other Governmental Funds | Total Governmental Funds |
|--|----------------------------|--------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and investments | \$ 5,586,796 | \$ 558,826 | \$ 598,440 | \$ 1,527,676 | \$ 2,222,442 | \$ 10,494,180 |
| Taxes and assessments receivable, net | 4,7646 | 19,240 | 49,834 | - | 43,908 | 160,628 |
| Due from other funds | 17,023 | - | - | - | - | 17,023 |
| Due from other governments | 88,403 | 10,000 | 356,078 | - | 249,359 | 703,840 |
| Inventories | 14,448 | 220,736 | - | - | 35,510 | 270,694 |
| Total current assets | <u>\$ 5,754,316</u> | <u>\$ 808,802</u> | <u>\$ 1,004,352</u> | <u>\$ 1,527,676</u> | <u>\$ 2,551,219</u> | <u>\$ 11,646,365</u> |
| TOTAL ASSETS | <u>\$ 5,754,316</u> | <u>\$ 808,802</u> | <u>\$ 1,004,352</u> | <u>\$ 1,527,676</u> | <u>\$ 2,551,219</u> | <u>\$ 11,646,365</u> |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Warrants payable | \$ 1,144,271 | \$ - | \$ - | \$ - | \$ - | \$ 1,144,271 |
| Accounts payable | - | - | - | - | - | - |
| Accrued payables | 25,361 | 17,205 | 27,512 | - | - | 11,549 |
| Due to other funds | - | - | - | - | - | 70,078 |
| Due to other governments | - | - | - | - | - | 17,023 |
| Total current liabilities | <u>\$ 1,170,136</u> | <u>\$ 17,205</u> | <u>\$ 27,512</u> | <u>\$ -</u> | <u>\$ 28,572</u> | <u>\$ 1,243,425</u> |
| Total liabilities | <u>\$ 1,170,136</u> | <u>\$ 17,205</u> | <u>\$ 27,512</u> | <u>\$ -</u> | <u>\$ 28,572</u> | <u>\$ 1,243,425</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred inflows of resources - taxes and assessments | \$ 47,646 | \$ 19,240 | \$ 49,834 | \$ - | \$ 43,908 | \$ 160,628 |
| Total deferred inflows of resources | <u>\$ 47,646</u> | <u>\$ 19,240</u> | <u>\$ 49,834</u> | <u>\$ -</u> | <u>\$ 43,908</u> | <u>\$ 160,628</u> |
| FUND BALANCES | | | | | | |
| Nonspendable | \$ 14,448 | \$ 220,736 | \$ - | \$ - | \$ 35,510 | \$ 270,694 |
| Restricted | - | 551,621 | 927,006 | - | 2,362,590 | 3,841,217 |
| Committed | - | - | - | 1,527,676 | 87,554 | 1,615,230 |
| Unassigned fund balance | 4,522,086 | - | - | - | (6,915) | 4,515,171 |
| Total fund balance | <u>\$ 4,536,534</u> | <u>\$ 772,357</u> | <u>\$ 927,006</u> | <u>\$ 1,527,676</u> | <u>\$ 2,478,739</u> | <u>\$ 10,242,312</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | <u>\$ 5,754,316</u> | <u>\$ 808,802</u> | <u>\$ 1,004,352</u> | <u>\$ 1,527,676</u> | <u>\$ 2,551,219</u> | <u>\$ 11,646,365</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, 2020

| | |
|--|-----------------------------|
| Total fund balances - governmental funds | \$ 10,242,312 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 28,688,828 |
| 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. | 160,628 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. | (1,390,728) |
| Net pension liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. | (4,203,878) |
| The changes between actuarial assumptions, differences in expected vs actual pension experiences, changes in proportionate share allocation, and current year retirement contributions as they relate to the net pension liability are a deferred outflow of resources and are not payable in current period, therefore are not reported in the funds. | 1,132,970 |
| The changes between actuarial assumptions, differences in projected vs actual investment earnings, and changes in proportionate share allocation as they relate to the net pension liability are a deferred inflows of resources and are not available to pay for current expenditures, there for are not reported in the funds. | (1,071,009) |
| Total net position - governmental activities | \$ <u>33,559,123</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, 2020

| | General | Road | Public Safety | Building Improvements | Governmental Funds | Other | Total |
|---|-----------------------|-----------------------|----------------------|------------------------------|---------------------------|----------------------|----------------------|
| REVENUES | | | | | | | |
| Taxes and assessments | \$ 2,155,357 | \$ 854,140 | \$ 1,807,787 | \$ 13,585 | \$ - | \$ 1,560,543 | \$ 6,377,827 |
| Licenses and permits | - | - | - | - | - | - | 13,585 |
| Intergovernmental | 1,329,965 | 1,356,681 | 351,045 | - | - | 1,015,622 | 4,053,313 |
| Charges for services | 330,343 | 27,929 | 358,705 | - | - | 499,044 | 1,216,221 |
| Fines and forfeitures | 65,386 | - | - | - | - | 5,605 | 71,191 |
| Miscellaneous | 18,808 | 52,020 | 19,601 | - | - | 26,982 | 117,411 |
| Investment earnings | 112,653 | - | - | - | - | 6,260 | 118,913 |
| Total revenues | <u>\$ 4,012,912</u> | <u>\$ 2,290,770</u> | <u>\$ 2,550,723</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,114,056</u> | <u>\$ 11,968,461</u> |
| EXPENDITURES | | | | | | | |
| General government | \$ 2,457,142 | \$ 6,976 | \$ - | \$ - | \$ - | \$ 23,169 | \$ 2,487,287 |
| Public safety | - | - | 2,353,318 | - | - | 451,086 | 2,804,404 |
| Public works | - | 2,938,710 | - | - | - | 780,443 | 3,719,153 |
| Public health | 232,094 | - | - | - | - | 198,973 | 431,067 |
| Social and economic services | 134,481 | - | - | - | - | 213,781 | 348,262 |
| Culture and recreation | - | - | - | - | - | 381,115 | 381,115 |
| Housing and community development | 12,660 | - | - | - | - | 25,500 | 38,160 |
| Debt service - principal | - | 145,795 | - | 38,100 | - | 15,169 | 199,064 |
| Debt service - interest | - | 26,361 | - | 4,390 | - | 638 | 31,589 |
| Miscellaneous | - | - | - | - | - | 4,504 | 4,504 |
| Capital outlay | - | - | - | - | - | - | - |
| Total expenditures | <u>\$ 239,312</u> | <u>\$ 83,000</u> | <u>\$ 97,192</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,348,029</u> | <u>\$ 1,767,533</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ 937,723</u> | <u>\$ (910,272)</u> | <u>\$ 2,493,000</u> | <u>\$ 57,723</u> | <u>\$ -</u> | <u>\$ 3,442,407</u> | <u>\$ 12,212,138</u> |
| | | | | | | <u>\$ (328,351)</u> | <u>\$ (243,677)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Proceeds from the sale of general capital asset disposition | \$ 4,600 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,600 |
| Transfers in | 318,454 | 287,782 | 220,763 | - | 602,676 | 1,217,552 | 2,647,227 |
| Transfers out | <u>(1,471,920)</u> | <u>(498,080)</u> | <u>(210,298)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(677,227)</u> | <u>(2,647,227)</u> |
| Total other financing sources (uses) | <u>\$ (1,148,866)</u> | <u>\$ (910,272)</u> | <u>\$ 220,763</u> | <u>\$ 602,676</u> | <u>\$ 540,335</u> | <u>\$ 4,600</u> | |
| SPECIAL AND EXTRAORDINARY ITEMS | | | | | | | |
| Extraordinary item - fire insurance proceeds | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 81,553 | \$ 81,553 |
| Net Change in Fund Balance | <u>\$ (211,643)</u> | <u>\$ (1,120,570)</u> | <u>\$ 278,486</u> | <u>\$ 602,676</u> | <u>\$ 293,327</u> | <u>\$ (157,724)</u> | |
| Fund balances - beginning | \$ 4,751,471 | \$ 1,881,836 | \$ 648,520 | \$ 925,000 | \$ 2,201,096 | \$ 10,407,923 | |
| Change in inventory | <u>(3,294)</u> | <u>11,091</u> | <u>-</u> | <u>-</u> | <u>(1,996)</u> | <u>5,801</u> | |
| Restatements | <u>\$ 4,748,177</u> | <u>\$ 1,892,927</u> | <u>\$ 648,520</u> | <u>\$ 925,000</u> | <u>\$ 2,185,412</u> | <u>\$ (13,688)</u> | <u>(13,688)</u> |
| Fund balance - beginning, restated | <u>\$ 4,536,534</u> | <u>\$ 772,357</u> | <u>\$ 927,006</u> | <u>\$ 1,527,676</u> | <u>\$ 2,478,739</u> | <u>\$ 10,242,312</u> | <u>\$ 10,400,036</u> |
| Fund balance - ending | | | | | | | |

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, 2020

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

Net change in fund balances - total governmental funds \$ (157,724)

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 | 1,767,533 |
| - Depreciation expense | (1,169,086) |

In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized.

The fund financial statements recognize only the proceeds from the sale of these assets:

| | |
|--|----------|
| - Proceeds from the sale of capital assets | (4,600) |
| - Gain on the sale of capital assets | (58,968) |

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 inflows) | 13,276 |
|--|--------|

The change in compensated absences is shown as an expense in the Statement of Activities (48,505)

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 | 199,064 |
|-------------------------------------|---------|

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 | 926,093 |
|--|---------|

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 (19,096)

The change in inventory is shown as an expense in the Statement of Activities 5,801

Change in net position - Statement of Activities \$ 1,453,788

See accompanying Notes to the Financial Statements

Sanders County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2020

| | Business-Type Activities - Enterprise Funds | Solid Waste |
|--|--|--------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and investments | \$ 277,037 | |
| Taxes and assessments receivable, net | <u>206,975</u> | |
| Total current assets | <u>\$ 484,012</u> | |
| Noncurrent assets: | | |
| Restricted cash and investments | \$ 38,806 | |
| Capital assets - land | 177,608 | |
| Capital assets - construction in progress | <u>5,243,533</u> | |
| Total noncurrent assets | <u>\$ 5,459,947</u> | |
| Total assets | <u>\$ 5,943,959</u> | |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources - pensions | \$ 59,819 | |
| Total deferred outflows of resources | <u>\$ 59,819</u> | |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 6,003,778</u> | |
| LIABILITIES | | |
| Current liabilities: | | |
| Accrued payables | \$ 5,877 | |
| Current portion of long-term capital liabilities | 150,357 | |
| Current portion of compensated absences payable | <u>29,635</u> | |
| Total current liabilities | <u>\$ 185,869</u> | |
| Noncurrent liabilities: | | |
| Noncurrent portion of OPEB | \$ 19,438 | |
| Noncurrent portion of long-term capital liabilities | 4,831,625 | |
| Noncurrent portion of compensated absences | 9,878 | |
| Net pension liability | <u>336,867</u> | |
| Total noncurrent liabilities | <u>\$ 5,197,808</u> | |
| Total liabilities | <u>\$ 5,383,677</u> | |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources - pensions | \$ 56,011 | |
| Total deferred inflows of resources | <u>\$ 56,011</u> | |
| NET POSITION | | |
| Net investment in capital assets | \$ 439,159 | |
| Restricted for debt service | 38,806 | |
| Unrestricted | <u>86,125</u> | |
| Total net position | <u>\$ 564,090</u> | |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 6,003,778</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, 2020

| | Business-Type Activities - Enterprise Funds |
|--|--|
| | Solid Waste |
| OPERATING REVENUES | |
| Charges for services | \$ 1,315,496 |
| Miscellaneous revenues | 2,407 |
| Total operating revenues | <u>\$ 1,317,903</u> |
| OPERATING EXPENSES | |
| Personal services | \$ 386,536 |
| Supplies | 68,662 |
| Purchased services | 627,943 |
| Fixed charges | 19,107 |
| Depreciation | 75,641 |
| Total operating expenses | <u>\$ 1,177,889</u> |
| Operating income (loss) | <u>\$ 140,014</u> |
| NON-OPERATING REVENUES (EXPENSES) | |
| Intergovernmental revenue | \$ 7,423 |
| Interest revenue | 6,238 |
| Debt service interest expense | <u>(106,064)</u> |
| Total non-operating revenues (expenses) | <u>\$ (92,403)</u> |
| Income (loss) before contributions and transfers | \$ 47,611 |
| SPECIAL AND EXTRAORDINARY ITEMS | |
| Gain (loss) on sale of capital assets | \$ (104,090) |
| Change in net position | <u>\$ (56,479)</u> |
| Net Position - Beginning of the year | \$ 698,389 |
| Restatements | <u>(77,820)</u> |
| Net Position - Beginning of the year - Restated | <u>\$ 620,569</u> |
| Net Position - End of the year | <u>\$ 564,090</u> |

See accompanying Notes to the Financial Statements

Sanders County, Montana
Combined Statement of Cash Flows
All Proprietary Fund Types
Fiscal Year Ended June 30, 2020

| | Business - Type Activities |
|---|---------------------------------------|
| Cash flows from operating activities: | |
| Receipts from Customers | \$ 1,259,891 |
| Payments to Employees | (442,485) |
| Payments to Suppliers | (68,662) |
| Payments for Professional Services | (647,049) |
| Net cash provided (used) by operating activities | <u><u>\$ 101,695</u></u> |
| Cash flows from capital and related financing activities: | |
| Revenue Bond Proceeds | \$ 8,912,962 |
| Purchases/Acquisitions/Construction of Capital Assets | (3,933,223) |
| Principal Paid on Debt | (5,015,048) |
| Interest Paid on Debt | (106,064) |
| Net cash provided (used) by capital and related financing activities | <u><u>\$ (141,373)</u></u> |
| Cash flows from non-capital financing activities: | |
| Receipts from other governments | \$ 7,424 |
| Net cash provided (used) from non-capital financing activities | <u><u>\$ 7,424</u></u> |
| Cash flows from investing activities: | |
| Interest on investments | \$ 6,238 |
| Net cash provided (used) by investing activities | <u><u>\$ 6,238</u></u> |
| Net increase (decrease) in cash and cash equivalents | \$ (26,016) |
| Cash and cash equivalents at beginning | \$ 341,859 |
| Cash and cash equivalents at end | <u><u>\$ 315,843</u></u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | |
| Operating income (loss) | \$ 140,014 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation | 75,641 |
| Change in assets and liabilities: | |
| Accounts Receivable | (58,011) |
| Deferred Outflows - Pension | 14,488 |
| Deferred flows - Pension | (8,298) |
| Net Pension Liability | 15,920 |
| OPEB | (65,671) |
| Accrued Payable | (19) |
| Compensated Absences Payable | (12,369) |
| Net cash provided (used) by operating activities | <u><u>\$ 101,695</u></u> |

See accompanying notes to the financial statements

Sanders County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2020

| | Investment Trust Funds | Private Purpose Trust Funds | Agency Funds |
|-----------------------------------|-----------------------------------|--|----------------------------|
| ASSETS | | | |
| Cash and short-term investments | \$ 8,311,726 | \$ 3,589 | \$ 859,135 |
| Interest and dividends receivable | \$ - | \$ - | \$ 606,712 |
| Total assets | <u><u>\$ 8,311,726</u></u> | <u><u>\$ 3,589</u></u> | <u><u>\$ 1,465,847</u></u> |
| LIABILITIES | | | |
| Due to others | \$ - | \$ - | \$ 1,465,847 |
| Total liabilities | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,465,847</u></u> |
| NET POSITION | | | |
| Assets held in trust | <u><u>\$ 8,311,726</u></u> | <u><u>\$ 3,589</u></u> | |

See accompanying Notes to the Financial Statements

Sanders County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2020

| | Investment Trust Funds | Private Purpose Trust Funds |
|--|-----------------------------------|--|
| ADDITIONS | | |
| Contributions: | | |
| Contributions to Investment Trust Fund | \$ 11,100,408 | \$ _____ - |
| Total contributions | <u>\$ 11,100,408</u> | \$ _____ - |
| Investment earnings: | | |
| Interest and change in fair value of investments | \$ 98,525 | \$ _____ - |
| Total additions | <u>\$ 11,198,933</u> | \$ _____ - |
| DEDUCTIONS | | |
| Distributions from investment trust fund | \$ 11,421,673 | \$ _____ - |
| Total deductions | <u>\$ 11,421,673</u> | \$ _____ - |
| Change in net position | <u>\$ (222,740)</u> | \$ _____ - |
| Net Position - Beginning of the year | \$ 8,534,466 | \$ 3,589 |
| Net Position - End of the year | <u>\$ 8,311,726</u> | <u>\$ 3,589</u> |

See accompanying Notes to the Financial Statements

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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.

New Accounting Pronouncements

GASB No. 95 Postponement of the Effective Dates of Certain Authoritative Guidance, is effective immediately as of May 2020. The statement was implemented in response to the COVID-19 pandemic providing temporary relief to governments in relation to other GASB statements that were to be effective for the fiscal year ending June 30, 2020. That statement postponed the effective dates of implementation for the following GASB Statements; GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 90, *Majority Equity Interests*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus 2020*, and Statement No. 93 *Replacement of Interbank Offered Rates*. In addition, any of the recent implementation guides issued were postponed.

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

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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 County except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

The Statement of Net Position presents the financial condition of the governmental and business-type activities for the County at year end. 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.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Measurement Focus and Basis of Accounting

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, 2020

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the current financial resources measurement focus and 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 as collection within 60 days of the end of the current fiscal period, except for property taxes and other state grants that are recognized 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. The County's payroll and claims clearing funds are reported in this fund.

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.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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.

Building Improvement Fund – A capital project fund to account for revenues and expenses for future building improvements and capital projects around the County.

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 position. The fiduciary funds are:

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

Private-purpose Trust Funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2020, are as follows:

| | <u>Primary</u> <u>Government</u> |
|-----------------------------------|-------------------------------------|
| <u>Cash on hand and deposits:</u> | |
| Cash on hand | |
| Petty Cash | \$ 1,800 |
| Cash in banks: | |
| Demand deposits | 272,630 |
| Savings deposits | 100,076 |
| <u>Investments:</u> | |
| Repurchase agreements | 19,609,967 |
| Total | \$ <u>19,984,473</u> |

Cash equivalents

Cash equivalents are short-term, highly liquid deposits and investments that both readily convertible to known amounts of cash, and have maturities at purchase date of three months or less. The County's cash and cash equivalents (including restricted assets) are considered to be cash on hand, demand, and savings deposits, repurchase agreements and all other short-term investments with original maturity dates of three months or less from the date of acquisition.

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

Fair Value Measurements

Investments, including pooled and non-pooled investments, are reported at fair value, with the following limited exceptions: 1) investments in non-negotiable certificates of deposit are reported at cost and 2) money market investments, including U.S Treasury and Agency obligations, which mature within one year of acquisition, are reported at amortized cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between markets participates at the measurement date.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Repurchase Agreements

An agreement in which a governmental entity (buyer-lender) transfers cash to a broker dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

Credit Risk

As a means of limiting exposure to credit risk, the County is required to follow specific state statutes adding security to the deposits and investments. Below are the legal provisions provided in the state Montana Code Annotated (MCA).

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

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

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

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

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

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

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

The government has no investment policy that would further limit its investment choices.

The government has no investments that require credit risk disclosure.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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 other than that required by state statutes. All deposits are carried at cost plus accrued interest. As of June 30, 2020, the government's bank balance was exposed to custodial credit risk as follows:

| June 30, 2020 | |
|--------------------------------|-------------------|
| | <u>Balance</u> |
| <u>Depository Account</u> | |
| Insured | \$ 372,706 |
| Total deposits and investments | \$ <u>372,706</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, 2020, equaled or exceeded the amount required by State statutes.

Concentration of Credit Risk

The government places no limit on the amount the entity may invest in any one issuer. The government's concentration of credit risk percentages follow for each investment issued that is not issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments:

| | <u>% of credit risk</u> |
|-----------------------|-------------------------|
| Repurchase agreements | 100% |

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.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Condensed statements of investments pools

The following represents a condensed statement of net position and changes in net position for the Treasurer's Pool as of June 30, 2020.

Statement of Net Assets

Net assets held in trust for all pool participants:

| | |
|--------------------------------------|-----------------------------|
| Equity of internal pool participants | \$ 11,398,318 |
| Equity of external pool participants | <u>8,311,726</u> |
| Total equity | <u><u>\$ 19,710,044</u></u> |

Condensed Statement of Changes in Net Assets

| | External | Internal |
|---------------------------------|----------------------------|-----------------------------|
| Investment earnings | \$ 98,525 | \$ 135,113 |
| Contributions to trust | 11,100,408 | 15,376,775 |
| Distributions paid | <u>(11,421,673)</u> | <u>(15,451,714)</u> |
| Net change in net assets | <u>\$ (222,740)</u> | <u>\$ 60,174</u> |
| Net assets at beginning of year | 8,534,466 | 11,338,144 |
| Net assets at end of year | <u><u>\$ 8,311,726</u></u> | <u><u>\$ 11,398,318</u></u> |

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the County as of June 30, 2020. These amounts are reported within the cash/investment account on the Statement of Net Position.

| <u>Fund</u> | <u>Description</u> | <u>Amount</u> |
|-------------|--------------------------------|-------------------------|
| 5410 | Revenue bond reserve | \$ 17,306 |
| 5410 | Revenue bond asset replacement | <u>21,500</u> |
| Total | | <u><u>\$ 38,806</u></u> |

NOTE 4. RECEIVABLES

Tax Receivables

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the 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.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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

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

NOTE 5. INVENTORIES

Inventories are recorded as an expense when purchased. At year-end, if the value of inventory is significant, it must be recorded as an asset. Inventories are account for under the first in first out method.

NOTE 6. 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 capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

| | |
|--------------|--------------|
| Buildings | 60 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 2020 Basic Financial Statements.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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

Governmental activities:

| | <u>Balance</u> | | | | | | <u>Balance</u> |
|---|-----------------------------|--------------------------|---------------------------|-----------------------------|---------------------|-----------------------|-----------------------------|
| | <u>July 1, 2019</u> | <u>Additions</u> | <u>Disposals</u> | <u>Restatements</u> | <u>Transfers</u> | | <u>June 30, 2020</u> |
| Capital assets not being depreciated: | | | | | | | |
| Land | \$ 2,345,924 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,345,924 |
| Construction in progress | 98,143 | 1,465,989 | - | - | - | (1,435,030) | 129,102 |
| Total capital assets not being depreciated | <u>\$ 2,444,067</u> | <u>\$ 1,465,989</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,435,030)</u> | <u>\$ 2,475,026</u> |
| Other capital assets: | | | | | | | |
| Buildings | \$ 2,959,925 | \$ 47,332 | \$ - | \$ - | \$ 1,228,677 | \$ - | \$ 4,235,934 |
| Improvements other than buildings | 9,772,421 | 27,725 | (105,121) | 16,169,187 | - | - | 25,864,212 |
| Machinery and equipment | <u>10,431,973</u> | <u>226,487</u> | <u>(983,573)</u> | <u>-</u> | <u>206,353</u> | <u>-</u> | <u>9,881,240</u> |
| Total other capital assets at historical cost | <u>\$ 23,164,319</u> | <u>\$ 301,544</u> | <u>\$ (1,088,694)</u> | <u>\$ 16,169,187</u> | <u>\$ 1,435,030</u> | <u>\$ -</u> | <u>\$ 39,981,386</u> |
| Less: accumulated depreciation | <u>\$ (13,521,735)</u> | <u>\$ (1,169,086)</u> | <u>\$ 1,025,125</u> | <u>\$ (101,888)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (13,767,584)</u> |
| Total | <u><u>\$ 12,086,651</u></u> | <u><u>\$ 598,447</u></u> | <u><u>\$ (63,569)</u></u> | <u><u>\$ 16,067,299</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 28,688,828</u></u> |

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:

| | |
|--|----------------------------|
| General government | \$ 43,475 |
| Public safety | 140,309 |
| Public works | 940,908 |
| Public health | 162 |
| Culture and recreation | <u>44,232</u> |
| Total governmental activities depreciation expense | <u><u>\$ 1,169,086</u></u> |

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

Business-type activities:

| | <u>Balance</u> | | | | | <u>Balance</u> |
|---|----------------------------|----------------------------|----------------------------|-----------------------|--------------------|----------------------------|
| | <u>July 1, 2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>Restatements</u> | <u>Transfers</u> | <u>June 30, 2020</u> |
| Capital assets not being depreciated: | | | | | | |
| Land | \$ 177,608 | \$ - | \$ - | \$ - | \$ - | \$ 177,608 |
| Construction in progress | 1,068,540 | 3,494,401 | - | - | (4,562,941) | - |
| Total capital assets not being depreciated | <u>\$ 1,246,148</u> | <u>\$ 3,494,401</u> | <u>\$ -</u> | <u>\$ (4,562,941)</u> | <u>\$ -</u> | <u>\$ 177,608</u> |
| Other capital assets: | | | | | | |
| Buildings | \$ 398,473 | \$ - | \$ (309,909) | \$ 4,562,941 | \$ - | \$ 4,651,505 |
| Improvements other than buildings | 24,583 | 11,654 | - | - | - | 36,237 |
| Machinery and equipment | <u>1,820,933</u> | <u>427,169</u> | <u>(548,031)</u> | <u>-</u> | <u>-</u> | <u>1,700,071</u> |
| Total other capital assets at historical cost | <u>\$ 2,243,989</u> | <u>\$ 438,823</u> | <u>\$ (857,940)</u> | <u>\$ 4,562,941</u> | <u>\$ -</u> | <u>\$ 6,387,813</u> |
| Less: accumulated depreciation | <u>\$ (1,822,487)</u> | <u>\$ (75,641)</u> | <u>\$ 753,848</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,144,280)</u> |
| Total | <u><u>\$ 1,667,650</u></u> | <u><u>\$ 3,857,583</u></u> | <u><u>\$ (104,092)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 5,421,141</u></u> |

NOTE 7. LONG TERM DEBT OBLIGATIONS

In the governmental-wide, 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.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2020, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

| | <u>Balance</u> | | | <u>Balance</u> | | <u>Due Within</u> |
|-----------------------|---------------------|------------------|---------------------|----------------------|-------------------|-------------------|
| | <u>July 1, 2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2020</u> | | <u>One Year</u> |
| Intercap loans | \$ 22,733 | \$ - | \$ (15,170) | \$ 7,563 | \$ 7,563 | |
| Loans/Contracted debt | 200,000 | - - | (100,000) | 100,000 | 100,000 | |
| Capital leases | 629,718 | - - | (83,894) | 545,824 | 393,371 | |
| Compensated absences | 413,752 | 48,505 | - - | 462,257 | 346,693 | |
| Total | <u>\$ 1,266,203</u> | <u>\$ 48,505</u> | <u>\$ (199,064)</u> | <u>\$ 1,115,644</u> | <u>\$ 847,627</u> | |

In prior years the General Fund was used to liquidate compensated absences and claims and judgments.

Business-type Activities:

| | <u>Balance</u> | | | <u>Balance</u> | | <u>Due Within</u> |
|------------------------|---------------------|---------------------|-----------------------|----------------------|---------------------|-------------------|
| | <u>July 1, 2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2020</u> | | <u>One Year</u> |
| Bond anticipation note | \$ 1,011,039 | \$ 3,950,961 | \$ (4,962,000) | \$ - | \$ - | - - |
| Revenue bonds | - - | 4,962,000 | (43,001) | 4,918,999 | 4,918,999 | 87,374 |
| Capital leases | 73,029 | - - | (10,046) | 62,983 | 62,983 | |
| Compensated absences | 51,881 | - - | (12,368) | 39,513 | 39,513 | 29,635 |
| Total | <u>\$ 1,135,949</u> | <u>\$ 8,912,961</u> | <u>\$ (5,027,415)</u> | <u>\$ 5,021,495</u> | <u>\$ 5,021,495</u> | <u>\$ 179,992</u> |

Revenue Bonds - The County also issues bonds where the County pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year-end were as follows:

| <u>Purpose</u> | <u>Origination</u> | <u>Interest</u> | <u>Bond</u> | <u>Maturity</u> | <u>Bonds</u> | <u>Annual</u> | <u>Balance</u> |
|---------------------------|--------------------|-----------------|-------------|-----------------|--------------------|------------------|----------------------|
| | <u>Date</u> | <u>Rate</u> | <u>Term</u> | <u>Date</u> | <u>Amount</u> | <u>Payment</u> | <u>June 30, 2020</u> |
| Series 2019A Revenue bond | 12/12/19 | 1.75% | 40yrs | 12/12/59 | \$5,538,000 | \$123,406 | \$ 3,507,340 |
| Series 2019B Revenue bond | 12/12/19 | 1.75% | 40yrs | 12/12/59 | 1,124,000 | 39,205 | 1,114,259 |
| Series 2019C Revenue bond | 12/12/19 | 1.75% | 40yrs | 12/12/59 | 300,000 | 10,463 | 297,400 |
| | | | | | <u>\$6,962,000</u> | <u>\$173,074</u> | <u>\$ 4,918,999</u> |

Reported in business-type activities.

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The most significant covenants are summarized in detail below:

The County is to maintain a Reserve Account for the USDA Series A, B, and C Bonds equal to at least one annual loan installment that accumulates at a rate of 10% of one annual payment per year for ten years or until the balance of the reserve is equal to one annual loan payment. The amount of required reserve at the end of June 30, 2020 equaled \$17,306, which the County reported in its restricted cash as described in Note 3. The County is in compliance with this requirement at June 30, 2020.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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The County is also required to a Short-Lived Asset Account for the USDA Series A, B, C Bonds. The County is required to deposit \$21,500 annually into this account over the life of the revenue bonds. This is the first year of the requirement, so the required amount at the end of June 30, 2020 equaled \$21,500 and the Solid Waste Fund reported a restricted cash in the amount of \$21,500 disclosed in further detail at Note 3. The County is in compliance with this requirement at June 30, 2020.

Annual requirement to amortize debt:

| For Fiscal | | | |
|-------------------|---------------------|---------------------|--|
| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> | |
| 2021 | \$ 87,374 | \$ 85,705 | |
| 2022 | 88,907 | 84,169 | |
| 2023 | 90,471 | 82,605 | |
| 2024 | 91,839 | 81,237 | |
| 2025 | 93,674 | 79,402 | |
| 2026 | 95,321 | 77,755 | |
| 2027 | 96,996 | 76,080 | |
| 2028 | 98,499 | 74,577 | |
| 2029 | 100,433 | 72,643 | |
| 2030 | 102,199 | 70,877 | |
| 2031 | 103,994 | 69,082 | |
| 2032 | 105,639 | 67,437 | |
| 2033 | 107,679 | 65,397 | |
| 2034 | 109,572 | 63,504 | |
| 2035 | 111,498 | 61,578 | |
| 2036 | 113,294 | 59,780 | |
| 2037 | 115,448 | 57,628 | |
| 2038 | 117,478 | 55,598 | |
| 2039 | 119,543 | 53,533 | |
| 2040 | 121,504 | 51,572 | |
| 2041 | 123,780 | 49,296 | |
| 2042 | 125,955 | 47,121 | |
| 2043 | 128,169 | 44,907 | |
| 2044 | 130,306 | 42,770 | |
| 2045 | 132,712 | 40,363 | |
| 2046 | 135,045 | 38,031 | |
| 2047 | 137,418 | 35,658 | |
| 2048 | 139,745 | 33,331 | |
| 2049 | 142,291 | 30,785 | |
| 2050 | 144,791 | 28,285 | |
| 2051 | 147,336 | 25,740 | |
| 2052 | 149,864 | 23,212 | |
| 2053 | 152,560 | 20,516 | |
| 2054 | 155,241 | 17,835 | |
| 2055 | 157,970 | 15,106 | |
| 2056 | 160,714 | 12,362 | |
| 2057 | 163,570 | 9,506 | |
| 2058 | 166,446 | 6,630 | |
| 2059 | 169,371 | 3,705 | |
| 2060 | 84,353 | 740 | |
| Total | <u>\$ 4,918,999</u> | <u>\$ 1,916,058</u> | |

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Loans/Contracted Debt

Loans/contracted debts outstanding as of June 30, 2020, 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>Annual Payment</u> | <u>Balance June 30, 2020</u> |
|---------------------|-------------------------|----------------------|-------------|----------------------|-------------------------|-----------------------|------------------------------|
| Gravel pit purchase | 7/28/16 | 4.00% | 5yrs | 7/28/21 | \$400,000 | \$110,196 | \$100,000 |

Reported in the governmental activities.

Annual requirement to amortize debt:

| For Fiscal | | |
|-------------------|------------------|-----------------|
| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
| 2021 | \$ 100,000 | \$ 10,196 |
| Total | \$ 100,000 | \$ 10,196 |

Intercap Loans

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

Intercap loans outstanding as of June 30, 2020, 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>Annual Payment</u> | <u>Balance June 30, 2020</u> |
|------------------|-------------------------|----------------------|-------------|----------------------|-------------------------|-----------------------|------------------------------|
| Fairgrounds Area | | 1.00- | | | | | |
| Concession Stand | 7/30/10 | 1.95% | 10yrs | 8/15/20 | \$140,556 | Varies | \$ 7,563 |

Reported in the governmental activities.

Annual requirement to amortize debt:

| For Fiscal | | |
|-------------------|------------------|-----------------|
| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
| 2021 | \$ 7,563 | \$ 37 |
| Total | \$ 7,563 | \$ 37 |

Capital Leases

The County has entered into a several leases which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2020, 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>Annual Payment</u> | <u>Balance June 30, 2020</u> |
|--------------------------------|-------------------------|----------------------|-------------|----------------------|-------------------------|-----------------------|------------------------------|
| RD1 motor grader (1) | 3/10/16 | 3.20% | 5yrs | 3/10/21 | \$ 219,348 | 16,572 | \$ 179,264 |
| RD2 motor grader (1) | 11/16/16 | 2.25% | 5yrs | 10/16/21 | 245,723 | 22,622 | 171,477 |
| RD3 motor grader (1) | 3/10/16 | 3.20% | 5yrs | 3/10/21 | 243,003 | 22,966 | 179,263 |
| 2-2018 dodge rams (1) | 12/7/18 | 8.16% | 4yrs | 5/21/21 | 61,010 | 17,160 | 15,820 |
| Caterpillar Backhoe Loader (2) | 4/12/16 | 3.20% | 5yrs | 4/21/21 | 113,417 | 12,382 | 62,983 |
| Total | | | | | \$1,193,501 | \$133,604 | \$ 608,807 |

(1) Reported in the governmental activities.

(2) Reported in business-type activities.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Annual requirement to amortize debt:

| For Fiscal | | |
|-------------------|-------------------|------------------|
| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
| 2021 | \$ 456,354 | \$ 18,427 |
| 2022 | 152,453 | 1,146 |
| Total | <u>\$ 608,807</u> | <u>\$ 19,573</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 the excess cannot be carried forward 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 8. 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, 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 Entity. The government has not created a trust to accumulate assets to assist in covering the defined benefit plan costs, and covers these costs 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 section 2-18-704, MCA. 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
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Employees covered by benefit terms. At June 30, 2020, the following employees were covered by the benefit terms:

| | |
|--|------------------|
| Inactive employees or beneficiaries receiving benefit payments | 2 |
| Active employees | <u>91</u> |
| Total employees | <u><u>93</u></u> |

Total OPEB Liability

The County's total OPEB liability of \$294,523 at June 30, 2020, was determined by the alternative measurement method with a measurement date of June 30, 2020.

Actuarial assumptions and other input. The total OPEB liability in the June 30, 2020 entry age 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) | 1.45% |
| Average salary increase (Consumer Price Index) | 3.00% |

Health care cost rate trend (County experience)

| <u>Year</u> | <u>% Increase</u> |
|---------------------|--------------------------|
| 2020 | 3.0% |
| 2021 | 3.0% |
| 2022 | 3.0% |
| 2023 | 3.0% |
| 2024 | 3.0% |
| 2025 | 3.0% |
| 2026 | 3.0% |
| 2027 | 3.0% |
| 2028 | 3.0% |
| 2029 | 3.0% |
| 2030 and thereafter | 3.0% |

The participation rate is estimated to be 5.00% per County experience.

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, 2017 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 68, No. 7, June 24, 2019.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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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 6/30/2019 | \$ 107,190 |
| Changes for the year: | |
| Service Cost | \$ 97,074 |
| Change in assumptions | (1,088,838) |
| Net Changes | \$ (991,764) |
| Restatements | <u>1,179,097</u> |
| Balance at 6/30/2020 | <u>\$ 294,523</u> |

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%:

| | 1% Decrease (0.45%) | Discount Rate (1.45%) | 1% Increase (2.45%) |
|----------------------|------------------------|--------------------------|------------------------|
| Total OPEB Liability | \$ 340,986 | \$ 294,523 | \$ 255,366 |

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%:

| | 1% Decrease | Healthcare Cost Trends* | 1% Increase |
|----------------------|-------------|----------------------------|-------------|
| Total OPEB Liability | \$ 244,498 | \$ 294,523 | \$ 356,620 |

**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, 2020, the County recognized an OPEB expense of \$(991,764). 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 actuarial entry age method. In addition, since 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, 2020

NOTE 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2020, was as follows:

| Due to/from other funds | | | |
|--------------------------------|------------------------------|--|-----------------|
| <u>Purpose</u> | <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
| Cover negative cash balance | General – Major Governmental | Sanders County Coalition for Families – Non-major Governmental | \$ 3,131 |
| Cover negative cash balance | General – Major Governmental | DNRC Grant – Non-major Governmental | 697 |
| Cover negative cash balance | General – Major Governmental | Homeland Security Grant – Non-major Governmental | 368 |
| Cover negative cash balance | General – Major Governmental | WIC Grant – Non-major Governmental | 5,367 |
| Cover negative cash balance | General – Major Governmental | PHEP Covid Grant – Non-major Governmental | 2,719 |
| Cover negative cash balance | General – Major Governmental | Tobacco Grant – Non-major Governmental | <u>4,741</u> |
| | | | <u>\$17,023</u> |

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2020:

| <u>Purpose</u> | <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--|------------------------------|--|---------------|
| Correction of miscoded grant from previous years | General – Major Governmental | Eurasian Watermilfoil – Non-major Governmental | \$ 15,771 |
| Health insurance transfer | General – Major Governmental | Permissive Medical Levy – Non-major Governmental | 253,498 |
| Close out fund | General – Major Governmental | Land Use Planning – Non-major Governmental | 39,918 |
| Close out fund | General – Major Governmental | UST Program – Non-major Governmental | 645 |
| Correction of miscoded grant from previous years | General – Major Governmental | WIC – Non-major Governmental | 8,622 |
| Operating Transfer | Road – Major Governmental | PILT – Non-major Governmental | 175,000 |

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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| | | | |
|---|---|--|--------------------|
| Health insurance transfer | Road – Major Governmental | Permissive Medical Levy – Non-major Governmental | 112,782 |
| Sheriff SRS levy transfer | Public Safety – Major Governmental | SRS Permissive Levy | 30,270 |
| Health insurance transfer | Public Safety – Major Governmental | Permissive Medical Levy – Non-major Governmental | 190,493 |
| Operating Transfer | Noxious Weed – Non-major Governmental | Weed Control – Non-major Governmental | 6,076 |
| Operating Transfer | Community Development Housing Grant – Non-major Governmental | General – Major Governmental | 45,000 |
| Fund future capital costs | JMV Capital Improvement – Non-major Governmental | Junk Motor Vehicle – Non-major Governmental | 14,476 |
| Fund future capital costs | Building Improvement – Non-major Governmental | General – Major Governmental | 600,000 |
| Fund future capital costs | Building Improvement – Non-major Governmental | Road Shop District 3 – Non-major Governmental | 2,676 |
| Transfer insurance proceeds to shop rebuild | Road Shop District 3 – Non-major Governmental | Road – Major Governmental | 498,080 |
| Support shop rebuild capital project | Road Shop District 3 – Non-major Governmental | PILT – Non-major Governmental | 651,920 |
| Fund future capital costs | Library Capital Improvement – Non-major Governmental | Library – Non-major Governmental | <u>2,000</u> |
| | | | <u>\$2,647,227</u> |

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 10. NET PENSION LIABILITY (NPL)

As of June 30, 2020, the County reported the following balances as its proportionate share of PERS and SRS pension amounts:

County's Proportionate Share Associated With:

| | <u>PERS</u> | <u>SRS</u> | <u>Pension Totals</u> |
|---------------------------------|--------------|------------|-----------------------|
| Net Pension Liability | \$ 3,548,340 | \$ 992,405 | \$ 4,540,745 |
| Deferred inflows of resources | \$ 589,977 | \$ 537,043 | \$ 1,127,020 |
| Deferred outflows of resources* | \$ 630,101 | \$ 562,688 | \$ 1,192,789 |
| Pension expense | \$ 440,743 | \$ 71,215 | \$ 511,958 |

*Deferred outflows for PERS and SRS are reported as of the reporting date which includes employer contributions made subsequent to the measurement date of \$268,187 and \$130,680, respectively. These amounts will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Total deferred inflows and outflows in the remainder of the note are as of the measurement date of June 30, 2019.

The following are the detailed disclosures for each retirement plan as required by GASB 68.

Public Employee's Retirement System – Defined Benefit Retirement Plan

Summary of Significant Accounting Policies

The County's employees participate in the Public Employees Retirement System (PERS) administered by the Montana Public Employee Retirement Administration (MPERA). MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to, or Deductions from, Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

SANDERS COUNTY, MONTANA
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Plan Descriptions

The PERS-Defined Benefit Retirement Plan (PERS) 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 provides retirement benefits to covered employees of 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 defined contribution retirement plan (PERS-DCRP) by filing an irrevocable election. Members may not be participants 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. All new members from the universities also have third option to join the university system's Montana University System Retirement Program (MUS-RP).

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.

Summary of Benefits

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.

Second Retirement (requires returning to PERS-covered employer or PERS service):

1) Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:

- a. A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
- b. No service credit for second employment;

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

- c. Start the same benefit amount the month following termination; and
- d. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:

- a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
- b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:

- a. The same retirement as prior to the return to service;
- b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
- c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

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;

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.

SANDERS COUNTY, MONTANA
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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.

- 3.0% 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.

Contributions

The state Legislature has the authority to establish and amend contributions rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers

Special Funding: The state of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as special funding. Those employers who received special funding are all participating employers

Not Special Funding: Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are not accounted for as special funding state agencies and universities but are reported as employer contributions.

Member and employer contribution rates are shown in the table below.

| Fiscal Year | Member | | State & Universities | | Local Government | | School Districts | |
|-------------|---------------------|---------------------|----------------------|----------|------------------|----------|------------------|--|
| | Hired < 07/01/11 | Hired > 07/01/11 | Employer | Employer | State | Employer | State | |
| 2020 | 7.900% | 7.900% | 8.770% | 8.670% | 0.100% | 8.400% | 0.370% | |
| 2019 | 7.900% | 7.900% | 8.670% | 8.570% | 0.100% | 8.300% | 0.370% | |
| 2018 | 7.900% | 7.900% | 8.570% | 8.470% | 0.100% | 8.200% | 0.370% | |
| 2017 | 7.900% | 7.900% | 8.470% | 8.370% | 0.100% | 8.100% | 0.370% | |
| 2016 | 7.900% | 7.900% | 8.370% | 8.270% | 0.100% | 8.000% | 0.370% | |
| 2015 | 7.900% | 7.900% | 8.270% | 8.170% | 0.100% | 7.900% | 0.370% | |
| 2014 | 7.900% | 7.900% | 8.170% | 8.070% | 0.100% | 7.800% | 0.370% | |
| 2012 – 2013 | 6.900% | 7.900% | 7.170% | 7.070% | 0.100% | 6.800% | 0.370% | |
| 2010 – 2011 | 6.900% | | 7.170% | 7.070% | 0.100% | 6.800% | 0.370% | |
| 2008 – 2009 | 6.900% | | 7.035% | 6.935% | 0.100% | 6.800% | 0.235% | |
| 2000 - 2007 | 6.900% | | 6.900% | 6.800% | 0.100% | 6.800% | 0.100% | |

SANDERS COUNTY, MONTANA
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1. Rates are specified by state law and are a percentage of the member's compensation.
 - a. Contributions are deducted from each member's salary and remitted by participating employers;
 - b. 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. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
 - b. 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.
 - iii. The State contributed a statutory appropriation from its General Fund of \$33,454,182.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2020, was determined by taking the results of the June 30, 2019, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards and Practice issued by the Actuarial Standards Board.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2020, and 2019 (reporting dates), are displayed below. The County proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The County recorded a liability of \$3,548,340 and the County's proportionate share was 0.169752 percent.

| | Net Pension Liability as of 6/30/2020 | Net Pension Liability as of 6/30/2019 | Percent of Collective NPL as of 6/30/2020 | Percent of Collective NPL as of 6/30/2019 | Change in Percent of Collective NPL |
|---|---|---|---|---|--|
| Employer Proportionate Share | \$ 3,548,340 | \$ 3,516,559 | 0.169752% | 0.168487% | 0.001265% |
| State of Montana Proportionate Share associated with Employer | 1,151,681 | 1,174,041 | 0.055096% | 0.056251% | -0.001155% |
| Total | \$ 4,700,021 | \$ 4,690,600 | 0.224848% | 0.224738% | 0.000110% |

Changes in actuarial assumptions and methods:

There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms:

There were no changes in benefit terms since the previous measurement date.

Changes in proportionate share:

Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

Pension Expense:

At June 30, 2020, the County recognized a Pension Expense of \$362,556 for its proportionate share of the pension expense. The County also recognized grant revenue of \$2,690 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the County. Additionally, the County recognized grant revenue of \$75,497 from the State Statutory Appropriation from the General Fund.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

| | Pension Expense as of 6/30/20 | Pension Expense as of 6/30/19 |
|---|----------------------------------|----------------------------------|
| Employer Proportionate Share | \$ 362,556 | \$ 250,429 |
| State of Montana Proportionate Share associated with the Employer | 2,690 | 78,354 |
| State of Montana State Appropriation for the Employer | 75,497 | - |
| Total | \$ 440,743 | \$ 328,783 |

Recognition of Beginning Deferred Outflow

At June 30, 2020, the County recognized a beginning deferred outflow of resources for the County's fiscal year 2019 contributions of \$247,714.

Recognition of Deferred Inflows and Outflows:

At June 30, 2020, the County reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 168,254 | \$ 166,964 |
| Actual vs. Expected Investment Earnings | 43,023 | - |
| Changes in Assumptions | 150,637 | - |
| Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions | - | 423,013 |
| Employer contributions subsequent to the measurement date - FY20* | 268,187 | - |
| Total | \$ 630,101 | \$ 589,977 |

*Amounts reported as deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date have been recognized as a reduction of the net pension liability in the year ended June 30, 2020.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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

| For the Measurement Year ended June 30: | Recognition of Deferred Outflows and Deferred Inflows in Future years as an increase or (decrease) to Pension Expense |
|--|--|
| 2020 | \$ (4,475) |
| 2021 | \$ (278,204) |
| 2022 | \$ 16,005 |
| 2023 | \$ 38,613 |
| Thereafter | \$ - |

Actuarial Assumptions

The total pension liability used to calculate the NPL was determined by taking the results of the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions.

- Investment Return (net of admin expense) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth* 3.50%
- *includes Inflation at 2.75%
- Merit Increases 0% to 6.3%
- Postretirement Benefit Increase Below:

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:
 - 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, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among Disabled members are based on RP 2000 Combined Mortality Tables with no projections.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption. Including historical rates of return, rate of return assumptions 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 inflations) are developed 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 by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, are summarized in the table below.

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return Arithmetic Basis</u> |
|--------------------|--------------------------------|--|
| Cash Equivalents | 2.60% | 4.00% |
| Domestic Equity | 36.00% | 4.55% |
| Foreign Equity | 18.00% | 6.35% |
| Fixed Income | 23.40% | 1.00% |
| Private Equity | 12.00% | 7.75% |
| Real Estate | <u>8.00%</u> | 4.00% |
| Total | <u>100%</u> | |

Discount Rate

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

| 1.0% Decrease (6.65%) | Current Discount Rate | 1.0% Increase (8.65%) |
|--------------------------|--------------------------|--------------------------|
| \$ 5,097,954 | \$ 3,548,340 | \$ 2,246,086 |

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 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

PERS Disclosure for the defined contribution plan

SanderCounty contributed to the state of Montana Public employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS 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 participants of both the defined benefit and defined contribution retirement plans.

Member and employer contributions rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The state Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2018, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 316 employers that have participants in the PERS-DCRP totaled \$746,144.

Pension plan fiduciary net position: The stand-alone financial statements (76d) of the Montana Public Employees Retirement Board (PERB) Comprehensive Annual Financial Report (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at <http://mpera.mt.gov/index.shtml>.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Sheriff's Retirement System

Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA) prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Plan Descriptions

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

Service retirement:

- 20 years of membership service.
- 2.5% of HAC x years of service credit.

Early retirement:

- Age 50 with 5 years of membership service.
- This benefit calculated using HAC and service credit at early retirement, and reduced to the actuarial equivalent commencing at the earliest of age 60 or the attainment of 20 years of service credit.

Second Retirement:

Applies to retirement system members re-employed in an SRS position on or after July 1, 2017:

- 1) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - a. Is not awarded service credit for the period of reemployment;

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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b. Is refunded the accumulated contributions associated with the period of reemployment;

c. Starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and

d. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.

2) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:

a. Is awarded service credit for the period of reemployment;

b. Starting the first month following termination of service, receives:

i. The same retirement benefit previously paid to the member, and

ii. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and

c. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:

i. On the initial retirement benefit in January immediately following second retirement, and

ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.

3) A member who returns to covered service is not eligible for a disability benefit.

Vesting

5 years of membership service

Member's compensation period used in benefit calculation

- HAC = Highest Average Compensation
- Hired prior to July 1, 2011: HAC is average of the highest 36 consecutive months of compensation paid to member.
- Hired on or after July 1, 2011: HAC is average of the highest 60 consecutive months of compensation paid to member.

Compensation Cap

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

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

| <u>Fiscal Year</u> | <u>Member</u> | <u>Employer</u> |
|---------------------------|----------------------|------------------------|
| 2018-2019 | 10.245% | 13.115% |
| 2010-2017 | 9.245% | 10.115% |
| 2008-2009 | 9.245% | 9.825% |
| 1998-2007 | 9.2.45% | 9.535% |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2020, was determined by taking the results of the June 30, 2019, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards and Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the County's and the state of Montana's NPL for June 30, 2020, and 2019 (reporting dates), are displayed below. The County proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The County recorded a liability of \$992,405 and the County's proportionate share was 1.1900 percent.

| | <u>Net Pension Liability as of 6/30/2020</u> | <u>Net Pension Liability as of 6/30/2019</u> | <u>Percent of Collective NPL as of 6/30/2020</u> | <u>Percent of Collective NPL as of 6/30/2019</u> | <u>Change in Percent of Collective NPL</u> |
|------------------------------|--|--|--|--|--|
| Employer Proportionate Share | \$ 992,405 | \$ 850,301 | 1.1900% | 1.1311% | 0.0588% |
| Total | \$ <u>992,405</u> | \$ <u>850,301</u> | <u>1.1900%</u> | <u>1.1311%</u> | <u>0.0588%</u> |

Changes in actuarial assumptions and methods:

There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms:

There were no changes in benefit terms since the previous measurement date.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Changes in proportionate share:

Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

Pension Expense:

At June 30, 2020, the County recognized a Pension Expense of \$71,215 for its proportionate share of the pension expense.

| | Pension Expense as of 6/30/20 | Pension Expense as of 6/30/19 |
|------------------------------|----------------------------------|----------------------------------|
| Employer Proportionate Share | \$ 71,215 | \$ (21,277) |
| Total | <u><u>\$ 71,215</u></u> | <u><u>\$ (21,277)</u></u> |

Recognition of Beginning Deferred Outflow

At June 30, 2020, the County recognized a beginning deferred outflow of resources for the County's fiscal year 2019 contributions of \$125,288.

Recognition of Deferred Inflows and Outflows:

At June 30, 2020, the County reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 63,922 | \$ 1,200 |
| Actual vs. Expected Investment Earnings | 19,183 | - |
| Changes in Assumptions | 310,651 | 535,843 |
| Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions | 38,252 | - |
| Employer contributions subsequent to the measurement date - FY20* | 130,680 | - |
| Total | <u><u>\$ 562,688</u></u> | <u><u>\$ 537,043</u></u> |

*Amounts reported as deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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

| For the Measurement Year ended June 30: | Recognition of Deferred Outflows and Deferred Inflows in Future years as an increase or (decrease) to Pension Expense |
|--|--|
| 2020 | \$ (56,600) |
| 2021 | \$ (109,597) |
| 2022 | \$ 25,773 |
| 2023 | \$ 35,390 |
| Thereafter | \$ - |

Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions.

- Investment Return (net of admin expense) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth* 3.50%
- *includes Inflation at 2.75%
- Merit Increases 0% to 6.3%
- 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.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Mortality assumptions among contributing members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Mortality Tables with no projections.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption. Including historical rates of return, rate of return assumptions 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 inflations) are developed 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 by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, are summarized in the table below.

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return Arithmetic Basis</u> |
|--------------------|--------------------------------|--|
| Cash Equivalents | 2.60% | 4.00% |
| Domestic Equity | 36.00% | 4.55% |
| Foreign Equity | 18.00% | 6.35% |
| Fixed Income | 23.40% | 1.00% |
| Private Equity | 12.00% | 7.75% |
| Real Estate | 8.00% | 4.00% |
| Total | <u>100%</u> | |

Discount Rate

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2118. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

| | 1.0% Decrease (6.65%) | Current Discount Rate | 1.0% Increase (8.65%) |
|----|--------------------------|--------------------------|--------------------------|
| \$ | 1,760,735 | \$ 992,405 | \$ 362,608 |

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 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 11. 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 12. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

Governmental Fund equity is classified as fund balance. The County categorizes fund balance of the governmental funds into the following categories:

Non-spendable – Includes resources not in spendable form, such as inventory, or those legally required to be maintained intact, such as principal portion of permanent funds.

Restricted – includes constraint for specific purposes which are externally imposed by a third party, State Constitution, or enabling legislation.

Committed – includes constraint for specific purposes which are internally imposed by the formal action of the board. This is the government's highest level of decision-making authority, Commissioners, and a formal action is required to establish, modify, or rescind the fund balance commitment.

Unassigned – includes negative fund balances in all funds, or fund balance with no constraints in the General Fund.

The County 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 County 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> |
|---------------------|-------------------|----------------------------|
| General Fund | \$ 14,448 | Inventory |
| Road Fund | 220,736 | Inventory |
| All Other Aggregate | <u>35,510</u> | Inventory |
| Total | <u>\$ 270,694</u> | |

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

Restricted Fund Balance

| <u>Major Fund</u> | <u>Amount</u> | <u>Purpose of Restriction</u> |
|---------------------|--------------------|---|
| Road Fund | \$ 551,621 | Road Repair, maintenance and supplies |
| Public Safety Fund | 927,006 | Law Enforcement, emergency services, and supplies |
| All Other Aggregate | 45,199 | General Government administration and services |
| | 669,207 | Law Enforcement, emergency services, and supplies |
| | 44,199 | Road Repair, maintenance and supplies |
| | 240,438 | Public Health Services and Supplies |
| | 85,899 | Noxious Weed Management |
| | 319,515 | Airport services |
| | 45,712 | Social and Economic Services and travel |
| | 96,316 | Housing and Community Development |
| | 311,914 | Parks and recreation services and supplies |
| | 180,672 | Conservation of Natural Resources |
| | 67,586 | Miscellaneous |
| | 21,031 | Permanent Endowment |
| | <u>234,902</u> | Bridge Maintenance |
| Total | <u>\$3,841,217</u> | |

Committed Fund Balance

| <u>Major Fund</u> | <u>Amount</u> | <u>Purpose of Commitment</u> |
|-----------------------|--------------------|--|
| Building Improvements | \$ 1,527,676 | Constructions and/or capital asset purchases |
| All Other Aggregate | <u>87,554</u> | Constructions and/or capital asset purchases |
| Total | <u>\$1,615,230</u> | |

NOTE 13. DEFICIT FUND BALANCES/NET POSITION

| <u>Fund Name</u> | <u>Amount</u> | <u>Reason for Deficit</u> | <u>How Deficit will be Eliminated</u> |
|---------------------------|-----------------|---|---------------------------------------|
| SC coalition for families | \$ 3,131 | Insufficient resources to cover current liabilities | Transfer from general fund |
| DNRC grant | 697 | Insufficient resources to cover current liabilities | Transfer from general fund |
| Homeland security grant | 368 | Insufficient resources to cover current liabilities | Transfer from general fund |
| PHEP covid | <u>2,719</u> | Insufficient resources to cover current liabilities | Future grant revenues |
| | <u>\$ 6,915</u> | | |

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 14. 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> |
|--------------|----------------------------|--|
| Weed Fund | \$ (13,688) | Restate the beginning accounts receivables |
| Solid Waste | (77,820) | Restate the beginning OPEB liability |
| Governmental | 16,067,299 | Restate beginning capital assets for donated bridge received in prior year |
| Governmental | (1,101,277) | Restate the beginning OPEB liability |
| | <u>\$14,874,514</u> | |

NOTE 15. JOINT VENTURES

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

City-County Library

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

NOTE 16. 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.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 17. RISK MANAGEMENT

The County faces a 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.

Property and Casualty Insurance

The County is part of a public entity risk pool called the Montana Association of Counties Property and Casualty Trust (MACo PCT). The MACo PCT pool is a group self-insurance program that offers a package concept combining multiple lines of coverages designed to meet the coverage and service needs for Montana Counties and Special Districts. Liability coverages are provided for at \$750,000/claim and \$1,500,000/occurrence.

PCT Coverage Includes:

- Public officials' errors and omissions
- Employment practices including legal advice on employment issues
- Law enforcement liability
- Auto liability
- General liability
- Defense only coverage for subdivisions approval and denials
- Property
- Faithful performance of duty
- Boiler and Machinery
- Fidelity and Crime
- Professional liability

Workers Compensation Insurance

The County is part of a public entity self-insured risk sharing pool that provides statutorily mandated workers' compensation called the Montana Association of Counties Workers' Compensation Trust (MACo WCT). Coverage is proved to member counties to protect member employees from on-the-job injuries and occupational diseases.

Health Care Insurance

The County is part of a public entity risk sharing pool that provides group health benefits for Montana Counties called the Montana Association of Counties Health Care Trust (MACo HCT). The plan provides medical, pharmacy, Vision and Dental benefits.

SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 18. EXTRAORDINARY ITEMS

In January 2019, Sanders County Road District 3 experienced a fire at the shop located at 3983 MT Hwy 200, Trout Creek, Montana. There was extensive damage to the road shop building and three vehicles. The County's insurance policy with MACO covered an extensive portion of the damage. During the fiscal year, the County was reimbursed the remaining \$81,353 from insurance that is reported in the capital projects fund to rebuild the shop building. The building of the new shop was completed during the year that totaled \$1,228,677.

NOTE 19. PENDING LITIGATION

The following is a list of litigation pending against the County and the amount of damages claimed by the Plaintiff. The County Attorney evaluation as to the outcome of each case is documented below.

| <u>Case</u> | <u>Damages Requested</u> | <u>Potential of Loss</u> |
|--|--------------------------|--------------------------|
| <i>Holden, Bonnie vs Sanders County</i> | Not stated | Not Likely |
| <i>Stites, Ralph Estate vs Sanders County</i> | Not stated | Not Likely |
| <i>Kirkman, Raymond Kree vs Sanders County</i> | Not stated | Not Likely |

NOTE 20. SUBSEQUENT EVENTS

In response to the COVID-19 pandemic, Congress passed the CARE Act, Coronavirus Aid, Relief, and Economic Security Act. With the CARES Act there was several funding sources that were created to support state and local governments. These funding sources include the Coronavirus Relief Fund (CRF). The State of Montana received \$1.25 billion from the Coronavirus Relief Fund. For the County was eligible to receive assist through reimbursement request. The County has received \$1,138,216 in Coronavirus Relief Funding. COVID-19 continues to impact local communities, and it is unknown the potential future impacts on the government.

In September 2020, the County road department purchased a new wheel loader for the \$227,284. The department traded another piece of equipment equal to \$15,000 bringing the cost to the County equal to \$212,284. To pay for the remaining \$212,284, the County entered into a capital lease at a rate of 3.351% and term of 60 months.

REQUIRED SUPPLEMENTARY INFORMATION

Sanders County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2020

| | General | | | | | |
|---|-------------------------|-----------------------|-------------------------------------|-----------|-----------------------------------|--|
| | BUDGETED AMOUNTS | | ACTUAL AMOUNTS | | VARIANCE WITH FINAL BUDGET | |
| | ORIGINAL | FINAL | (BUDGETARY BASIS) See Note A | | | |
| RESOURCES (INFLows): | | | | | | |
| Taxes and assessments | \$ 2,103,824 | \$ 2,103,824 | \$ 2,155,357 | \$ | 51,533 | |
| Licenses and permits | 600 | 600 | - | \$ | (600) | |
| Intergovernmental | 656,621 | 656,621 | 757,431 | \$ | 100,810 | |
| Charges for services | 291,311 | 291,311 | 330,543 | \$ | 39,232 | |
| Fines and forfeitures | 67,130 | 67,130 | 65,586 | \$ | (1,544) | |
| Miscellaneous | 141,060 | 141,060 | 18,808 | \$ | (122,252) | |
| Investment earnings | 105,000 | 105,000 | 112,653 | \$ | 7,653 | |
| Amounts available for appropriation | <u>\$ 3,365,546</u> | <u>\$ 3,365,546</u> | <u>\$ 3,440,378</u> | <u>\$</u> | <u>74,832</u> | |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | | | |
| General government | \$ 2,680,289 | \$ 2,680,289 | \$ 2,457,142 | \$ | 223,147 | |
| Public health | 300,210 | 300,210 | 232,094 | \$ | 68,116 | |
| Social and economic services | 152,491 | 152,491 | 134,481 | \$ | 18,010 | |
| Housing and community development | 10,000 | 10,000 | 12,660 | \$ | (2,660) | |
| Capital outlay | 445,000 | 445,000 | 239,312 | \$ | 205,688 | |
| Total charges to appropriations | <u>\$ 3,587,990</u> | <u>\$ 3,587,990</u> | <u>\$ 3,075,689</u> | <u>\$</u> | <u>512,301</u> | |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds of general long term debt | \$ - | \$ - | \$ 4,600 | \$ | 4,600 | |
| Transfers in | 253,736 | 253,736 | 318,454 | \$ | 64,718 | |
| Transfers out | <u>(1,350,000)</u> | <u>(1,350,000)</u> | <u>(645,000)</u> | <u>\$</u> | <u>705,000</u> | |
| Total other financing sources (uses) | <u>\$ (1,096,264)</u> | <u>\$ (1,096,264)</u> | <u>\$ (321,946)</u> | <u>\$</u> | <u>774,318</u> | |
| Net change in fund balance | | | \$ 42,743 | | | |
| Fund balance - beginning of the year | | | \$ 2,815,224 | | | |
| Change in inventory | | | (3,294) | | | |
| Fund balance - beginning of the year - restated | | | \$ 2,811,930 | | | |
| Fund balance - end of the year | | | \$ 2,854,673 | | | |

Sanders County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2020

| | Road | | ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A | VARIANCE WITH FINAL BUDGET | | |
|---|---------------------|---------------------|--|----------------------------------|--|--|
| | BUDGETED AMOUNTS | | | | | |
| | <u>ORIGINAL</u> | <u>FINAL</u> | | | | |
| RESOURCES (INFLows): | | | | | | |
| Taxes and assessments | \$ 857,830 | \$ 857,830 | \$ 854,140 | \$ (3,690) | | |
| Intergovernmental | 1,416,550 | 1,402,625 | 1,356,681 | (45,944) | | |
| Charges for services | 3,500 | 17,425 | 27,929 | 10,504 | | |
| Miscellaneous | 60,000 | 60,000 | 52,020 | (7,980) | | |
| Amounts available for appropriation | <u>\$ 2,337,880</u> | <u>\$ 2,337,880</u> | <u>\$ 2,290,770</u> | <u>\$ (47,110)</u> | | |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | | | |
| General government | \$ 9,450 | \$ 9,450 | \$ 6,976 | \$ 2,474 | | |
| Public works | 3,182,759 | 3,182,759 | 2,938,710 | 244,049 | | |
| Debt service - principal | 145,795 | 145,795 | 145,795 | - | | |
| Debt service - interest | 26,561 | 26,561 | 26,561 | - | | |
| Capital outlay | 113,000 | 113,000 | 83,000 | 30,000 | | |
| Total charges to appropriations | <u>\$ 3,477,565</u> | <u>\$ 3,477,565</u> | <u>\$ 3,201,042</u> | <u>\$ 276,523</u> | | |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | \$ 287,886 | \$ 287,886 | \$ 287,782 | \$ (104) | | |
| Transfers out | (498,080) | (498,080) | (498,080) | - | | |
| Total other financing sources (uses) | <u>\$ (210,194)</u> | <u>\$ (210,194)</u> | <u>\$ (210,298)</u> | <u>\$ (104)</u> | | |
| Net change in fund balance | | | <u>\$ (1,120,570)</u> | | | |
| Fund balance - beginning of the year | | | \$ 1,881,836 | | | |
| Change in inventory | | | 11,091 | | | |
| Fund balance - beginning of the year - restated | | | <u>\$ 1,892,927</u> | | | |
| Fund balance - end of the year | | | <u>\$ 772,357</u> | | | |

Sanders County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2020

| | Public Safety | | | | | |
|--|-------------------------|---------------------|--|--------------|-----------------------------------|--------------|
| | BUDGETED AMOUNTS | | ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A | | VARIANCE WITH FINAL BUDGET | |
| | ORIGINAL | FINAL | ORIGINAL | FINAL | ORIGINAL | FINAL |
| RESOURCES (INFLOWS): | | | | | | |
| Taxes and assessments | \$ 1,816,638 | \$ 1,816,638 | \$ 1,807,787 | \$ | (8,851) | |
| Licenses and permits | 11,000 | 11,000 | 13,585 | | 2,585 | |
| Intergovernmental | 10,400 | 10,400 | 351,045 | | 340,645 | |
| Charges for services | 292,300 | 292,300 | 358,705 | | 66,405 | |
| Miscellaneous | 17,200 | 17,200 | 19,601 | | 2,401 | |
| Amounts available for appropriation | <u>\$ 2,147,538</u> | <u>\$ 2,147,538</u> | <u>\$ 2,550,723</u> | <u>\$</u> | <u>403,185</u> | |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | | | |
| Public safety | \$ 2,450,146 | \$ 2,450,146 | \$ 2,353,318 | \$ | 96,828 | |
| Debt service - principal | 38,100 | 38,100 | 38,100 | | - | |
| Debt service - interest | 4,390 | 4,390 | 4,390 | | - | |
| Capital outlay | 119,000 | 119,000 | 97,192 | | 21,808 | |
| Total charges to appropriations | <u>\$ 2,611,636</u> | <u>\$ 2,611,636</u> | <u>\$ 2,493,000</u> | <u>\$</u> | <u>118,636</u> | |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 221,177 | 221,177 | 220,763 | | (414) | |
| Total other financing sources (uses) | <u>\$ 221,177</u> | <u>\$ 221,177</u> | <u>\$ 220,763</u> | <u>\$</u> | <u>(414)</u> | |
| Net change in fund balance | | | \$ 278,486 | | | |
| Fund balance - beginning of the year | | | \$ 648,520 | | | |
| Fund balance - end of the year | | | <u>\$ 927,006</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

| | General | Road | Public Safety |
|--|------------------|------------------|----------------------|
| Sources/Inflows of resources | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | \$ 3,440,378 | \$ 2,290,770 | \$ 2,550,723 |
| Combined funds (GASBS 54) revenues | <u>572,534</u> | | |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds. | <u>4,012,912</u> | <u>2,290,770</u> | <u>2,550,723</u> |
| Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 3,075,689 | \$ 3,201,042 | \$ 2,493,000 |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u>3,075,689</u> | <u>3,201,042</u> | <u>2,493,000</u> |

Sanders County, Montana
Required Supplementary Information
Schedule of Changes in the Entity's Total OPEB Liability
and Related Ratios
For the Year Ended June 30, 2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|---------------------|
| Total OPEB liability | | | |
| Service Cost | \$ 97,074 | \$ - | \$ 12,316 |
| Change in assumptions and inputs | <u>(1,088,838)</u> | <u>-</u> | <u>-</u> |
| Net change in total OPEB liability | <u>(991,764)</u> | <u>-</u> | <u>12,316</u> |
| Total OPEB Liability - beginning | 107,190 | 107,190 | 69,052 |
| Restatement | <u>1,179,097</u> | <u>-</u> | <u>25,822</u> |
| Total OPEB Liability - ending | <u>\$ 294,523</u> | <u>\$ 107,190</u> | <u>\$ 107,190</u> |
| Covered-employee payroll | <u>\$ 3,757,651</u> | <u>\$ 3,435,487</u> | <u>\$ 3,435,487</u> |
| Total OPEB liability as a percentage of covered -employee payroll | 8% | 3% | 3% |

**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, additional data will be provided as it becomes available.*

Sanders County, Montana
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2020

| | PERS 2020 | PERS 2019 | PERS 2018 | PERS 2017 | PERS 2016 | PERS 2015 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Employer's proportion of the net pension liability | 0.169752% | 0.168487% | 0.221884% | 0.221291% | 0.219403% | 0.218320% |
| Employer's proportionate share of the net pension liability associated with the Employer | \$ 3,548,340 | \$ 3,516,559 | \$ 4,321,466 | \$ 3,769,349 | \$ 3,066,971 | \$ 2,720,291 |
| State of Montana's proportionate share of the net pension liability associated with the Employer | \$ 1,151,681 | \$ 1,174,041 | \$ 54,016 | \$ 46,057 | \$ 37,672 | \$ 33,219 |
| Total | \$ 4,700,021 | \$ 4,690,600 | \$ 4,375,482 | \$ 3,815,406 | \$ 3,104,643 | \$ 2,753,510 |
| Employer's covered payroll | \$ 2,800,882 | \$ 2,780,634 | \$ 2,752,489 | \$ 2,650,677 | \$ 2,560,475 | \$ 2,474,553 |
| Employer's proportionate share of the net pension liability as a percentage of its covered payroll liability | 126.69% 73.85% | 126.47% 73.47% | 157.00% 73.75% | 142.20% 74.71% | 119.78% 78.40% | 111.22% 79.87% |
| | SRS 2020 | SRS 2019 | SRS 2018 | SRS 2017 | SRS 2016 | SRS 2015 |
| Employer's proportion of the net pension liability | 1.1900% | 1.1311% | 1.1817% | 1.1459% | 1.1577% | 1.0855% |
| Employer's proportionate share of the net pension liability associated with the Employer | \$ 992,405 | \$ 850,301 | \$ 899,249 | \$ 2,013,058 | \$ 1,116,043 | \$ 451,745 |
| Total | \$ 992,405 | \$ 850,301 | \$ 899,249 | \$ 2,013,058 | \$ 1,116,043 | \$ 451,745 |
| Employer's covered payroll | \$ 955,300 | \$ 877,625 | \$ 884,158 | \$ 808,915 | \$ 787,786 | \$ 702,009 |
| Employer's proportionate share of the net pension liability as a percentage of its covered payroll liability | 103.88% 81.89% | 96.89% 82.68% | 101.71% 81.30% | 248.86% 63.00% | 141.67% 75.40% | 64.35% 87.24% |

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, 2020

| | PERS | PERS | PERS | PERS | PERS | PERS |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Contractually required contributions | \$ 268,187 | \$ 240,895 | \$ 234,692 | \$ 230,387 | \$ 221,558 | \$ 210,993 |
| Contributions in relation to the contractually required contributions | \$ 268,187 | \$ 240,895 | \$ 234,692 | \$ 230,387 | \$ 223,547 | \$ 212,354 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| District's covered payroll | \$ 3,093,276 | \$ 2,800,882 | \$ 2,780,634 | \$ 2,752,489 | \$ 2,650,677 | \$ 2,560,475 |
| Contributions as a percentage of covered payroll | 8.67% | 8.60% | 8.44% | 8.37% | 8.43% | 8.29% |
| | SRS | SRS | SRS | SRS | SRS | SRS |
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Contractually required contributions | \$ 130,680 | \$ 125,810 | \$ 117,256 | \$ 89,433 | \$ 83,840 | \$ 79,912 |
| Contributions in relation to the contractually required contributions | \$ 130,680 | \$ 125,810 | \$ 117,256 | \$ 89,433 | \$ 83,840 | \$ 79,912 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| District's covered payroll | \$ 996,416 | \$ 955,300 | \$ 877,625 | \$ 884,158 | \$ 808,915 | \$ 787,786 |
| Contributions as a percentage of covered payroll | 13.12% | 13.17% | 13.36% | 10.11% | 10.36% | 10.14% |

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, 2020

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.

Permanent Injunction Limits Application of the GABA Reduction – Passed under House Bill 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:
 - 1.5% 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.

2015 Legislative Changes

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

Second Retirement Benefit - for PERS

- 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 2.5%);
 - 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.

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, 2020

- 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.
- 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 2.5%);
 - 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.
- 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 months.

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%, 0.47%, 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:

Admin Expense as % of Payroll 0.27%

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%, net of pension plan investment expense and including inflation |

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, 2020

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%, net of pension plan investment expense, and including inflation |
| 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

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. SRS working retirees may still work up to 480 hours a year, 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 compensation 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 compensation for retirement purposes.

2015 Legislative Changes

There were no legislative changes with regards to SRS in 2015.

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:

| | |
|---|--|
| SRS Discount Rate – Used to measure the TPL | 6.86%, 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% |
|---|--|

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, 2020

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 TPL | 7.75%, which is the assumed long-term expected rate of return on System's investments |

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

| | |
|---|--|
| SRS Discount Rate – Used to measure the TPL | 6.68%, 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% |
|---|--|

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%, net of pension plan investment expense and including inflation |

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%, net of pension plan investment expense, and including inflation |
| Asset valuation method | 4-year smoothed market |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of pay, open |

SINGLE AUDIT SECTION

Sanders County
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

| <u>Cluster Title/Federal Grantor/Pass-through Grantor /Program</u> | <i>Federal CFDA Number</i> | <i>Pass-through Grantor Number</i> | <i>Federal Expenditures</i> |
|--|---|---|--|
| <u>Department of Health and Human Services</u> | | | |
| <i>Community Action Partnership of Northwest Montana</i> | | | |
| Community Services Block Grant | 93.569 | N/A | \$ 3,600 |
| Total Department of Health and Human Services | | | \$ 3,600 |
| <u>United States Department of Agriculture</u> | | | |
| <i>Montana State Auditors Office</i> | | | |
| Schools and Roads - Grants to States | 10.665 | N/A | \$ 957,723 |
| Total United States Department of Agriculture | | | \$ 957,723 |
| <u>Other Programs</u> | | | |
| <u>Department of Homeland Security</u> | | | |
| <i>Montana Department of Military Affairs</i> | | | |
| Emergency Management Performance Grants | 97.042 | 19-20-EMP Sanders | \$ 25,611 |
| <i>Montana Disaster and Emergency Services</i> | | | |
| Homeland Security Grant Program | 97.067 | EMW-2019-SS-0010 | \$ 368 |
| Total Department of Homeland Security | | | \$ 25,979 |
| <u>United States Department of Justice</u> | | | |
| <i>Sander County Coalition for Families</i> | | | |
| Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program | 16.589 | OVW-2019-15825 | \$ 27,347 |
| Total United States Department of Justice | | | \$ 27,347 |
| <u>Department of Transportation</u> | | | |
| <i>N/A</i> | | | |
| Airport Improvement Program | 20.106 | N/A | \$ 129,102 |
| Total Department of Transportation | | | \$ 129,102 |
| <u>Department of Health and Human Services</u> | | | |
| <i>Montana Department of Health and Human Services</i> | | | |
| Public Health Emergency Preparedness | 93.069 | 20-07-6-11-048-0 | \$ 35,531 |
| Immunization Cooperative Agreements | 93.268 | 20-07-4-31-141-0 | \$ 7,247 |
| Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response | 93.354 | 20-07-6-11-048-0 | \$ 19,247 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 20-07-5-01-045-0 | \$ 7,686 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 19-07-5-01-045-0 | \$ 3,072 |
| <i>Flathead CityCounty Health Department, CDPHP Subgrant</i> | | | |
| Innovative State and Local Public Health Strategies to prevent and Manage Diabetes and Heart Disease and Stroke- | 93.435 | N/A | \$ 2,175 |
| Organized Approaches to Increase Colorectal Cancer Screening | 93.800 | N/A | \$ 1,395 |
| Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations | 93.898 | N/A | \$ 6,409 |
| Total Department of Health and Human Services | | | \$ 82,762 |

Sanders County
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020 - Continued

| <u>Cluster Title/Federal Grantor/Pass-through Grantor /Program</u> | <u>Federal CFDA Number</u> | <u>Pass-through Grantor Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|--|---------------------------------|
| <u>Department of Housing and Urban Development</u> | | | |
| Montana Department of Commerce | | | |
| Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | 14.228 | MT-CDBG-17PF-05 | \$ 26,087 |
| Total Department of Housing and Urban Development | | | <u>\$ 26,087</u> |
| <u>United States Department of Agriculture</u> | | | |
| Montana Department of Health and Human Services | | | |
| WIC Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 20-25-5-21-017-0 | \$ 44,835 |
| WIC Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 19-07-5-21-017-0 | 17,186 |
| Montana Department of Agriculture | | | |
| Forest Health Protection | 10.680 | MDA-2018-707 | 10,139 |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | N/A | 4,962,000 |
| Total Department of Housing and Urban Development | | | <u>\$ 5,034,160</u> |
| <u>Various Agencies – 2</u> | | | |
| Montana Secretary of State | | | |
| Help America Vote Act Requirements Payments | 90.401 | N/A | \$ 26,889 |
| Help America Vote Act Requirements Payments | 90.401 | N/A | 14,117 |
| Total Various Agencies – 2 | | | <u>\$ 41,006</u> |
| Total Other Programs | | | <u>\$ 5,366,443</u> |
| Total Federal Financial Assistance | | | <u>\$ 6,327,766</u> |

The accompanying notes are an integral part of this schedule

SANDERS COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year or Ended June 30, 2020

Basis of Presentation and Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of Sanders County, Montana. The information in this schedule is presented in accordance with the requirements Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the basic financial statements.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The County has elected not to use the 10 percent de Minimis indirect cost rate as provided in Sec. 200.414 Indirect Costs under Uniform Guidance.

Value of Federal Awards Expended in the form of Noncash Assistance

Of the awards spent above, the expenditures related to loans had a total value of \$4,962,000. The loan balances at the end of June 30, 2020 was \$4,918,999.

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

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

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

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, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 23, 2021.

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) as a basis for designing 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 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(s) 2020-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2020-002.

Sanders County's Response to Findings

Sanders County's response to the findings identified in our audit is described in the Auditee's Corrective Action Plan. 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.

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

March 23, 2021

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, 2020. 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 the audit requirements of Title 2 U.S., *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. 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 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, 2020.

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.

Denning, Downey and Associates, CPA's, PC.

March 23, 2021

SANDERS COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2020

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? | Yes |

Federal Awards

| | |
|---|-------------------|
| Internal control over major federal 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 2 CFR 200.516(a) | No |

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--|--|
| 10.760 | Water and Waste Disposal Systems for Rural Communities |
| 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

2020-001 Weed Shop Internal Controls

Condition:

The Weed Shop receipting processes contained the following internal control deficiencies:

1. The collections are not balanced to the receipting system prior to preparing a deposit to ensure the deposit is made intact.
2. There is a lack of supporting documentation maintained to support deposits made to Treasurer's office.
3. Deposits are not being made on a weekly basis.

Context:

The auditor completed an internal control review of the Town Court by inquiry, observation, and documentation.

Criteria:

A adequate and sufficient internal control system would include the following procedures:

1. Balancing of collections to the receipts issued since last deposit to ensure deposits are made intact.
2. Supporting receipt registers balanced to collections to should be maintained as support to deposits.
3. Deposits of receipts should be made on a weekly basis.

Effect:

the controls are weakened increasing the risk of misappropriation of assets, and error.

Cause:

1. The Weed Shop does not have system in place to balance the collections to the receipts in Quickbooks before preparing a deposit.
2. The Weed Shop does not have a process to prepare a deposit and adequately maintain documentation to support those deposits.
3. The Weed Shop does not have process requiring deposits be made to Treasurer's office on a weekly basis.

Recommendation:

We recommend the following control procedures be implemented by the County Weed Shop:

1. Work with the County Finance department to create a system for balancing the collections to the receipts in Quickbooks to be used as the supporting documentation for preparing deposits for County Treasurer, and ensure that balancing includes all receipts since last deposit.
2. Implement system to maintain balanced receipt register to collections as support to Treasurer deposit at Weed Shop, and provide copy of this documentation when making deposit to Treasurer's office.
3. Make deposits on a weekly basis.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

2020-002 Road Floating Mill Levy

Condition:

The County over levied taxes related to its road floating mill levies 2.03 mills, for a total of \$37,150.

Context:

The auditor recalculated the floating mill levies under MCA 15-10-420 and compared the recalculation to the mill levies actual milled by the County.

Criteria:

MCA 15-10-420 (1)(a) states “(1) (a) Subject to the provisions of this section, a governmental entity that is authorized to impose mills may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation for the prior 3 years. The maximum number of mills that a governmental entity may impose is established by calculating the number of mills required to generate the amount of property tax actually assessed in the governmental unit in the prior year based on the current year taxable value, less the current year's newly taxable value, plus one-half of the average rate of inflation for the prior 3 years.”

Effect:

The County is not in compliance with MCA 15-10-420 and over levied taxes in the road fund 2.03 mills, or \$37,150.

Cause:

When preparing the tax levy requirement schedule, the County mis-entered the Road of the County floating levy causing the County to over levy. The floating mill levy calculation was correct. The County identified this for the budget in fiscal year 2021 and under levied.

Recommendation:

We recommend that the County implement additional procedures to review mill levies to be levied to ensure they agree to the underlying calculation worksheets.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported



NICHOL SCRIBNER
Clerk & Recorder-Treasurer-Elections Administrator
County Superintendent of Schools
Sanders County
PO Box 519
Thompson Falls, MT 59873
406-827-6922

Contact Person:

Jessica Connolly, Chief Financial Officer

Expected Completion Date of Corrective Action Plan:

June 30, 2021

CORRECTIVE ACTION PLAN

FINDING 2020-001: Weed Shop Internal Controls

Response:

The County will implement additional procedures in order to balance the Weed department receipt register to the County accounting system. We will also require that a copy of the receipts be attached to the deposit being made with the Treasurer. Lastly, the Weed department will be informed that deposits will need to be made weekly.

FINDING 2020-002: Road Floating Mill Levy

Response:

The County realized this error when preparing the fiscal year 2021 budget and adjusted the road mills accordingly. In addition, the county will implement additional procedures to review mills levied agree to calculation worksheets.