

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

AUDIT REPORT

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

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

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PONDERA COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2016

BOARD OF COUNTY COMMISSIONERS

Sandra J. Broesder
Janice Hoppes
Thomas A. Kuka

Chairperson
Commissioner
Commissioner

COUNTY OFFICIALS

Mary Ann Ries
Jeanne Moon
Kody L. Farkell
Laurie Eisenzimer
Amber N. Schoenrock
Jeanne Moon
Carl Suta

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

PONDERA COUNTY, MONTANA
Management Discussion and Analysis (MD&A)
Fiscal Year 2015-2016

Our discussion and analysis of Pondera County's financial performance provides an overview of Fiscal Year 2015-2016 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should review the principal financial statements found in the annual report to augment their understanding of the County's financial performance.

FINANCIAL HIGHLIGHTS

- We maintained a basic status quo budget with an emphasis on maintaining cash reserves to insure fiscal stability. Wages were increased by a \$.50 per hour and health insurance contribution remained at 100% of employee premium.
- Pondera County's interest revenue for the fiscal year totaled \$23,646. While this amount is comparable the prior fiscal year, it certainly has not recovered from the 2008 economic recession which hit the nation. Our interest received in FY2008-09 totaled \$77,580 and the decrease in interest revenue continues to have a significant impact on all budget areas.
- Pondera County participated fiscally in Sweet Grass Development, the Pondera Regional Port Authority, and the Northern Transit Inter-Local. The County participated with the Conrad Depot Society by securing a \$10,000 CTEP grant to help replace the depot roof.
- In FY2013-14, the County secured a Montana Department of Commerce InterCap loan in the total amount of \$622,578 for the Pondera Medical Center to be used to consolidate debt and purchase equipment. During FY2015-16 year, \$75,205 was drawn on the loan. The County was also able to reimburse Pondera Medical Center \$55,800 of the cost for the CT machine.
- Vehicles purchased were: 2016 Chevrolet Silverado (Van Motors) was purchased from capital improvement funds for the Public Safety Department and was equipped for law enforcement at a total cost of \$51,672 and a 2002 Ford F450 pickup in the amount of \$7,000 (Montana Property & Supply) for the Road/Bridge Department.
- The Public Safety Department purchased a mobile radio for \$9,808 from Motorola. Equipment purchases for the Road/Bridge Departments totaled \$5,200, were paid for from the capital improvement fund and included one a wheel lift jack (\$200) and one roller for \$5,000. The County requested a hydrology study of the Conrad Front Street bridge. The study was at a cost of \$5,400. The County also traded in its graders in the road department for 8 new graders for a total cost of \$649,495.
- Major resurfacing and chip seal upgrades to the East Lake Road (3.6 miles), Manson Road (3 miles), Cemetery Road (.25 miles), Blazen Road (.3 miles) and Eagle Drive (.4 miles) as well as Front Street in Conrad (.5 miles) and Curtis Street in Brady were completed. Our plan is to resurface and chip seal approximately 43 miles of the county road over an eight-year cycle which will then be repeated on the same road surfaces every eight years. We have completed approximately 8 miles in two years, leaving approximately 35 miles to complete in this first cycle.
- Graveling of county roads included Midway Road East (.5 miles), Substation Road (3 miles), and PMM Road (1 mile)

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Fiscal Year 2015-2016

- The Ambulance Capital Improvement Fund was used to provide the local match funds (\$15,524) needed for a new Ambulance.
- Pondera County continued its IT Service Agreement with DIS Technologies at the rate of \$1,590 per month.
- Prior to FY2015-16 Pondera County contracted with Teton County to share a county Sanitarian. In November 2016 Pondera County hired its own half time sanitarian.
- The Junk Vehicle capital improvement funds were used to purchase a car (\$17,449) and long-neck trailer (\$6,110)
- The County Weed Department was able to purchase a side by side sprayer in the amount of \$11,103 utilizing grant funds.

USING THIS ANNUAL FINANCIAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities convey details about the County as a whole and about its activities. These statements included all assets and liabilities of the County using the full accrual basis of accounting. All of the current year's revenues and expenses are recognized regardless of when cash is received or paid.

A compliance analysis is provided.

These two statements report the County's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the County's financial position. Over time, fluctuations in the County's net position is an indicator of whether its financial position is improving or deteriorating. Other factors to consider are changes in the property tax base and the condition of infrastructure within the County.

Pondera County uses Fund Accounting to guarantee and demonstrate compliance with finance-related legal requirements. A "fund" is a grouping of related accounts that is used to maintain control and accountability over resources that have been designated for specific activities or objectives. Pondera County Funds are divided into two categories: Governmental Funds and Fiduciary Funds.

PONDERA COUNTY, MONTANA
Management Discussion and Analysis (MD&A)
Fiscal Year 2015-2016

Governmental Funds: Most of the County’s fundamental services are reported in governmental funds, which details the flow of money into and out of the funds and the balances left at year-end available for future expenditures. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to government operations and essential services it provides. Governmental fund information helps to determine whether there are adequate financial resources available to finance future county services. The variance between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

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

Condensed Financial Statements

Table 1 - Net Position

	Governmental Activities		
	<u>FY16</u>	<u>FY15</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 5,896,077	\$ 5,073,119	\$ 822,958
Capital assets	6,450,746	6,284,115	166,631
Total assets	\$ 12,346,823	\$ 11,357,234	\$ 989,589
Long-term debt outstanding	\$ 2,622,966	\$ 2,553,310	\$ 69,656
Other liabilities	2,819,042	2,615,431	203,611
Total liabilities	\$ 5,442,008	\$ 5,168,741	\$ 273,267
Net investment in capital assets	\$ 4,171,264	\$ 4,218,073	\$ (46,809)
Restricted	3,017,898	3,292,161	(274,263)
Unrestricted (deficit)	(284,347)	(1,321,741)	1,037,394
Total net position	\$ 6,904,815	\$ 6,188,493	\$ 716,322

PONDERA COUNTY, MONTANA
Management Discussion and Analysis (MD&A)
Fiscal Year 2015-2016

Table 2 - Changes in Net Position

	Governmental Activities		
	<u>FY16</u>	<u>FY15</u>	<u>Change Inc (Dec)</u>
Revenues			
<i>Program revenues (by major source):</i>			
Charges for services	\$ 346,485	\$ 440,183	\$ (93,698)
Operating grants and contributions	1,127,359	1,401,665	(274,306)
Capital grants and contributions	-	7,218	(7,218)
<i>General revenues (by major source):</i>			
Property taxes for general purposes	3,400,148	3,012,804	387,344
Video poker apportionment	2,225	2,975	(750)
Miscellaneous	111,305	106,401	4,904
Interest/investment earnings	23,646	24,700	(1,054)
Local option taxes	216,694	221,028	(4,334)
Montana oil and gas production tax	66,256	183,480	(117,224)
State entitlement	694,704	685,585	9,119
Grants and entitlements not restricted to specific programs	20,529	20,449	80
PILT	240,268	203,879	36,389
Intergovernmental agreement	2,122	1,958	164
Royalties	4,112	4,265	(153)
State contributions to retirement	37,427	39,219	(1,792)
Total revenues	<u>\$ 6,293,280</u>	<u>\$ 6,355,809</u>	<u>\$ (62,529)</u>
Program expenses			
General government	\$ 1,737,414	\$ 1,665,761	\$ 71,653
Public safety	1,097,336	987,424	109,912
Public works	1,320,031	1,774,127	(454,096)
Public health	1,029,633	1,083,113	(53,480)
Social and economic services	142,178	122,055	20,123
Culture and recreation	281,740	240,123	41,617
Housing and community development	625	7,218	(6,593)
Debt service - interest	50,278	55,867	(5,589)
Miscellaneous	167,009	178,418	(11,409)
Total expenses	<u>\$ 5,826,244</u>	<u>\$ 6,114,106</u>	<u>\$ (287,862)</u>
Increase (decrease) in net position	<u>\$ 467,036</u>	<u>\$ 241,703</u>	<u>\$ 225,333</u>

The largest portion of the County's net position is in capital assets less any outstanding, related debt used to acquire those assets. The capital assets are used to provide services to citizens. Resources, other than the asset itself, are used to retire any debt attributed to the asset. Sources for debt retirement can be from general and/or program revenues.

GOVERNMENTAL ACTIVITIES

The cost of all governmental activities this year was \$5,826,244 compared to \$6,114,106 for fiscal year 2014-15 as found in the Statement of Activities. Some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with operating grants.

PONDERA COUNTY, MONTANA
Management Discussion and Analysis (MD&A)
Fiscal Year 2015-2016

The amount that our taxpayers ultimately financed for these activities through county taxes was \$3,400,148, up by \$387,344 from \$3,012,804 in fiscal year 2014-15. Other revenues were derived from investment earnings, entitlement reimbursements, loans and other miscellaneous charges. Cash carryovers from the prior fiscal year (reserves) were utilized as well.

The County's Governmental Fund Expenditures are presented below:

Program Expenditures by Function (governmental funds):

<u>Total Governmental Funds</u>	<u>FY 2015-16</u> <u>Expense</u>	<u>FY 2014-15</u> <u>Expense</u>
General Government	1,648,540	1,543,015
Public Safety	1,018,504	939,125
Public Works	930,380	1,453,362
Public Health	789,886	847,863
Social & Economic Services	136,593	115,844
Culture & Recreation	281,720	240,123
Debt Service Principle	1,617,655	342,599
Debt Service Interest	50,278	55,867
Miscellaneous	167,009	178,418
Capital Outlay	964,171	872,819
Total Expenses	7,604,736	6,596,253

Fund Balance Analysis (Major Funds)

	<u>General</u>	<u>Road</u>	<u>County Hospital</u>	<u>Public Safety</u>
Fund Balance – Current Year	1,357,297	652,768	177,300	658,411
Fund Balance – Prior Year	1,181,603	629,424	139,416	681,790
Change in unassigned fund balance	175,694	23,344	37,884	-23,379
% change in fund balance	12.9%	3.6%	21.4%	-3.6%

The increase in the fund balance in the General Fund is due to an increase in property taxes and investment earnings, despite a decrease in oil & gas production tax.

The increase in the Road Fund is a result of increased property taxes, a decrease in equipment, oil/fuel expenses, asphalt purchases, and transfers to capital improvement.

The increase in the County Hospital Fund is a result of an increase in property taxes as well as a decrease in medical equipment purchases.

The decrease in the Public Safety Fund is a result of decreased property taxes, charges for services, and oil & gas production taxes, as well as increased salaries and repair services.

PONDERA COUNTY, MONTANA
Management Discussion and Analysis (MD&A)
Fiscal Year 2015-2016

Revenue Budget to Actual Variances:

<u>General Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
	1,577,954	1,527,060	-50,894	-3.33%

There was a variance between the final budget amount and actual amount of revenue received in the General Fund of (-\$50,894) for a (-3.33%) variance.

<u>Road Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
	798,541	764,228	-34,313	-4.49%

There was a variance between the final budget amount and actual amount of revenue received in the Road Fund of (\$34,313) for and (-4.49%) variance

County Hospital and

<u>Nursing</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
<u>Home Fund:</u>	784,607	793,197	8,590	1.08%

There was a variation between the final budget amount and actual amount of revenue received in the County Hospital and Nursing Home Fund of \$8,590 for a 1.08% variance.

Public Safety

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	887,316	868,906	-18,410	-2.12%

There was a variation between the final budget amount and actual amount of revenue received in the Public Safety Fund of (\$18,410) for a (2.12%) variance.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets are those assets which are used in the performance of the County's functions. In addition, debt is considered a liability of the governmental activities.

Long Term Debt

During the fiscal year, the County increased its long term capital debt by \$277,867 with the net trade in of the purchase of 8 motor graders and 2 walk-n- rolls for the Road Department, net of what was paid off for outstanding Intercep Loans.

Capital Assets

The purchase of new assets, sale of assets, depreciation and other factors resulted in the current value of Pondera County net capital assets as of June 30, 2016 of \$6,450,746.

Capital asset purchases were kept at status quo with new purchases of vehicles and/or equipment being offset, as much as possible, with trade-in or sale of fixed assets.

PONDERA COUNTY, MONTANA
Management Discussion and Analysis (MD&A)
Fiscal Year 2015-2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The FY2017 Taxable Valuation increased in Pondera County from \$15,599,087 to \$15,957,802 increasing the value of a county-wide mill from \$15,599 to \$15,957. The FY17 budget did not allow for the reservation of any floated mills; all were levied.

We anticipate an upgrade of our HVAC system at a cost of approximately \$452,000. Funding may be available through a Rural Economic Development Loan (via 3 Rivers), however, the release date of the federal funds is undetermined. The County plans to apply for an Intercap Loan for the project as backup in the event the funding is not released in a timely fashion.

A 1.2% COLA and wage increase (0.1% cost of living adjustment plus 1.1% wage increase), equal to \$.50 per hour, was approved for elected officials. Hourly employees received an equal increase of \$.50 per hour.

While aiming for a 33% reserve in all funds, reserve amounts range from 12% (Road) to 33.0% (General Fund et al). Our goal remains to achieve the 33% reserve in all funds.

Very late in the budget and tax bill timeline, the State of Montana entered into a settlement with Northwest Energy resulting in a lower taxable valuation, which impacted all counties in Montana. Pondera County did not recertify the mill value calculations due to the late timing of this settlement and will not collect approximately \$50,000 in revenue that is anticipated in the budget. The result will be a tighter hold on expenditures in all departments and spending more of our reserves. With careful spending, it is anticipated Pondera County will be able to provide services as usual with no long range detriment.

REQUESTS FOR INFORMATION

This financial report provides a general over view of Pondera County's finances for anyone interested in this government's finances. Question concerning any of the information provided in this report or requests for additional information should be addressed to:

Pondera County Clerk & Recorder's Office
20 4th Ave SW, Ste 202
Conrad, MT 59425-2340
Or e-mail to: ponderaclerk@3rivers.net

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
Pondera County
Conrad, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of, Pondera County, Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2016, the District adopted new accounting guidance, GASB statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, (an amendment of GASB No. 45). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the entity's total OPEB liability and related ratios, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 8, 51 through 55, 56, 57 and 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017, on our consideration of the, Pondera County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering, Pondera County, Montana's internal control over financial reporting and compliance.

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

June 26, 2017

Pondera County, Montana
Statement of Net Position
June 30, 2016

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	5,093,565
Taxes and assessments receivable, net		172,662
Accounts receivable - net		44
Due from other governments		18,157
Inventories		159,166
Total current assets	\$	5,443,594
Noncurrent assets		
Capital assets - land	\$	285,409
Capital assets - depreciable, net		6,165,337
Total noncurrent assets	\$	6,450,746
Total assets	\$	11,894,340
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	\$	452,483
Total deferred outflows of resources	\$	452,483
LIABILITIES		
Current liabilities		
Warrants payable	\$	182
Accounts payable		11,531
Accrued payroll		40,955
Due to other governments		164
Current portion of long-term capital liabilities		385,930
Current portion of compensated absences payable		166,911
Total current liabilities	\$	605,673
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	80,396
Noncurrent portion of long-term capital liabilities		1,893,552
Noncurrent portion of compensated absences		96,177
Net pension liability		2,249,153
Total noncurrent liabilities	\$	4,319,278
Total liabilities	\$	4,924,951
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	\$	517,057
Total Deferred Inflows of resources	\$	517,057
NET POSITION		
Net investment in capital assets	\$	4,171,264
Restricted for debt service		2,188
Restricted for special projects		3,011,877
Nonspendable		3,833
Unrestricted		(284,347)
Total net position	\$	6,904,815

See accompanying Notes to the Financial Statements

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
Primary government:		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>
Governmental activities:				<u>Governmental Activities</u>
General government	\$ 1,737,414	\$ 126,474	\$ 68,788	\$ (1,542,152)
Public safety	1,097,336	124,400	173,931	(799,005)
Public works	1,320,031	31,646	141,972	(1,146,413)
Public health	1,029,633	58,707	736,251	(234,675)
Social and economic services	142,178	5,258	6,417	(130,503)
Culture and recreation	281,740	-	-	(281,740)
Housing and community development	625	-	-	(625)
Debt service - interest	50,278	-	-	(50,278)
Miscellaneous	167,009	-	-	(167,009)
Total primary government	\$ 5,826,244	\$ 346,485	\$ 1,127,359	\$ (4,352,400)
General Revenues:				
Property taxes for general purposes			\$	3,400,148
Video poker apportionment				2,225
Miscellaneous				111,305
Interest/investment earnings				23,646
Local option taxes				216,694
Montana oil and gas production tax				66,256
State entitlement				694,704
Grants and entitlements not restricted to specific prog				20,529
PILT				240,268
Intergovernmental agreement				2,122
Royalties				4,112
State contributions to retirement				37,427
Total general revenues, special items and transfers			\$	4,819,436
Change in net position			\$	467,036
Net position - beginning			\$	6,188,493
Restatements				249,286
Net position - beginning - restated			\$	6,437,779
Net position - end			\$	6,904,815

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Road</u>	<u>County Hospital and Nursing Home</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Current assets:						
Cash and investments	\$ 1,353,878	\$ 579,671	\$ 177,300	\$ 671,538	\$ 2,311,178	\$ 5,093,565
Taxes and assessments receivable, net	53,433	25,310	10,334	16,191	67,394	172,662
Accounts receivable - net	-	-	-	-	44	44
Due from other funds	3,195	-	-	-	-	3,195
Due from other governments	14,962	-	-	-	3,195	18,157
Inventories	-	86,899	-	-	72,267	159,166
Total assets	<u>\$ 1,425,468</u>	<u>\$ 691,880</u>	<u>\$ 187,634</u>	<u>\$ 687,729</u>	<u>\$ 2,454,078</u>	<u>\$ 5,446,789</u>
LIABILITIES						
Current liabilities:						
Warrants payable	\$ 182	\$ -	\$ -	\$ -	\$ -	\$ 182
Accounts payable	47	8,646	-	2,648	190	11,531
Accrued payroll	14,345	5,156	-	10,479	10,975	40,955
Due to other funds	-	-	-	-	3,195	3,195
Due to other governments	164	-	-	-	-	164
Total liabilities	<u>\$ 14,738</u>	<u>\$ 13,802</u>	<u>\$ -</u>	<u>\$ 13,127</u>	<u>\$ 14,360</u>	<u>\$ 56,027</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources	\$ 53,433	\$ 25,310	\$ 10,334	\$ 16,191	\$ 67,394	\$ 172,662
Total deferred inflows of resources	<u>\$ 53,433</u>	<u>\$ 25,310</u>	<u>\$ 10,334</u>	<u>\$ 16,191</u>	<u>\$ 67,394</u>	<u>\$ 172,662</u>
FUND BALANCES						
Nonspendable	\$ -	\$ 86,899	\$ -	\$ -	\$ 76,100	\$ 162,999
Restricted	-	565,869	177,300	658,411	1,355,969	2,757,549
Committed	-	-	-	-	940,255	940,255
Unassigned fund balance	<u>1,357,297</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,357,297</u>
Total fund balance	<u>\$ 1,357,297</u>	<u>\$ 652,768</u>	<u>\$ 177,300</u>	<u>\$ 658,411</u>	<u>\$ 2,372,324</u>	<u>\$ 5,218,100</u>

See accompanying Notes to the Financial Statements

Pondera County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2016

Total fund balances - governmental funds	\$	5,218,100
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		6,450,746
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.		172,662
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(2,622,966)
Proportionate share of ending collective net pension liability		(2,249,153)
Deferred outflows related to net pension liability		452,483
Deferred inflows related to net pension liability		(517,057)
Total net position - governmental activities	\$	<u>6,904,815</u>

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	<u>General</u>	<u>Road</u>	<u>County Hospital and Nursing Home</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes and assessments	\$ 902,149	\$ 506,721	\$ 174,886	\$ 638,239	\$ 1,360,133	\$ 3,582,128
Intergovernmental	574,094	245,613	30,782	99,792	507,449	1,457,730
Charges for services	206,712	-	-	119,322	40,610	366,644
Fines and forfeitures	41,456	-	129,997	-	4,935	176,388
Miscellaneous	28,086	11,894	457,532	11,553	105,570	614,635
Investment earnings	18,895	-	-	-	4,799	23,694
Total revenues	<u>\$ 1,771,392</u>	<u>\$ 764,228</u>	<u>\$ 793,197</u>	<u>\$ 868,906</u>	<u>\$ 2,023,496</u>	<u>\$ 6,221,219</u>
EXPENDITURES						
General government	\$ 1,144,255	\$ -	\$ -	\$ -	\$ 504,285	\$ 1,648,540
Public safety	56,031	-	-	834,477	127,996	1,018,504
Public works	-	531,415	-	-	398,965	930,380
Public health	157,170	-	471,963	-	160,753	789,886
Social and economic services	8,147	-	-	-	128,446	136,593
Culture and recreation	16,946	-	-	-	264,774	281,720
Debt service - principal	16,932	1,256,096	194,627	-	150,000	1,617,655
Debt service - interest	1,540	40,195	5,655	-	2,888	50,278
Miscellaneous	-	-	-	-	167,009	167,009
Capital outlay	-	649,495	167,216	9,808	137,652	964,171
Total expenditures	<u>\$ 1,401,021</u>	<u>\$ 2,477,201</u>	<u>\$ 839,461</u>	<u>\$ 844,285</u>	<u>\$ 2,042,768</u>	<u>\$ 7,604,736</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 370,371</u>	<u>\$ (1,712,973)</u>	<u>\$ (46,264)</u>	<u>\$ 24,621</u>	<u>\$ (19,272)</u>	<u>\$ (1,383,517)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds of general long term debt	\$ -	\$ 1,820,317	\$ 75,205	\$ -	\$ -	\$ 1,895,522
Transfers in	5,403	-	8,943	-	497,073	511,419
Transfers out	(200,080)	(84,000)	-	(48,000)	(179,339)	(511,419)
Total other financing sources (uses)	<u>\$ (194,677)</u>	<u>\$ 1,736,317</u>	<u>\$ 84,148</u>	<u>\$ (48,000)</u>	<u>\$ 317,734</u>	<u>\$ 1,895,522</u>
Net Change in Fund Balance	<u>\$ 175,694</u>	<u>\$ 23,344</u>	<u>\$ 37,884</u>	<u>\$ (23,379)</u>	<u>\$ 298,462</u>	<u>\$ 512,005</u>
Fund balances - beginning	\$ 1,181,603	\$ 629,424	\$ 139,416	\$ 681,790	\$ 2,073,367	\$ 4,705,600
Restatements	-	-	-	-	495	495
Fund balances - beginning, restated	<u>\$ 1,181,603</u>	<u>\$ 629,424</u>	<u>\$ 139,416</u>	<u>\$ 681,790</u>	<u>\$ 2,073,862</u>	<u>\$ 4,706,095</u>
Fund balance - ending	<u>\$ 1,357,297</u>	<u>\$ 652,768</u>	<u>\$ 177,300</u>	<u>\$ 658,411</u>	<u>\$ 2,372,324</u>	<u>\$ 5,218,100</u>

See accompanying Notes to the Financial Statements

Pondera County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$	512,005
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		964,171
- Depreciation expense		(797,540)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
- Long-term receivables (deferred revenue)		34,634
The change in compensated absences is shown as an expense in the Statement of Activities		
		(32,800)
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		1,617,655
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:		
- Proceeds from the sale of long-term debt		(1,895,522)
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		(7,780)
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		
		34,786
State aid revenue related to the net pension liability is shown as a revenue on the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance		
		37,427
Change in net position - Statement of Activities	\$	<u>467,036</u>

See accompanying Notes to the Financial Statements

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

	Investment Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	\$ 10,733,650	\$ 406,522
Other receivables	-	317
Taxes receivable	-	343,123
Total assets	\$ 10,733,650	\$ 749,962
LIABILITIES		
Warrants payable	\$ -	\$ 259,744
Due to others	-	490,218
Total liabilities	\$ -	\$ 749,962
NET POSITION		
Assets held in trust	\$ 10,733,650	

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016

		<u>Investment Trust Funds</u>
ADDITIONS		
Contributions:		
Contributions to Investment Trust Fund	\$	12,433,818
Investment earnings:		
Interest and change in fair value of investments		<u>87,818</u>
Total additions	\$	<u>12,521,636</u>
DEDUCTIONS		
Distributions from investment trust fund	\$	<u>11,584,148</u>
Change in net position	\$	<u>937,488</u>
 Net Position - Beginning of the year	 \$	 <u>9,796,162</u>
 Net Position - End of the year	 \$	 <u><u>10,733,650</u></u>

See accompanying Notes to the Financial Statements

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Recent Accounting Pronouncements:

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

Financial Reporting Entity

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

Primary Government

The County is a political subdivision of the State of Montana governed by an elected three-member Board of County Commissioners. 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.

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

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

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

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.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

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

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.

Measurement Focus and Basis of Accounting

Governmental Funds:

Modified Accrual

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

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

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

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

Major Funds:

The County reports the following major governmental funds:

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

Road Fund – A special revenue fund that accounts for the activities of the County’s Road maintenance and construction operations.

County Hospital and Nursing Home Fund – A special revenue fund used for revenues received and expended for public health.

Public Safety Fund – a special revenue fund used for revenues received and expended for public safety purposes.

Fiduciary Funds:

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

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

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

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash in banks:	
Demand deposits	\$ 1,024,211
Savings deposits	3,362,188
Time deposits	8,845,000
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	3,002,338
Total	\$ <u><u>16,233,737</u></u>

Credit Risk

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

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

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

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

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

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

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

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

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

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

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2016:

<u>Security Investment Type</u>	<u>Fair Value *</u>	<u>Credit Quality Rating**</u>	<u>Weighted Average Maturity</u>
Treasuries	\$ 75,122	A1+	133
Asset Backed Commercial Paper	786,486	A1	22
Corporate Commercial Paper	262,021	A1	82
Corporate Variable-Rate	467,046	A1	45
Certificates of Deposit Fixed Rate	25,004	A1	15
Certificates of Deposit Variable-Rate	500,023	A1	47
U.S. Government Agency Fixed	241,350	A1+	75
U.S. Government Agency Variable -Rate	263,901	A1+	16
Money Market Funds (Unrated)	13,143	NR	1
Money Market Funds (Rated)	<u>189,003</u>	A1+	1
Total Investments	<u>\$ 2,823,099</u>	A1	41
Securities Lending Collateral Investment Pool	<u>\$ 11,844</u>	NR	32

“*Beginning with the period of June 30, 2016, the STIP portfolio is show at fair value. For the period prior to June 30, 2016, the STIP portfolio was show is.”

**Credit Quality Rating is weighted.

Audited financial statements for the State of Montana’s Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2016 of the government's bank balance of was exposed to custodial credit risk as follows:

	June 30, 2016
	<u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 9,585,501
- Collateral held by the pledging bank's trust department but not in the County's name	3,576,180
- Uninsured and uncollateralized	16,466
Total deposits and investments	<u>\$ 13,178,147</u>

Deposit Security

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

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

The amount of collateral held for County deposits at June 30, 2016 equaled or exceeded the amount required by State statutes.

Cash and Investment Pool

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments."

Investment in the Treasurer's Pools

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

The County has one pooled investment trust fund invested in STIP, non-negotiable certificates of deposit, and money market deposits. The pooled funds are carried at fair market value.

Non-pooled investments are also carried at fair value. The fair value of non-pooled investments is determined annually and is based on current market prices.

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

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2016 to support the value of the shares in the pool.

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

Investment Income

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

Condensed statements of investments pools

The following represents a condensed statement of net position and changes in net position for the Treasurer's Pool as of June 30, 2016.

Statement of Net Position

Net position held in trust for all pool participants:

Equity of internal pool participants	\$ 4,188,688
Equity of external pool participants	<u>10,733,650</u>
Total equity	<u><u>\$ 14,922,338</u></u>

Condensed Statement of Changes in Net Position

	External	Internal
Investment earnings	\$ 66,917	\$ 26,114
Contributions to trust	12,433,818	4,835,786
Distributions paid	<u>(11,584,148)</u>	<u>(4,562,544)</u>
Net change in net position	\$ 916,587	\$ 299,356
Change in Investment Value	20,901	8,156
Net position at beginning of year	<u>9,796,162</u>	<u>3,881,176</u>
Net position at end of year	<u><u>\$ 10,733,650</u></u>	<u><u>\$ 4,188,688</u></u>

NOTE 3. 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.

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

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

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

NOTE 4. INVENTORIES

The cost of inventories is recorded as an expenditure when purchased and an adjustment is made to inventory at the year-end of any amounts which are not consumed.

NOTE 5. CAPITAL ASSETS

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

Buildings	10 - 40 years
Improvements	10 - 20 years
Equipment	5 - 10 years
Infrastructure	20 years

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

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

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

Governmental activities:

	Balance				Balance
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Trade-Ins</u>	<u>June 30, 2016</u>
Capital assets not being depreciated:					
Land	\$ 265,409	\$ -	\$ -	\$ -	\$ 265,409
Pondera Mecial Center	20,000	-	-	-	20,000
Total capital assets not being depreciated	<u>\$ 285,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,409</u>
Other capital assets:					
Buildings	\$ 4,348,008	\$ 9,887	\$ -	\$ -	\$ 4,357,895
Improvements other than buildings	3,187,231	-	-	-	3,187,231
Machinery and equipment	5,571,678	787,068	(1,673,835)	957,740	5,642,651
Infrastructure	168,827	-	-	-	168,827
Pondera Mecial Center	6,804,411	167,216	-	-	6,971,627
Total other capital assets at historical cost	<u>\$ 20,080,155</u>	<u>\$ 964,171</u>	<u>\$ (1,673,835)</u>	<u>\$ 957,740</u>	<u>\$ 20,328,231</u>
Less: accumulated depreciation	<u>\$ (14,081,449)</u>	<u>\$ (797,540)</u>	<u>\$ 716,095</u>	<u>\$ -</u>	<u>\$ (14,162,894)</u>
Total	<u><u>\$ 6,284,115</u></u>	<u><u>\$ 166,631</u></u>	<u><u>\$ (957,740)</u></u>	<u><u>\$ 957,740</u></u>	<u><u>\$ 6,450,746</u></u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 77,455
Public safety	84,457
Public works	389,651
Public health	239,747
Social and economic services	5,585
Culture and recreation	20
Housing and community development	<u>625</u>
Total governmental activities depreciation expense	<u><u>\$ 797,540</u></u>

NOTE 6. LONG TERM DEBT OBLIGATIONS

In the governmental-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums are expensed at the date of sale.

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2016, the following changes occurred in liabilities reported in long-term debt:

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

Governmental Activities:

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	Balance <u>June 30, 2016</u>	Due Within <u>One Year</u>
General obligation bonds	\$ 150,000	\$ -	\$ (150,000)	\$ -	\$ -	-
Capital leases	1,256,096	1,820,317	(1,256,096)	-	1,820,317	136,577
Intercap loans	659,946	75,205	(211,559)	(64,427)	459,165	249,353
Compensated absences	230,288	32,800	-	-	263,088	166,911
Net pension liability*	1,714,675	534,478	-	-	2,249,153	-
Other post-employment benefits**	256,980	7,780	-	(184,364)	80,396	-
Total	<u>\$ 4,267,985</u>	<u>\$ 2,470,580</u>	<u>\$ (1,617,655)</u>	<u>\$ (248,791)</u>	<u>\$ 4,872,119</u>	<u>\$ 552,841</u>

*See Note 9

**See Note 7

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, 2016 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2016</u>
Building for Senior Center	7/3/08	1.0-4.85%	10yrs	8/15/18	\$ 89,550	\$ 25,438
Building for Senior Center - Remodel	8/12/11	1.0-4.85%	15yrs	8/15/26	113,841	85,066
Hospital Equipment	5/30/14	1.0-4.85%	3yrs	8/15/17	<u>622,578</u>	<u>348,661</u>
Total					<u>\$ 825,969</u>	<u>\$ 459,165</u>

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

Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 249,353	\$ 7,117
2018	134,865	3,252
2019	12,452	1,162
2020	7,820	969
2021	7,975	847
2022	8,130	724
2023	8,289	598
2024	8,452	469
2025	8,616	338
2026	8,784	205
2027	4,429	69
Total	\$ <u>459,165</u>	\$ <u>15,750</u>

Capital Leases

The County has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2016 were as follows:

<u>Purpose</u>	<u>Origination</u> <u>Date</u>	<u>Interest</u> <u>rate</u>	<u>Term</u>	<u>Maturity</u>	<u>Principle</u> <u>Amount</u>	<u>Remaining</u> <u>Payments as of</u> <u>June 30, 2016</u>
New 8 Caterpillar Motor Graders	5/4/16	3.00%	5yrs	4/7/21	\$ <u>1,820,317</u>	\$ <u>1,820,317</u>

Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 136,577	\$ 36,715
2018	122,220	51,072
2019	125,937	47,355
2020	129,768	43,524
2021	1,305,815	49,626
Total	\$ <u>1,820,317</u>	\$ <u>228,292</u>

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

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the County’s policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from County service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave.

NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. This creates a defined benefit Other Post-Employment Benefits Plan (OPEB), since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. The OPEB plan is a single-employer defined benefit plan administered by the County. The government has not created a trust to accumulate assets to assist in covering the defined benefit plan costs, and covers these when they come due. The government has less than 100 plan members and thus qualifies to use the “Alternative Measurement Method” for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

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

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

Inactive employees or beneficiaries receiving benefit payments	1
Active employees	50
Total employees	<hr style="border: none; border-top: 1px solid black; margin-bottom: 2px;"/> <hr style="border: none; border-top: 3px double black; margin-top: 2px;"/> 51

Total OPEB Liability

The County’s total OPEB liability of \$ 80,396 at June 30, 2016, and was determined by using the alternative measurement method as of that date.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Actuarial assumptions and other input. The total OPEB liability in the June 30, 2016 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement (based on historical data)	65
Discount rate (average anticipated rate)	3.80%
Average salary increase (Consumer Price Index)	2.30%

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

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

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

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

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.

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

Changes in the Total OPEB Liability

Balance at 6/30/2015		\$ <u>256,980</u>
Changes for the year:		
Service Cost		\$ 7,780
Restatement		<u>(184,364)</u>
Net Changes		\$ <u>(176,554)</u>
Balance at 6/30/2016		\$ <u><u>80,396</u></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%:

	<u>1% Decrease (2.80%)</u>		<u>Discount Rate (3.80%)</u>		<u>1% Increase (4.80%)</u>
Total OPEB Liability	\$ 90,139	\$	80,396	\$	72,214

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

	<u>1% Decrease</u>		<u>Healthcare Cost Trends*</u>		<u>1% Increase</u>
Total OPEB Liability	\$ 69,422	\$	80,396	\$	93,845

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

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

For the year ended June 30, 2016, the County recognized an OPEB expense of \$7,780. The County does not report any deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since County records costs as they come due there are no deferred outflows of resources for contributions to the OPEB plan trust.

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

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

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

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Short Term loan to clear negative cash	General – Major Governmental	WIC Grant – Nonmajor Governmental	\$ 1,226
Short Term loan to clear negative cash	General – Major Governmental	Tobacco Use Prevention – Nonmajor Governmental	<u>1,969</u>
Total			<u>\$ 3,195</u>

Interfund Transfers

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

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Operating Transfer	Predatory Animal – Nonmajor Governmental	General – Major Governmental	\$ 2,080
Operating Transfer	Land Use Planning – Nonmajor Governmental	General – Major Governmental	5,000
Operating Transfer	Airport – Nonmajor Governmental	General – Major Governmental	10,000
Operating Transfer	General Capital Improvements – Nonmajor Governmental	General – Major Governmental	6,000
Operating Transfer	General Capital Improvements – Nonmajor Governmental	General – Major Governmental	42,500
Operating Transfer	General Capital Improvements – Nonmajor Governmental	General – Major Governmental	16,000
Operating Transfer	General Capital Improvements – Nonmajor Governmental	General – Major Governmental	42,500
Operating Transfer	Road/Bridge Equipment – Nonmajor Governmental	Road – Major Governmental	42,000
Operating Transfer	Road/Bridge Equipment – Nonmajor Governmental	Road – Major Governmental	42,000
Operating Transfer	Road/Bridge Equipment – Nonmajor Governmental	Bridge – Nonmajor Governmental	27,750

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

Operating Transfer	Road/Bridge Equipment – Nonmajor Governmental	Bridge – Nonmajor Governmental	27,750
Operating Transfer	Weed Capital Improvements – Nonmjr Governmental	Weed – Nonmajor Governmental	3,500
Operating Transfer	Weed Capital Improvements – Nonmjr Governmental	Weed – Nonmajor Governmental	3,500
Residual Equity Transfer	General – Major Governmental	District Court – Nonmajor Governmental	45
Operating Transfer	Ambulance Capital Improvements – Nonmajor Governmental	Ambulance - Nonmajor Governmental	5,000
Operating Transfer	Ambulance Capital Improvements – Nonmajor Governmental	Ambulance - Nonmajor Governmental	5,000
Operating Transfer	General Capital Improvements – Nonmajor Governmental	Extension Service – Nonmajor Governmental	6,000
Operating Transfer	Public Safety Capital Improvements – Nonmajor Governmental	Public Safety – Major Governmental	15,000
Operating Transfer	Public Safety Capital Improvements – Nonmajor Governmental	Public Safety – Major Governmental	5,000
Operating Transfer	Public Safety Capital Improvements – Nonmajor Governmental	Public Safety – Major Governmental	14,000
Operating Transfer	Public Safety Capital Improvements – Nonmajor Governmental	Public Safety – Major Governmental	14,000
Operating Transfer	Health Insurance – Nonmajor Governmental	Permissive Medical Levy – Nonmajor Governmental	47,655
Operating Transfer	Health Insurance – Nonmajor Governmental	Permissive Medical Levy – Nonmajor Governmental	36,398

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

Administrative Expenditures	General – Major Governmental	Junk Vehicle – Nonmajor Governmental	2,500
Operating Transfer	General Capital Improvements – Nonmajor Governmental	Northern Transit Interlocal – Nonmajor Governmental	2,000
Operating Transfer	Northern Transit Interlocal – Nonmajor Governmental	PILT* - Major Governmental	22,000
Operating Transfer	Road/Bridge Equipment – Nonmajor Governmental	PILT* - Major Governmental	54,000
Residual Equity Transfer	General – Major Governmental	Buckle-Up Montana – Nonmajor Governmental	2,811
Residual Equity Transfer	County Hospital and Nursing Home – Major Governmental	Debt Service Hospital – Nonmajor Governmental	8,943
Residual Equity Transfer	General – Major Governmental	Homeland Security – Nonmajor Governmental	48
Residual Equity Transfer	Land Use Planning – Nonmajor Governmental	Oil and Gas P & A Grant – Nonmajor Governmental	<u>439</u>
Total			<u>\$511,419</u>

*The PILT fund is combined with the General fund in accordance with GASB 54 for reporting purposes

NOTE 9. NET PENSION LIABILITY

Plan Descriptions

PERS

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

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

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

SRS

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

Summary of Benefits

PERS

Member's highest average compensation (HAC)

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

Eligibility for benefit

Service retirement:

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

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

Early retirement, actuarially reduced:

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

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

Vesting 5 years of membership service

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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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.

Guaranteed Annual Benefit Adjustment (GABA)*

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

SRS

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 as a part of member's highest average compensation.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Eligibility for benefit

20 years of membership service, regardless of age.

Early Retirement

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

Vesting

5 years of membership service

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

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

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

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

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

Overview of Contributions

PERS

1. Rates are specified by state law for periodic employer and employee contributions.
 - a. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

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

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

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

SRS

1. Rates are specified by state law for periodic employer and employee contributions
 - i. The State legislature has the authority to establish and amend contribution rates to the plan.

2. Member contributions to the system
 - i. Plan members are required to contribute 9.245% of member's compensation.
 - ii. Contributions are deducted from each member's salary and remitted by participating employers.

3. Employer contributions to the system:
 - i. The employers are required to contribute 10.115% of members' compensation.
 - ii. Effective July 1, 2013, employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

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

Stand-Alone Statements

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

Net Pension Liability

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

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

	PERS NPL as of 6/30/16	PERS NPL as of 6/30/15	Percent of Collective NPL as of 6/30/2016	SRS NPL as of 6/30/16	SRS NPL as of 6/30/15	Percent of Collective NPL as of 6/30/16	Total NPL for 6/30/15	Total NPL for 6/30/16	Percent of Collective NPL as of 6/30/16
Employer Proportionate Share	\$ 1,511,425	\$ 1,387,023	0.1081%	\$ 737,728	\$ 327,652	0.7653%	\$ 1,714,675	\$ 22,249,153	0.8734%
State of Montana Proportionate Share associated with Employer	18,565	16,938	0.0013%	N/A	N/A	N/A	16,938	18,565	0.0013%
Total	\$ 1,529,990	\$ 1,403,961	0.1095%	\$ 737,728	\$ 327,652	0.7653%	\$ 1,731,613	\$ 22,267,718	0.8747%

At June 30, 2016, the employer recorded a liability of \$2,249,153 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS and SRS, during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERS and SRS, participating employers. At June 30, 2016, the employer's proportion was 0.8734 percent.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Changes in actuarial assumptions and methods:

PERS

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

SRS

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

Pension Expense as of 6/30/16

	<u>PERS</u>	<u>SRS</u>	<u>Total</u>
Employer Proportionate Share	\$ 86,081	\$ 50,942	\$ 137,023
State of Montana Proportionate Share associated with the Employer	1,154	N/A	1,154
Total	\$ 87,235	\$ 50,942	\$ 138,177

At June 30, 2016, the employer recognized a Pension Expense of \$138,177 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$1,154 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2016, the employer recognized a beginning deferred outflow of resources for the employers FY 2015 contributions of \$166,065.

Deferred Inflows and Outflows

At June 30, 2016, the employer reported its proportionate share of PERS and SRS deferred outflows of resources and deferred inflows of resources related to PERS and SRS, from the following sources:

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

	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	SRS Deferred Outflows Resources	SRS Deferred Inflows of Resources	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 9,144	\$ -	\$ 1,244	\$ -	\$ 10,388
Changes in actuarial assumptions	-	-	274,599	270,815	274,599	270,815
Differences between actual and expected investment earnings	-	127,958	-	50,526	-	178,484
Changes in proportion	-	38,035	-	18,792	-	56,826
*Contributions paid subsequent to the measurement date - FY 2016 Contributions	116,396	-	56,567	-	172,963	-
Total	<u>\$ 116,396</u>	<u>\$ 175,137</u>	<u>\$ 331,166</u>	<u>\$ 341,375</u>	<u>\$ 447,562</u>	<u>\$ 516,512</u>

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Inflows and Outflows

PERS: Year ended June 30, 2016	Amount of Deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2017	\$ (69,491)
2018	\$ (69,491)
2019	\$ (69,435)
2020	\$ 33,279
2021	\$ -
Thereafter	\$ -

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

SRS: Year ended June 30, 2016	Deferred Outflows of Resources
2017	\$ (24,655)
2018	\$ (24,655)
2019	\$ (24,655)
2020	\$ 10,438
2021	\$ (3,250)
Thereafter	\$ -

Actuarial Assumptions

PERS and SRS

The Total Pension Liability as of June 30, 2016, is based on the results of an actuarial valuation date of June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases - PERS 0% to 6%
- Merit Increases – SRS 0% to 7.3%
- Investment Return 7.75%
- Postretirement Benefit Increases
 - 3% for members hired prior to July 1, 2007
 - 1.5% for members hired on or after July 1, 2007

PERS

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

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

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

SRS

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

Discount Rate

PERS and SRS

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

For PERS the State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

PERS and SRS

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

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of June 30, 2015, is summarized in the above table.

Sensitivity Analysis

		1.0% Decrease	Current	1.0% Increase
		<u>-6.75%</u>	<u>Discount Rate</u>	<u>-8.75%</u>
PERS	\$	2,330,291	\$ 1,511,425	\$ 819,912
SRS	\$	1,184,741	\$ 737,728	\$ 371,285

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

Summary of Significant Accounting Policies

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

NOTE 10. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

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

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

NOTE 11. 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 – Resources not in spendable form, such as inventory, or those legally required to be maintained intact, such as principle portion of permanent funds.

Restricted - constraint is externally imposed by a third party, State Constitution, or enabling legislation.

Committed – constraint is internally imposed by the formal action of the Board of Commissioners. This is the government’s highest level of decision making authority and a formal action is required to establish, modify, or rescind the fund balance commitment.

If the government has established a policy for its use of unrestricted fund balance amount, then compose the appropriate note below:

Nonspendable Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	\$ 86,899	Inventory
All Other Aggregate:	\$ 72,267	Inventory
	<u>3,833</u>	Permanent Fund
	<u>\$ 162,999</u>	

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 565,869	Road services, supplies and debt payments
County Hospital	177,300	Medical and dental services, equipment and debt payments
Public Safety	658,411	Law enforcement services and supplies
All Other Aggregate:	26,223	Civilian Health Care
	9,213	Culture and recreation services and supplies
	118,595	Employer contributions
	50,431	Extension Services
	64,198	General government services
	226,779	Insurance Premiums
	256,156	Law Enforcement and emergency services
	36,032	Miscellaneous
	443,306	Road and bridge maintenance
	<u>125,036</u>	Weed Control
	<u>\$ 2,757,549</u>	

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

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other Aggregate:	\$ <u>940,255</u>	Capital Improvements and Equipment

NOTE 12. 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>
District Court	\$ 495	Removal of warrants payable that have been on the books for quite some time
Governmental Activities	64,427	Correct prior year capital liability
Governmental Activities	<u>184,364</u>	New OPEB valuations under GASB 75 that includes 10% participation assumption
	<u>\$ 64,922</u>	

NOTE 13. RELATED PARTY TRANSACTIONS

The Pondera County Medical Center operates independently of the County and the County does not have a voting majority of the Medical Center Board. The Medical Center building and equipment is owned by the County totaling about \$6.97M respectively and the County allows the Medical Center to utilize these assets in order for medical services to be provided to the citizens within the County.

NOTE 14. JOINT VENTURES

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

NOTE 15. LAW ENFORCEMENT SERVICES

The County participated in a law enforcement service agreement with the Town of Valier for the fiscal year ended June 30, 2016. The County was paid \$57,000, respectively, for providing law enforcement services for the fiscal year ended June 30, 2016.

The County participated in a law enforcement service agreement for dispatch services and operation of an emergency telephone system with the City of Conrad for fiscal year ended June 30, 2016. The County was paid \$7,090 for these services for the fiscal year ended June 30, 2016.

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

NOTE 16. SERVICES PROVIDED TO OTHER GOVERNMENTS

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

NOTE 17. RISK MANAGEMENT

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

Insurance Policies:

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

Insurance Pools:

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

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

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

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

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

NOTE 18. SUBSEQUENT EVENTS

The County began a project to update the heating, venting, and air conditioning system after year end. The total amount budgeted for the project is \$451,083. \$273,589 has been spent to date on the project. The project is being partially funded by an INTERCAP loan in the amount \$349,655. To date \$16,372 has been drawn down on the loan.

**REQUIRED SUPPLEMENTAL
INFORMATION**

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

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL
			(BUDGETARY	BUDGET
			BASIS) See Note A	
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 922,818	\$ 922,818	\$ 902,149	\$ (20,669)
Intergovernmental	387,261	387,261	329,762	(57,499)
Charges for services	176,364	176,364	206,712	30,348
Fines and forfeitures	48,250	48,250	41,456	(6,794)
Miscellaneous	28,300	31,111	28,086	(3,025)
Investment earnings	12,150	12,150	18,895	6,745
Amounts available for appropriation	<u>\$ 1,575,143</u>	<u>\$ 1,577,954</u>	<u>\$ 1,527,060</u>	<u>\$ (50,894)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 1,353,072	\$ 1,353,072	\$ 1,134,630	\$ 218,442
Public safety	71,394	71,394	56,031	15,363
Public health	179,848	179,848	157,170	22,678
Social and economic services	12,550	12,550	8,147	4,403
Culture and recreation	2,100	2,100	16,946	(14,846)
Debt service - principal	16,935	16,935	16,932	3
Debt service - interest	1,540	1,540	1,540	-
Total charges to appropriations	<u>\$ 1,637,439</u>	<u>\$ 1,637,439</u>	<u>\$ 1,391,396</u>	<u>\$ 246,043</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 5,403	\$ 5,403
Transfers out	(139,043)	(139,043)	(124,080)	14,963
Total other financing sources (uses)	<u>\$ (139,043)</u>	<u>\$ (139,043)</u>	<u>\$ (118,677)</u>	<u>\$ 20,366</u>
Net change in fund balance			<u>\$ 16,987</u>	
Fund balance - beginning of the year			<u>\$ 787,434</u>	
Fund balance - end of the year			<u>\$ 804,421</u>	

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

	Road			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 518,910	\$ 519,910	\$ 506,721	\$ (13,189)
Intergovernmental	267,896	267,896	245,613	(22,283)
Miscellaneous	2,660	10,735	11,894	1,159
Amounts available for appropriation	\$ 789,466	\$ 798,541	\$ 764,228	\$ (34,313)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Public works	\$ 828,975	\$ 828,975	\$ 531,415	\$ 297,560
Debt service - principal	85,305	85,305	1,256,096	(1,170,791)
Debt service - interest	40,167	40,167	40,195	(28)
Capital outlay	-	-	649,495	(649,495)
Total charges to appropriations	\$ 954,447	\$ 954,447	\$ 2,477,201	\$ (1,522,754)
OTHER FINANCING SOURCES (USES)				
Proceeds of general long term debt	\$ -	\$ -	\$ 1,820,317	\$ 1,820,317
Transfers out	(84,000)	(84,000)	(84,000)	-
Total other financing sources (uses)	\$ (84,000)	\$ (84,000)	\$ 1,736,317	\$ 1,820,317
Net change in fund balance			\$ 23,344	
Fund balance - beginning of the year			\$ 629,424	
Fund balance - end of the year			\$ 652,768	

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

County Hospital and Nursing Home

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</u>		<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>			
RESOURCES (INFLOWS):					
Taxes and assessments	\$ 179,671	\$ 179,671	\$ 174,886	\$	(4,785)
Intergovernmental	34,936	34,936	30,782	\$	(4,154)
Fines and forfeitures	-	-	129,997	\$	129,997
Miscellaneous	570,000	570,000	457,532	\$	(112,468)
Amounts available for appropriation	<u>\$ 784,607</u>	<u>\$ 784,607</u>	<u>\$ 793,197</u>	<u>\$</u>	<u>8,590</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):					
Public health	\$ 653,000	\$ 625,250	\$ 471,963	\$	153,287
Debt service - principal	232,563	232,563	194,627	\$	37,936
Debt service - interest	6,768	6,768	5,655	\$	1,113
Capital outlay	47,500	75,250	167,216	\$	(91,966)
Total charges to appropriations	<u>\$ 939,831</u>	<u>\$ 939,831</u>	<u>\$ 839,461</u>	<u>\$</u>	<u>100,370</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of general long term debt	\$ 261,251	\$ 261,251	\$ 75,205	\$	(186,046)
Transfers in	-	8,943	8,943	\$	-
Total other financing sources (uses)	<u>\$ 261,251</u>	<u>\$ 270,194</u>	<u>\$ 84,148</u>	<u>\$</u>	<u>(186,046)</u>
Net change in fund balance			<u>\$ 37,884</u>		
Fund balance - beginning of the year			<u>\$ 139,416</u>		
Fund balance - end of the year			<u>\$ 177,300</u>		

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

Public Safety				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL
			(BUDGETARY	BUDGET
			See Note A	
			BASIS)	
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 651,157	\$ 651,157	\$ 638,239	\$ (12,918)
Intergovernmental	114,563	114,563	99,792	(14,771)
Charges for services	112,781	112,781	119,322	6,541
Miscellaneous	550	550	11,553	11,003
Amounts available for appropriation	\$ 879,051	\$ 879,051	\$ 868,906	\$ (10,145)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Public safety	\$ 1,133,001	\$ 1,133,001	\$ 834,477	\$ 298,524
Capital outlay	-	-	9,808	(9,808)
Total charges to appropriations	\$ 1,133,001	\$ 1,133,001	\$ 844,285	\$ 288,716
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (58,000)	\$ (58,000)	\$ (48,000)	\$ 10,000
Net change in fund balance			\$ (23,379)	
Fund balance - beginning of the year			\$ 681,790	
Fund balance - end of the year			\$ 658,411	

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

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

	<u>General</u>	<u>Road</u>	<u>County Hospital and Nursing Home</u>	<u>Public Safety</u>
Sources/Inflows of resources				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,527,060	\$ 764,228	\$ 793,197	\$ 868,906
Combined funds (GASBS 54) revenues	244,332	-	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 1,771,392</u>	<u>\$ 764,228</u>	<u>\$ 793,197</u>	<u>\$ 868,906</u>
Uses/Outflows of resources				
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,391,396	\$ 2,477,201	\$ 839,461	\$ 844,285
Combined funds (GASBS 54) expenditures	<u>9,625</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 1,401,021</u>	<u>\$ 2,477,201</u>	<u>\$ 839,461</u>	<u>\$ 844,285</u>

Note B

The Road Fund Exceeded its budget authority by \$1,522,757 due to the trade-in of the old graders on 8 new graders. The County failed to do a budget amendment to account for the additional expenditures associated with the payoff on the old graders.

Pondera County, Montana
Required Supplementary Information
SCHEDULE OF CHANGES In
TOTAL OPEB LIABILITY AND RELATED RATIOS
For Fiscal Year Ended June 30, 2016

	2016
Total OPEB liability	
Service Cost	\$ 7,780
Net change in total OPEB liability	7,780
Total OPEB Liability - beginning	256,980
Restatement	(184,364)
Total OPEB Liability - ending	\$ 80,396
Covered-employee payroll	\$ 1,772,655
Total OPEB liability as a percentage of covered -employee payroll	4.5%

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

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

	SRS		PERS		SRS		PERS
	2016		2016		2015		2015
Employer's proportion of the net pension liability	0.7653%		0.1081%		0.7873%		0.1113%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 737,728	\$	1,511,425	\$	327,652	\$	1,387,023
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ -	\$	18,565	\$	-	\$	16,938
Total	\$ 737,728	\$	1,529,991	\$	327,652	\$	1,403,961
Employer's Pensionable Payroll	\$ 520,743	\$	1,261,821	\$	509,169	\$	1,260,171
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.67%		119.78%		64.35%		110.07%
Plan fiduciary net position as a percentage of the total pension liability	75.40%		78.40%		87.20%		79.90%

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

Pondera County, Montana
Required Supplementary Information
Schedule of Contributions
For the Year Ended June 30, 2016

	SRS		PERS		SRS		PERS
	2016		2016		2015		2015
Contractually required contributions	\$ 56,567	\$	116,396	\$	52,824	\$	108,820
Contributions in relation to the contractually required contributions	\$ 56,567	\$	116,396	\$	52,824	\$	108,820
Contribution deficiency (excess)	\$ -	\$	-	\$	-	\$	-
Employer's Pensionable Payroll	\$ 545,775	\$	1,364,681	\$	520,743	\$	1,261,821
Contributions as a percentage of covered-employee payroll	10.37%		8.53%		10.14%		8.62%

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

Pondera County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2016

Public Employees' Retirement System of Montana(PERS)

Changes of assumptions:

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

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

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2016.

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

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

Sheriffs' Retirement System of Montana (SRS)

Changes of assumptions: None

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2016.

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

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

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

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

Board of County Commissioners
Pondera County
Conrad, 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, each major fund, and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pondera County's basic financial statements and have issued our report thereon dated June 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered, Pondera County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of, Pondera County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described below as items 2016-001 and 2016-002.

2016-001 Exceeding Budgetary Authority (Repeat 2015-002)

Condition:

The County exceeded its budget authority by \$1,522,757 in the Road Fund.

Context:

As part of compliance testing for the audit, a schedule of budget versus actual was prepared by fund. After the budget amendments were taking into account the Road Fund was found to be out of compliance due to the trade in of the old graders secured by capital leases for new graders also secured by new capital leases.

Criteria:

MCA 7-6-4005. Expenditures limited to appropriations. (1) Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund.

(2) A local government official who violates subsection (1) is liable for the amount of the excess disbursement, expenditure, or obligation personally.

(3) The subsequent claims approval process may not be considered as the making of a disbursement or an expenditure or as incurring an obligation and does not otherwise limit or mitigate the local government official's personal liability.

MCA 7-6-4006. Appropriation power – requirements (1) A governing body may appropriate money and provide for the payment of the debts and expenses of the local government.

(2) Money may not be disbursed, expended, or obligated except pursuant to an appropriation for which working capital is or will be available.

(3) Appropriations may be adjusted according to procedures authorized by the governing body for:

(a) debt service funds for obligations related to debt approved by the governing body

(4) The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

Effect:

The County is not in compliance with MCA 7-6-4005 and 7-6-4006.

Cause:

An official budget amendment was not completed when the County traded in their current road graders for new road graders which the County does about every 5 years. The old graders were secured by capital leases in the amount of \$1,170,822. The new graders were purchased by capital leases in the amount of \$1,820,822. In order to properly account for the grader transaction under the Generally Accepted Accounting Principles, the old graders were paid off in the amount of \$1,170,822, an additional \$649,495 was also expended on the new graders for a total new capital lease of \$1,820,317. This caused the County to exceed its budget by \$1,522,757.

Recommendation:

We recommend that the County limit expenditures to the amount budgeted and monitor the expenditure budget to actual after all closing adjustments have been posted. Further, we recommend that when they acquire a new capital lease the County properly accounts for the payoff of the old loan, the additional capital outlay for the difference between the value of the old asset and the value of the new asset and the proceeds from the debt associated with the capital lease. They County should then do a budget amendment to account for the increase in the appropriation.

Auditee Response:

The County will limit expenditures to the amounts budgeted or appropriately pass by resolution any budget changes to expenditures.

2016-002 Mill Levy Limitation for the Road Fund – Continued Finding (Repeat 2015-001)

Condition:

The client exceeded the mill levy limitations for the road fund by 4.52 mills or \$48,215 in fiscal year 2015 and exceeded the mill levy limitation for the road fund by 4.39 mills or \$54,283 in fiscal year 2016.

Context:

A recalculation of the mill levy limitations for the road fund was performed as part of the audit to test for compliance in both fiscal years. It was found that in fiscal year 2015 the client entered in the FY15 SB 96 Reimbursement through State Entitlement as a positive number instead of a negative number as indicated on the calculation sheet. This resulted in an error in their calculation. It was also noted that the client rounded the taxable value per mill and newly taxable property per mill values which also resulted in slight differences. It was found in fiscal year 2016 that the client used the incorrect amount from fiscal year 2015 which resulted in an incorrect calculation for fiscal year 2016. They also rounded the certified taxable value which also led to the error.

Criteria:

MCA, 15-10-420 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 value of newly taxable property, 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 resulting in an over levy of 4.52 mills or \$48,215 in fiscal year 2015 and an over levy of 4.39 mills or \$54,283 in fiscal year 2016.

Cause:

The client had errors in their calculation resulting in an incorrect authorized mill levy amount

Recommendation:

The County should review their calculation for accuracy and ensure that the actual numbers, not rounded numbers, are used in the calculation to ensure accuracy in the calculation. We also recommend that the County uses the audited calculation going forward. Furthermore, we recommend that the County lower their mill levy for FY17 by \$102,498.

Auditee Response:

The County made the appropriate adjustment when levying taxes for the 2016-17 fiscal year.

Pondera County's Response to Findings

Pondera County's response to the findings identified in our audit is described in the Auditee's Response above 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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 26, 2017

Denning, Downey & Associates, P.C.
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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of County Commissioners
Pondera County
Conrad, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Exceeding Mill Levy for Road Fund	Repeated
Exceeding Budgetary Authority	Repeated

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

June 26, 2017