

LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

**AUDIT REPORT**

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

LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

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LINCOLN COUNTY, MONTANA

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LINCOLN COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2017

**BOARD OF COUNTY COMMISSIONERS**

Mike Cole  
Mark Peck  
Jerry Bennett

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Bernard G. Cassidy  
Nancy Trotter Higgins  
Robin Benson  
Tricia Brooks  
Jay Sheffield  
Roby Bowe  
Steven Schnackenberg

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

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2017

Our discussion and analysis of Lincoln County's financial performance provides an overview of Fiscal Year 2016-2017 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole. Readers should review the basic financial statements found in the annual report to enhance their understanding of the County's financial performance.

## **FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2017 are as follows:

- Continued decreased interest earnings due to low interest rates and a declining amount to be invested in short-term opportunities.
- Federal PILT payment extended to be paid in 2017 rather than ending in 2016.
- Forest Receipts revenue has been reinstated, sometimes referred to the 25% rule. The county was in receipt of over \$400,000 from timber sales that was designated specifically for the road fund.

## **USING THIS ANNUAL FINANCIAL REPORT**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. Lincoln 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 report information about the County as a whole and about its activities. These statements include all assets and liabilities of the County using the full accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2017

**Fund Financial Statements**

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

- **Governmental Funds:** Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that is available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to government operations and the basic services it provides. The governmental fund information helps you to determine whether there are more or fewer financial resources available to finance future county services. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds:** Lincoln County maintains one proprietary fund reported as an Enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The Lincoln County Refuse District provides refuse disposal and recycling services to the residents of Lincoln County. Proprietary funds are reported using full accrual accounting, which is the same accounting method, used by the Statement of Net position and the Statement of Activities.
- **Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of the parties outside the government. Fiduciary funds are not reflected in the governmental wide financial statements because the resources of those funds are not available to support the County's programs or services. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

**Net position.** As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In case of Lincoln County, assets exceeded liabilities by \$21,857,028 at the close of the most recent fiscal year. The following table provides a summary comparison for the County's Governmental and business type net position for fiscal year 2017 and compared to the prior year.

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2017

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	FY17	FY16	Change Inc (Dec)	FY17	FY16	Change Inc (Dec)
	Current and other assets	\$ 21,456,597	\$ 23,107,679	\$ (1,651,082)	\$ 4,255,097	\$ 4,242,529
Capital assets	9,350,487	9,638,343	(287,856)	875,586	959,276	(83,690)
Total assets	\$ 30,807,084	\$ 32,746,022	\$ (1,938,938)	\$ 5,130,683	\$ 5,201,805	\$ (71,122)
Long-term debt outstanding	\$ 2,172,306	\$ 2,012,889	\$ 159,417	\$ 284,683	\$ 265,136	\$ 19,547
Other liabilities	9,926,634	8,514,180	1,412,454	1,629,877	1,467,597	162,280
Total liabilities	\$ 12,098,940	\$ 10,527,069	\$ 1,571,871	\$ 1,914,560	\$ 1,732,733	\$ 181,827
Net investment in capital assets	\$ 9,350,487	\$ 9,638,343	\$ (287,856)	\$ 875,586	\$ 959,276	\$ (83,690)
Restricted	15,512,648	18,179,027	(2,666,379)	997,390	975,189	22,201
Unrestricted (deficit)	(6,154,991)	(5,598,417)	(556,574)	1,343,147	1,534,607	(191,460)
Total net position	\$ 18,708,144	\$ 22,218,953	\$ (3,510,809)	\$ 3,216,123	\$ 3,469,072	\$ (252,949)

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	FY17	FY16	Change Inc (Dec)	FY17	FY16	Change Inc (Dec)
<b>Revenues</b>						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 1,096,655	\$ 1,058,539	\$ 38,116	\$ 1,768,245	\$ 1,784,386	\$ (16,141)
Operating grants and contributions	1,838,611	4,282,607	(2,443,996)	-	-	-
Capital grants and contributions	428,694	374,278	54,416	8,851	-	8,851
<i>General revenues (by major source):</i>						
Property taxes for general purposes	5,677,285	5,261,889	415,396	-	-	-
Licenses and permits	25,350	20,362	4,988	-	-	-
Video poker apportionment	6,882	-	6,882	-	-	-
Miscellaneous	386,059	190,036	196,023	12,874	5,000	7,874
Investment earnings	12,729	270,692	(257,963)	(10,618)	10,774	(21,392)
Unrestricted federal/state shared revenues	28,160	-	28,160	-	-	-
PILT	644,300	684,405	(40,105)	-	-	-
State entitlement	864,314	891,815	(27,501)	-	-	-
Grants and entitlements not restricted to specific programs	8,120	66,018	(57,898)	-	-	-
Contributions & donations	-	10,624	(10,624)	-	-	-
State contributions to retirement	95,265	111,599	(16,334)	-	8,781	(8,781)
Total revenues	\$ 11,112,424	\$ 13,222,864	\$ (2,110,440)	\$ 1,779,352	\$ 1,808,941	\$ (29,589)
<b>Program expenses</b>						
General government	\$ 6,026,734	\$ 5,050,017	\$ 976,717	\$ -	\$ -	\$ -
Public safety	3,797,733	3,767,719	30,014	-	-	-
Public works	3,615,419	3,914,656	(299,237)	-	-	-
Public health	969,885	891,551	78,334	-	-	-
Social and economic services	186,717	150,140	36,577	-	-	-
Culture and recreation	609,558	674,036	(64,478)	-	-	-
Housing and community development	83,984	159,792	(75,808)	-	-	-
Miscellaneous	92,463	101,162	(8,699)	-	-	-
Solid Waste	-	-	-	1,159,504	1,132,116	27,388
Total expenses	\$ 15,382,493	\$ 14,709,073	\$ 673,420	\$ 1,159,504	\$ 1,132,116	\$ 27,388
Excess (deficiency) before special items and transfers	\$ (4,270,069)	\$ (1,486,209)	\$ (2,783,860)	\$ 619,848	\$ 676,825	\$ (56,977)
Gain (loss) on sale of capital assets	-	(23,236)	23,236	-	(3,333)	3,333
Transfers - net	437,580	326,000	111,580	(437,580)	(326,000)	(111,580)
<b>Increase (decrease) in net position</b>	\$ (3,832,489)	\$ (1,183,445)	\$ (2,649,044)	\$ 182,268	\$ 347,492	\$ (165,224)

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2017

**Condensed Financial Statements**

By far the largest portion of the County's net position is reflected in capital assets (e.g. land, buildings, machinery and equipment) less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Unrestricted net position may be used to meet the County's ongoing obligations to citizens and creditors.

The cost of all Governmental activities this year was \$15,382,493 as found in the Statement of Activities. However, as shown on the same statement, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$5,677,285 with some of the costs being paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with operating grants. Other revenues such as interest earnings, entitlement reimbursements, general contributions and other miscellaneous revenues along with remaining cash carryovers from the prior fiscal year financed the remaining portions of budgets.

**BUSINESS TYPE ACTIVITIES**

Enterprise Funds: The County owns and operates the Solid Waste District. The program provides disposal of wastes delivered to its central landfill in Libby. A transfer station is operated in Eureka. Other rural areas in the County are serviced by "green box" sites, which are picked up by the County. User fees support all Solid Waste District services wholly. The enterprise fund's prime objective is to provide disposal services to County residents and businesses. As maintenance and operating expenses increase while revenues remain at a fairly consistent level, fund balances are affected and investment in capital assets are at lower levels as reflected in the following schedule:

**Financial Analysis of the County's Funds**

As noted earlier, Lincoln County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental Funds Overview***

The focus of County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

As of the end of Fiscal Year 2017 the combined ending fund balances of Lincoln County's governmental funds were \$18,196,654. A reserve of \$15,184,904 tax maintains a cash reserve to provide liquidity until tax revenue is received in November. Remaining cash may be re-appropriated in accordance with the purposes of the specific funds.

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2017

Lincoln County has three major governmental funds: the General Fund, Road Fund, and Public Safety Fund.

**General Fund**

This is the chief operating fund of Lincoln County. At the end of the fiscal year 2017 unreserved fund balance of the general fund was \$3,118,242. Unreserved fund balance as a percentage of total fund expenditures can be a good tool to use to measure the liquidity of the general fund. For fiscal year 2017 the unreserved fund balance represented 77% of total general fund expenditures. It accounts for many of the County's general and administrative services, such as legislative, judicial, financial, elections, facilities, administration, legal, and civil defense and emergency services.

**Road Fund**

This fund is used to report all County road projects. At the end of the fiscal year 2017 the fund balance was \$13,259,298. All of which is restricted to road projects.

**Public Safety Fund.**

This fund is a special revenue fund used to account for Lincoln County's sheriff, dispatch, coroner and detention services. At the end of the fiscal year 2017 unreserved fund balance of the public safety fund was \$331,955. Prior year ending fund balance was \$506,938.

**Solid Waste Fund**

This fund is a proprietary fund used to account for Lincoln County's solid waste services. At the end of the fiscal year ended 2017, the Solid Waste fund had a total net position of \$3,216,123 which was a decrease from the prior year balance of \$3,469,072.

**FY17 General Fund Budgetary Highlights**

Over the course of the year, Lincoln County's general fund was revised. The original general fund expenditure budget was \$3,727,696, which was increased by \$36,000 to \$3,763,696 during the year. Over the course of the year, our actual reported resources were less than budgeted by \$1,370,598. Our anticipated taxes and assessments for the general fund show a negative difference of \$2,032. Appropriations for General Government show \$16,816 budgeted for expenditures that were not expended in this fiscal year. Overestimates in several departments contribute to this.

**Capital Assets**

Lincoln County's investment in capital assets (depreciable, net) for its governmental and business type activities as of June 30, 2017 was \$10,226,073. This investment in capital assets includes land, significant road projects, construction in progress, buildings, machinery & equipment, and improvements other than buildings.

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2017

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

Governmental activities:

	Balance July 1, 2016	Additions	Transfers	Retirements	Restatements	Balance June 30, 2017
Capital assets not being depreciated:						
Land	\$ 525,267	84,384	\$ -	\$ -	\$ -	\$ 609,651
Construction in progress	50,795	539,860	(438,544)	-	-	152,111
Total capital assets not being depreciated	<u>\$ 576,062</u>	<u>\$ 624,244</u>	<u>\$ (438,544)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,762</u>
Other capital assets:						
Buildings	\$ 4,933,617	\$ -	\$ 112,871	\$ -	\$ 14,000	\$ 5,060,488
Improvements other than buildings	8,700,706	11,750	231,112	-	-	8,943,568
Machinery and equipment	11,302,440	198,644	106,356	(614,624)	-	10,992,816
Construction work in progress	2,428,814	-	(450,339)	-	(84,394)	1,894,081
Total other capital assets at historical cost	<u>\$ 27,365,577</u>	<u>\$ 210,394</u>	<u>\$ -</u>	<u>\$ (614,624)</u>	<u>\$ (70,394)</u>	<u>\$ 26,890,953</u>
Less: accumulated depreciation	<u>\$ (18,303,296)</u>	<u>\$ (1,022,061)</u>	<u>\$ 438,544</u>	<u>\$ 599,202</u>	<u>\$ (14,617)</u>	<u>\$ (18,302,228)</u>
Total	<u>\$ 9,638,343</u>	<u>\$ (187,423)</u>	<u>\$ -</u>	<u>\$ (15,422)</u>	<u>\$ (85,011)</u>	<u>\$ 9,350,487</u>

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

Business-type activities:

	Balance July 1, 2016	Additions	Transfers	Retirements	Restatements	Balance June 30, 2017
Capital assets not being depreciated:						
Land	\$ 850	\$ -	\$ -	\$ -	\$ -	\$ 850
Total capital assets not being depreciated	<u>\$ 850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 850</u>
Other capital assets:						
Buildings	\$ 303,740	\$ -	\$ -	\$ -	\$ -	\$ 303,740
Improvements other than buildings	88,089	11,230	-	-	-	99,319
Machinery and equipment	2,029,291	43,644	-	(148,638)	38,820	1,963,117
Total other capital assets at historical cost	<u>\$ 2,421,120</u>	<u>\$ 54,874</u>	<u>\$ -</u>	<u>\$ (148,638)</u>	<u>\$ 38,820</u>	<u>\$ 2,366,176</u>
Less: accumulated depreciation	<u>\$ (1,462,694)</u>	<u>\$ (140,927)</u>	<u>\$ -</u>	<u>\$ 148,638</u>	<u>\$ (36,457)</u>	<u>\$ (1,491,440)</u>
Total	<u>\$ 959,276</u>	<u>\$ (86,053)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,363</u>	<u>\$ 875,586</u>

**Long-term debt.** As of June 30, 2017, the only debt held by the County is, the amounts recorded below for compensating absences, landfill closure and post closure, net pension liability and other post-employment benefits.

Governmental Activities:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 606,150	\$ -	\$ (45,995)	\$ 560,155	\$ 384,632
Net pension liability*	6,395,321	2,269,426	-	8,664,747	-
Other post-employment benefits**	1,406,739	205,412	-	1,612,151	-
Total	<u>\$ 8,408,210</u>	<u>\$ 2,474,838</u>	<u>\$ (45,995)</u>	<u>\$ 10,837,053</u>	<u>\$ 384,632</u>

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2017

Business-Type Activities:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>	Due Within <u>One Year</u>
Compensated absences	\$ 91,269	\$ -	\$ (769)	\$ 90,500	\$ 67,527
Landfill Closure/Postclosure	1,045,320	38,285	-	1,083,605	-
Net pension liability*	354,599	122,672	-	477,271	-
Other post-employment benefits**	<u>173,867</u>	<u>20,316</u>	<u>-</u>	<u>194,183</u>	<u>-</u>
Total	<u>\$ 1,665,055</u>	<u>\$ 181,273</u>	<u>\$ (769)</u>	<u>\$ 1,845,559</u>	<u>\$ 67,527</u>

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS**

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

As a whole, Lincoln County is in a strong financial position considering the economic situation in Lincoln County. The re-authorization of the Secure Rural Schools and Communities Act has helped stabilize funding for the Road Fund, albeit a temporary fix for a complicated problem.

Several problems have played a role in the economic future of our county including:

- High unemployment due to decreased timber harvest and other natural resourced based jobs and national economic problems.
- The designation of the Libby/Troy area as an EPA Superfund site due to asbestos contamination by the former W.R. Grace mine.
- Montanore Mine is slow to start due to environmental issues.
- Troy mine was closed due to a landslide.

Although these problems will take several years to overcome, there are signs of an improving economy such as:

- The EPA has committed to cleaning up the asbestos contamination as funding is available.
- Many community groups are working to improve the economic situation in the County.
- The Stimson mill property was donated to the County-formed Port Authority. The Port Authority is actively pursuing industrial businesses to occupy this property.

Overall, we feel hopeful about the County’s finances and the overall economy. Even though we have experienced many negative financial impacts within our area, we do see a light at the end of the tunnel as we begin the recovery process, with our goal being a stable economy and steadfast revenues.

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Lincoln County  
Libby, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Montana, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lincoln County, Montana, as of and for the year ended June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress for other post-employment benefits other than pensions, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 8, 57 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S., *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018, on our consideration of the Lincoln 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 Lincoln County, Montana's internal control over financial reporting and compliance.

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

June 18, 2018

**Lincoln County, Montana**  
**Statement of Net Position**  
**June 30, 2017**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 18,105,000	\$ 2,885,985	\$ 20,990,985
Taxes and assessments receivable, net	315,563	-	315,563
Special assessments receivable	-	294,705	294,705
Due from other governments	333,633	-	333,633
Total current assets	<u>\$ 18,754,196</u>	<u>\$ 3,180,690</u>	<u>\$ 21,934,886</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 997,390	\$ 997,390
Capital assets - land	609,651	850	610,501
Capital assets - construction in progress	152,111	-	152,111
Capital assets - depreciable, net	8,588,725	874,736	9,463,461
Total noncurrent assets	<u>\$ 9,350,487</u>	<u>\$ 1,872,976</u>	<u>\$ 11,223,463</u>
Total assets	<u>\$ 28,104,683</u>	<u>\$ 5,053,666</u>	<u>\$ 33,158,349</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources - pensions	\$ 2,702,401	\$ 77,017	\$ 2,779,418
Total deferred outflows of resources	<u>\$ 2,702,401</u>	<u>\$ 77,017</u>	<u>\$ 2,779,418</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 30,807,084</u>	<u>\$ 5,130,683</u>	<u>\$ 35,937,767</u>
<b>LIABILITIES</b>			
Current liabilities			
Warrants payable	\$ 3,090	\$ -	\$ 3,090
Accounts payable	783	-	783
Accrued payables	153,386	29,066	182,452
Current portion of compensated absences payable	384,632	67,527	452,159
Total current liabilities	<u>\$ 541,891</u>	<u>\$ 96,593</u>	<u>\$ 638,484</u>
Noncurrent liabilities			
Landfill closure postclosure liability	\$ -	\$ 1,083,605	\$ 1,083,605
Noncurrent portion of long-term liabilities	1,612,151	194,183	1,806,334
Noncurrent portion of compensated absences	175,523	22,973	198,496
Net pension liability	8,664,747	477,271	9,142,018
Total noncurrent liabilities	<u>\$ 10,452,421</u>	<u>\$ 1,778,032</u>	<u>\$ 12,230,453</u>
Total liabilities	<u>\$ 10,994,312</u>	<u>\$ 1,874,625</u>	<u>\$ 12,868,937</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources - pensions	\$ 1,087,147	\$ 39,935	\$ 1,127,082
Deferred inflows of resources	17,481	-	17,481
Total Deferred Inflows of resources	<u>\$ 1,104,628</u>	<u>\$ 39,935</u>	<u>\$ 1,144,563</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 9,350,487	\$ 875,586	\$ 10,226,073
Restricted for special projects	15,512,648	-	15,512,648
Restricted for other purposes	-	997,390	997,390
Unrestricted	(6,154,991)	1,343,147	(4,811,844)
Total net position	<u>\$ 18,708,144</u>	<u>\$ 3,216,123</u>	<u>\$ 21,924,267</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u>\$ 30,807,084</u>	<u>\$ 5,130,683</u>	<u>\$ 35,937,767</u>

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Indirect Expense Allocation</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
			<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
						<u>Governmental Activities</u>	<u>Business- type Activities</u>	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 6,026,734	\$ (1,572,102)	\$ 431,470	\$ 299,575	\$ -	\$ (3,723,587)	\$ -	\$ (3,723,587)
Public safety	3,797,733	612,133	519,526	395,121	-	(3,495,219)	-	(3,495,219)
Public works	3,615,419	522,389	101,751	655,140	117,676	(3,263,241)	-	(3,263,241)
Public health	969,885	-	13,044	482,517	-	(474,324)	-	(474,324)
Social and economic services	186,717	-	5,750	6,256	-	(174,711)	-	(174,711)
Culture and recreation	609,558	-	25,114	2	311,018	(273,424)	-	(273,424)
Housing and community development	83,984	-	-	-	-	(83,984)	-	(83,984)
Miscellaneous	92,463	-	-	-	-	(92,463)	-	(92,463)
Total governmental activities	\$ 15,382,493	\$ (437,580)	\$ 1,096,655	\$ 1,838,611	\$ 428,694	\$ (11,580,953)	\$ -	\$ (11,580,953)
Business-type activities:								
Solid Waste	\$ 1,159,504	\$ 437,580	\$ 1,768,245	\$ -	\$ 8,851	\$ -	\$ 180,012	\$ 180,012
Total business-type activities	\$ 1,159,504	\$ 437,580	\$ 1,768,245	\$ -	\$ 8,851	\$ -	\$ 180,012	\$ 180,012
Total primary government	\$ 16,541,997	\$ -	\$ 2,864,900	\$ 1,838,611	\$ 437,545	\$ (11,580,953)	\$ 180,012	\$ (11,400,941)
General Revenues:								
Property taxes for general purposes						\$ 5,677,285	\$ -	\$ 5,677,285
Licenses and permits						25,350	-	25,350
Video poker apportionment						6,882	-	6,882
Miscellaneous						386,059	12,874	398,933
Investment earnings						12,729	(10,618)	2,111
Unrestricted federal/state shared revenues						28,160	-	28,160
PILT						644,300	-	644,300
State entitlement						864,314	-	864,314
Grants and entitlements not restricted to specific programs						8,120	-	8,120
State contributions to retirement						95,265	-	95,265
Transfers - net						437,580	(437,580)	-
Total general revenues, special items and transfers						\$ 8,186,044	\$ (435,324)	\$ 7,750,720
Change in net position						\$ (3,394,909)	\$ (255,312)	\$ (3,650,221)
Net position - beginning						\$ 22,218,953	\$ 3,469,072	\$ 25,688,025
Restatements						(115,900)	2,363	(113,537)
Net position - beginning - restated						\$ 22,103,053	\$ 3,471,435	\$ 25,574,488
Net position - end						\$ 18,708,144	\$ 3,216,123	\$ 21,924,267

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	<b>General</b>	<b>Road</b>	<b>Public Safety/Law Enforcement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 2,884,022	\$ 13,285,380	\$ 365,023	\$ 1,570,575	\$ 18,105,000
Taxes and assessments receivable, net	17,103	-	151,430	147,030	315,563
Due from other funds	97,556	-	-	-	97,556
Due from other governments	182,536	-	20,087	131,010	333,633
<b>TOTAL ASSETS</b>	<b>\$ 3,181,217</b>	<b>\$ 13,285,380</b>	<b>\$ 536,540</b>	<b>\$ 1,848,615</b>	<b>\$ 18,851,752</b>
<b>LIABILITIES</b>					
Current liabilities:					
Warrants payable	\$ -	\$ -	\$ -	\$ 3,090	\$ 3,090
Accounts payable	-	-	-	783	783
Accrued payables	45,872	26,082	53,155	28,277	153,386
Due to other funds	-	-	-	97,556	97,556
Total liabilities	<b>\$ 45,872</b>	<b>\$ 26,082</b>	<b>\$ 53,155</b>	<b>\$ 129,706</b>	<b>\$ 254,815</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows of resources - taxes	\$ 17,103	\$ -	\$ 151,430	\$ 147,030	\$ 315,563
Deferred inflows of resources	-	-	-	17,481	17,481
Total deferred inflows of resources	<b>\$ 17,103</b>	<b>\$ -</b>	<b>\$ 151,430</b>	<b>\$ 164,511</b>	<b>\$ 333,044</b>
<b>FUND BALANCES</b>					
Restricted	\$ -	\$ 13,259,298	\$ 331,955	\$ 1,623,053	\$ 15,214,306
Committed	-	-	-	38,683	38,683
Unassigned fund balance	3,118,242	-	-	(107,338)	3,010,904
Total fund balance	<b>\$ 3,118,242</b>	<b>\$ 13,259,298</b>	<b>\$ 331,955</b>	<b>\$ 1,554,398</b>	<b>\$ 18,263,893</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	<b>3,181,217</b>	<b>\$ 13,285,380</b>	<b>\$ 536,540</b>	<b>\$ 1,848,615</b>	<b>\$ 18,851,752</b>

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**June 30, 2017**

<b>Total fund balances - governmental funds</b>	\$ 18,263,893
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,350,487
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.	315,563
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,172,306)
Proportionate share of ending collective net pension liability	(8,664,747)
Deferred outflows related to net pension liability	2,702,401
Deferred inflows related to net pension liability	(1,087,147)
<b>Total net position - governmental activities</b>	<b>\$ <u><u>18,708,144</u></u></b>

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2017**

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes and assessments	\$ 252,754	\$ 757,039	\$ 2,349,424	\$ 2,287,989	\$ 5,647,206
Licenses and permits	25,350	-	-	-	25,350
Intergovernmental	1,330,951	526,606	200,682	1,635,276	3,693,515
Charges for Service	208,894	86,668	442,909	332,336	1,070,807
Fines & forfeitures	106,744	-	-	31,988	138,732
Miscellaneous	115,354	72,437	48,109	163,130	399,030
Investment earnings	22,553	(15,060)	-	4,960	12,453
Total revenues	<u>\$ 2,062,600</u>	<u>\$ 1,427,690</u>	<u>\$ 3,041,124</u>	<u>\$ 4,455,679</u>	<u>\$ 10,987,093</u>
<b>EXPENDITURES</b>					
General government	\$ 3,483,537	\$ -	\$ -	\$ 536,451	\$ 4,019,988
Public safety	184,650	-	3,179,046	891,370	4,255,066
Public works	19,950	3,078,779	-	336,924	3,435,653
Public health	342,800	-	-	622,060	964,860
Social and economic services	2,255	-	-	184,462	186,717
Culture and recreation	-	-	-	526,187	526,187
Housing and community development	-	-	-	82,784	82,784
Miscellaneous	-	-	-	92,463	92,463
Capital outlay	24,954	115,034	104,010	590,640	834,638
Total expenditures	<u>\$ 4,058,146</u>	<u>\$ 3,193,813</u>	<u>\$ 3,283,056</u>	<u>\$ 3,863,341</u>	<u>\$ 14,398,356</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (1,995,546)</u>	<u>\$ (1,766,123)</u>	<u>\$ (241,932)</u>	<u>\$ 592,338</u>	<u>\$ (3,411,263)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ 2,097,673	\$ -	\$ 706,988	\$ 296,619	\$ 3,101,280
Transfers out	<u>(365,745)</u>	<u>(522,389)</u>	<u>(612,133)</u>	<u>(1,163,433)</u>	<u>(2,663,700)</u>
Total other financing sources (uses)	<u>\$ 1,731,928</u>	<u>\$ (522,389)</u>	<u>\$ 94,855</u>	<u>\$ (866,814)</u>	<u>\$ 437,580</u>
Net Change in Fund Balance	<u>\$ (263,618)</u>	<u>\$ (2,288,512)</u>	<u>\$ (147,077)</u>	<u>\$ (274,476)</u>	<u>\$ (2,973,683)</u>
Fund balances - beginning	\$ 3,376,860	\$ 15,547,810	\$ 506,938	\$ 1,836,857	\$ 21,268,465
Restatements	5,000	-	(27,906)	(7,983)	(30,889)
Fund balances - beginning, restated	<u>\$ 3,381,860</u>	<u>\$ 15,547,810</u>	<u>\$ 479,032</u>	<u>\$ 1,828,874</u>	<u>\$ 21,237,576</u>
Fund balance - ending	<u>\$ 3,118,242</u>	<u>\$ 13,259,298</u>	<u>\$ 331,955</u>	<u>\$ 1,554,398</u>	<u>\$ 18,263,893</u>

See accompanying Notes to the Financial Statements

**Lincoln 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, 2017**

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

**Net change in fund balances - total governmental funds** \$ (2,973,683)

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	819,216
- Depreciation expense	(1,022,061)

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)	30,066
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The change in compensated absences is shown as an expense in the Statement of Activities

45,995

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	(205,412)
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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

(184,295)

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

95,265

**Change in net position - Statement of Activities**

**\$ (3,394,909)**

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2017**

		<b>Business-Type Activities - Enterprise Funds</b>
		<u>Solid Waste</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	2,885,985
Special assessments receivable		294,705
Total current assets	\$	<u>3,180,690</u>
Noncurrent assets:		
Restricted cash and investments	\$	997,390
Capital assets - land		850
Capital assets - depreciable, net		874,736
Total noncurrent assets	\$	<u>1,872,976</u>
Total assets	\$	<u>5,053,666</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources -pensions	\$	<u>77,017</u>
Total deferred outflows of resources	\$	<u>77,017</u>
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	\$	<u>5,130,683</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accrued payables	\$	29,066
Current portion of compensated absences payable		67,527
Total current liabilities	\$	<u>96,593</u>
Noncurrent liabilities:		
Landfill closure postclosure liability	\$	1,083,605
Noncurrent portion of long-term liabilities		194,183
Noncurrent portion of compensated absences		22,973
Net pension liability		477,271
Total noncurrent liabilities	\$	<u>1,778,032</u>
Total liabilities	\$	<u>1,874,625</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources - pensions	\$	<u>39,935</u>
Total deferred inflows of resources	\$	<u>39,935</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$	875,586
Restricted for other purposes		997,390
Unrestricted		1,343,147
Total net position	\$	<u>3,216,123</u>
Total liabilities and net position	\$	<u>5,090,748</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES &amp; NET POSITION</b>	\$	<u>5,130,683</u>

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2017**

	<b>Business-Type Activities -</b>
	<b>Enterprise Funds</b>
	<b>Solid Waste</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 98,557
Miscellaneous revenues	12,874
Special assessments	1,669,688
Total operating revenues	\$ 1,781,119
<b>OPERATING EXPENSES</b>	
Personal services	\$ 823,351
Supplies	181,001
Purchased services	451,805
Depreciation	140,927
Total operating expenses	\$ 1,597,084
Operating income (loss)	\$ 184,035
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Intergovernmental revenue	\$ 8,851
Interest revenue	(10,618)
Total non-operating revenues (expenses)	\$ (1,767)
Income (loss) before contributions and transfers	\$ 182,268
Transfers out	(437,580)
Change in net position	\$ (255,312)
Net Position - Beginning of the year	\$ 3,469,072
Restatements	2,363
Net Position - Beginning of the year - Restated	\$ 3,471,435
Net Position - End of the year	\$ 3,216,123

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Fiscal Year Ended June 30, 2017**

	<u>Business - Type Activities - Enterprise Funds</u>
	<u>Solid Waste</u>
<b>Cash flows from operating activities:</b>	
Cash received from providing services	\$ 98,557
Cash received from miscellaneous	12,874
Cash received from Special Assessments	1,655,412
Cash paid for Purchased services	(413,520)
Cash paid for Personal Services	(731,926)
Cash paid for Supplies	(181,001)
Net cash provided (used) by operating activities	<u>\$ 440,396</u>
 <b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	\$ (54,874)
Net cash provided (used) by capital and related financing activities	<u>\$ (54,874)</u>
 <b>Cash flows from non-capital financing activities:</b>	
Intergovernmental Revenue	\$ 8,851
Cash transferred to and from other funds	(437,580)
Net cash provided (used) from non-capital financing activities	<u>\$ (428,729)</u>
 <b>Cash flows from investing activities:</b>	
Interest on investments	\$ (10,618)
Net cash provided (used) by investing activities	<u>\$ (10,618)</u>
 <b>Net increase (decrease) in cash and cash equivalents</b>	 \$ (53,825)
 <b>Cash and cash equivalents at beginning</b>	 3,937,200
 <b>Cash and cash equivalents at end</b>	 <u>\$ 3,883,375</u>
 <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 184,035
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	140,927
Other post-employment benefits	20,316
Net pension liability	122,672
Deferred outflows of resources - pensions	(52,117)
Deferred inflows of resources - pensions	(18,696)
Landfill closure postclosure liability	38,285
Changes in assets and liabilities:	
Decrease in special assessments receivable	(14,276)
Increase in accrued payroll	20,019
Increase in compensated absences	(769)
Net cash provided (used) by operating activities	<u>\$ 440,396</u>

See accompanying notes to the financial statements

**Lincoln County, Montana**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2017**

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 10,901,140	\$ 2,062,162
Taxes receivable	-	1,176,343
Total assets	<u>\$ 10,901,140</u>	<u>\$ 3,238,505</u>
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 1,229,200
Due to others	-	2,009,305
Total liabilities	<u>\$ -</u>	<u>\$ 3,238,505</u>
<b>NET POSITION</b>		
Assets held in trust	<u>\$ 10,901,140</u>	

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2017**

		<b>Investment Trust Funds</b>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$	24,032,568
Total contributions	\$	<u>24,032,568</u>
Investment earnings:		
Interest and change in fair value of investments	\$	35,742
Net investment earnings	\$	<u>35,742</u>
Total additions	\$	<u>24,068,310</u>
<b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	<u>23,878,282</u>
Total deductions	\$	<u>23,878,282</u>
Change in net position	\$	<u>190,028</u>
Net Position - Beginning of the year	\$	10,711,112
Net Position - End of the year	\$	<u><u>10,901,140</u></u>

See accompanying Notes to the Financial Statements

LINCOLN COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017

**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.

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

*Related Organizations*

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

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

The Friends of the Library and the Library Foundation are considered related organizations of the County. The Friends of the Library focuses public attention on the library, stimulates the use of the library's resources and services, receives and encourages gifts, endowments and bequests to the library, and supports and cooperates with the library in developing library services and facilities. The Library Foundation provides fundraising support for the benefit of all three libraries. The areas of fundraising include endowments, memorials and tax-deferred gifts. The County Library Board are responsible for employing the library director, determining policies and purposes of the library, submitting and annual budget, securing adequate funds and working to ensure that the library is able to offer comprehensive and effective service to the community.

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

***Government-wide Financial Statements:***

*Basis of Presentation*

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

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 charges indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

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

**Fund Financial Statements:**

*Basis of Presentation*

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

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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*Measurement Focus and Basis of Accounting*

***Governmental Funds:***

Modified Accrual

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

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

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

Major Funds:

The County reports the following major governmental funds:

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

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

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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***Proprietary Funds:***

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

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

**Major Funds:**

The County reports the following major proprietary funds:

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

***Fiduciary Funds***

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

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

*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

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

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2017, are as follows:

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 400
Vault Balance	2,000
Cash in banks:	
Demand deposits	110,913
Savings deposits	19,378,928
Time deposits	5,058,442
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	39,179
U.S. Government Securities	10,361,815
Total	\$ 34,951,677

**Credit Risk**

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

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

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

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

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

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

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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, 2017, (in thousands) unaudited:

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity in Days</u>
Treasuries	\$ 124,774	A-1+	80
Asset Backed Commercial Paper	1,089,830	A-1	25
Corporate Commercial Paper	356,122	A-1	63
Corporate Notes	369,751	A-1+	78
Certificates of Deposit	484,113	A-1+	35
U.S. Government Agency	389,807	A-1+	24
Money Market Funds (Unrated)	24,219	NR	1
Money Market Funds (Rated)	<u>148,000</u>	A-1+	1
Total Investments	<u>\$ 2,986,616</u>	A-1	39

\*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.

**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. All deposits are carried at cost plus accrued interest. As of June 30, 2017 the government's bank balance of was exposed to custodial credit risk as follows:

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

	June 30, 2017 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 5,581,995
- Collateral held by the pledging bank's trust department but not in the County's name	14,197,852
- Uninsured and uncollateralized	4,921,128
Total deposits and investments	<u>\$ 24,700,975</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, 2017, equaled or exceeded the amount required by State statutes.

**Interest Rate Risk**

The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of individual investments as of June 30, 2017 alone with their related interest rates and maturity dates.

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
Federal National Mortgage Association Note	1.050%	3/27/2018	\$ 250,427
Federal National Mortgage Association Note	1.250%	3/29/2019	498,797
Federal Farm Credit Banks Debenture	1.300%	6/6/2019	994,884
Federal Home Loan Banks Debenture	1.530%	2/24/2020	499,835
Federal National Mortgage Association Note	1.125%	4/28/2020	323,650
Federal Farm Credit Banks Debenture	1.400%	6/15/2020	496,966
Federal Home Loan Banks Debenture	1.700%	10/19/2020	498,486
Federal Farm Credit Banks Debenture	1.620%	2/17/2021	495,847
Federal Farm Credit Banks Debenture	1.650%	3/1/2021	495,220
Federal Home Loan Banks Debenture	1.625%	4/20/2021	493,038
Federal Farm Credit Banks Debenture	1.550%	5/17/2021	493,349
Federal Farm Credit Banks Debenture	1.690%	6/2/2021	498,109
Federal National Mortgage Association Note	1.300%	7/27/2021	488,062
Federal National Mortgage Association Note	1.500%	8/16/2021	491,925
Federal Home Loan Banks Debenture	1.520%	8/25/2021	454,640
Federal National Mortgage Association Note	1.400%	8/25/2021	421,985
Federal Home Loan Banks Debenture	1.750%	11/24/2021	493,630
Federal Home Loan Banks Debenture	2.200%	12/21/2021	200,359
Federal Home Loan Banks Debenture	2.250%	2/14/2022	301,011

LINCOLN COUNTY, MONTANA  
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Federal National Mortgage Association Note	2.350%	3/14/2022	501,626
US Treasury Notes	1.620%	3/31/2019	39,332
Federal Farm Credit Banks	1.000%	4/11/2018	3,999
Federal Home Loan Banks	1.000%	9/27/2017	40,022
Federal Home Loan Banks	1.460%	3/30/2020	29,818
Federal Home Loan Banks	1.620%	6/14/2019	125,521
Federal Home Loan Banks	1.870%	11/29/2021	20,075
Federal Home Loan Mortgage Corp	1.000%	7/28/2017	30,127
Federal National Mortgage Association	1.500%	6/22/2020	119,752
Federal National Mortgage Association	1.620%	11/27/2018	24,119
US Treasury Notes	1.620%	3/31/2019	53,452
US Treasury Notes	1.270%	3/31/2021	83,846
US Treasury Notes	0.750%	12/31/2017	27,940
Federal Farm Credit Banks	1.000%	4/11/2018	11,997
Federal Home Loan Banks	1.000%	9/27/2017	45,025
Federal Home Loan Banks	1.460%	3/30/2020	59,636
Federal Home Loan Banks	1.620%	6/14/2019	120,500
Federal Home Loan Banks	1.870%	11/29/2021	15,056
Federal National Mortgage Association	1.500%	6/22/2020	119,752
			<u>\$ 10,361,815</u>

**Cash and Investment Pool**

The government maintains a cash and investment pool that is available for use by all funds, except the Road fund. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments." In addition, investments are separately held by several of the government's funds. The deposits and investments of the Road fund are held separately from those of other government funds.

**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. There are two types of investment trust funds reported by the County, pooled and individually directed investment trust funds.

The County has a pooled investment trust fund, invested in an interest bearing savings account. The pooled funds carried at fair value.

The County invests funds in one external entity. These investments are reported in an individually directed investment trust fund. The investments are U.S. Government Securities and carried at fair 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 trends.

LINCOLN COUNTY, MONTANA  
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The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2017 to support the value of the shares in the pool.

As noted above in the Credit Risk section, 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, 2017.

**Statement of Net Position**

Net position held in trust for all pool participants:

Equity of internal pool participants	\$ 7,909,482
Equity of external pool participants	10,901,140
Total equity	<u>\$ 18,810,622</u>

**Condensed Statement of Changes in Net Position**

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 35,742	\$ 20,830
Contributions to trust	24,032,568	16,025,321
Distributions paid	<u>(23,878,282)</u>	<u>(20,791,772)</u>
Net change in net position	\$ 190,028	\$ (4,745,621)
Net position at beginning of year	<u>10,711,112</u>	<u>12,655,103</u>
Net position at end of year	<u>\$ 10,901,140</u>	<u>\$ 7,909,482</u>

**Cash equivalents**

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

**NOTE 3. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the County as of June 30, 2017. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>Amount</u>
Closure/Post Closure Solid Waste	\$ <u>997,390</u>

LINCOLN COUNTY, MONTANA  
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**NOTE 4. RECEIVABLES**

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

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

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

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

As part of the due from other governments in the General fund, \$74,918 of the balance is for two loans to the Lincoln County Port Authority. The first loan, made in September of 2013 in the amount of \$152,633 at 0% interest was for infrastructure improvements. The second loan, made July of 2015 for \$127,000 at 0% interest was for the sale of equipment to the Port. This is not expected to be collected within one year.

As part of the due from other governments in the All Other Aggregate, \$95,741 is for the loan from the Hard Rock Mine Trust Fund to the Troy Rural Fire District. The loan assisted the District in financing their capital improvement needs. The District agreed to pay the County 5.5% interest on the loan. This is not expected to be collected within one year.

**NOTE 5. INVENTORIES**

The costs of inventories are recorded as an expenditure when purchased.

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2017

**NOTE 6. CAPITAL ASSETS**

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

Buildings	10 – 20 years
Improvements	5 – 15 years
Equipment	5 – 60 years
Infrastructure	10 – 40 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 2017 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

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

Governmental activities:

	Balance July 1, 2016	Additions	Transfers	Retirements	Restatements	Balance June 30, 2017
Capital assets not being depreciated:						
Land	\$ 525,267	84,384	\$ -	\$ -	\$ -	\$ 609,651
Construction in progress	50,795	539,860	(438,544)	-	-	152,111
Total capital assets not being depreciated	<u>\$ 576,062</u>	<u>\$ 624,244</u>	<u>\$ (438,544)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,762</u>
Other capital assets:						
Buildings	\$ 4,933,617	\$ -	\$ 112,871	\$ -	\$ 14,000	\$ 5,060,488
Improvements other than buildings	8,700,706	11,750	669,656	-	-	9,382,112
Machinery and equipment	11,302,440	198,644	106,356	(614,624)	-	10,992,816
Construction work in progress	2,428,814	-	(450,339)	-	(84,394)	1,894,081
Total other capital assets at historical cost	\$ 27,365,577	\$ 210,394	\$ 438,544	\$ (614,624)	\$ (70,394)	\$ 27,329,497
Less: accumulated depreciation	\$ (18,303,296)	\$ (1,022,061)	\$ -	\$ 599,202	\$ (14,617)	\$ (18,740,772)
Total	<u>\$ 9,638,343</u>	<u>\$ (187,423)</u>	<u>\$ -</u>	<u>\$ (15,422)</u>	<u>\$ (85,011)</u>	<u>\$ 9,350,487</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 75,510
Public safety	154,800
Public works	702,155
Public Health	5,025
Culture and recreation	83,371
Housing and community development	<u>1,200</u>
Total governmental activities depreciation expense	<u>\$ 1,022,061</u>

LINCOLN COUNTY, MONTANA  
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A summary of changes in business-type capital assets was as follows:

Business-type activities:

	Balance July 1, 2016	Additions	Retirements	Restatements	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 850	\$ -	\$ -	\$ -	\$ 850
Total capital assets not being depreciated	\$ 850	\$ -	\$ -	\$ -	\$ 850
Other capital assets:					
Buildings	\$ 303,740	\$ -	\$ -	\$ -	\$ 303,740
Improvements other than buildings	88,089	11,230	-	-	99,319
Machinery and equipment	2,029,291	43,644	(148,638)	38,820	1,963,117
Total other capital assets at historical cost	\$ 2,421,120	\$ 54,874	\$ (148,638)	\$ 38,820	\$ 2,366,176
Less: accumulated depreciation	\$ (1,462,694)	\$ (140,927)	\$ 148,638	\$ (36,457)	\$ (1,491,440)
Total	\$ 959,276	\$ (86,053)	\$ -	\$ 2,363	\$ 875,586

**NOTE 7. LONG TERM DEBT OBLIGATIONS**

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2017, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 606,150	\$ -	\$ (45,995)	\$ 560,155	\$ 384,632
Net pension liability*	6,395,321	2,269,426	-	8,664,747	-
Other post-employment benefits**	1,406,739	205,412	-	1,612,151	-
Total	\$ 8,408,210	\$ 2,474,838	\$ (45,995)	\$ 10,837,053	\$ 384,632

\*See Note 11

\*\*See Note 8

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

Business-type Activities:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 91,269	\$ -	\$ (769)	\$ 90,500	\$ 67,527
Landfill Closure/Postclosure	1,045,320	38,285	-	1,083,605	-
Net pension liability*	354,599	122,672	-	477,271	-
Other post-employment benefits**	173,867	20,316	-	194,183	-
Total	\$ 1,665,055	\$ 181,273	\$ (769)	\$ 1,845,559	\$ 67,527

\*See Note 11

\*\*See Note 8

LINCOLN COUNTY, MONTANA  
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**Compensated Absences**

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

**NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN**

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

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

*Funding Status and funding Progress.* The funded status of the plan as of June 30, 2017, was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,612,837
Actuarial value of plan assets	\$ <u>                  -</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ <u>          2,612,837</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 6,210,993
UAAL as a percentage of covered payroll	42.1%

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

Annual Required Contribution (ARC)	\$	225,728
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB cost (expense)	\$	225,728
Contributions made		-
Increase in net OPEB obligation	\$	-
Net OPEB obligation - beginning of year	\$	1,580,606
Net OPEB obligation - end of year	\$	<u>1,806,334</u>

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

		Unit Credit Cost Method
Actuarial cost method		
Average age of retirement (based on historical data)		62
Discount rate		4.25%
Average salary increase		2.50%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>		
	<u>Year</u>	<u>% Increase</u>
	2018	6.00%
	2019	5.50%
	2020	5.00%
	2021 and after	4.50%

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**NOTE 9. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

State and Federal laws and regulations require that Lincoln County place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the landfill reports a portion of these closure and postclosure care costs as an operating expense each period. The costs expensed during a period are based on landfill capacity used as of each balance sheet date. The \$1,083,605 reported as landfill closure and postclosure liability at June 30, 2017, represents the cumulative amount reported to date based on the use of 90.26% of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$116,899 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure in 2017. The County expects to close the landfill in the year 2022. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by State and Federal laws and regulations to demonstrate financial assurance for the costs of closure and postclosure care costs by April 9, 1996. For the fiscal year ended June 30, 2017, Lincoln County demonstrated its ability to handle closure and postclosure care costs by creating a trust fund. The trust fund cash balance is \$997,390.

**NOTE 10. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2017, was as follows:

<u>Purpose</u>	Due to/from funds:	other	<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Negative cash balance	General – Major Governmental	Lincoln County Fire Coop – Non Major Governmental	\$ 87
Negative cash balance	General – Major Governmental	Eureka Grant – Non Major Governmental	12,504
Negative cash balance	General – Major Governmental	Crime Victims Assistance – Non Major Governmental	3,128
Negative cash balance	General – Major Governmental	SAMHSA – Non Major Governmental	30,449
Negative cash balance	General – Major Governmental	Council on Aging – Non Major Governmental	2,820
Negative cash balance	General – Major Governmental	Eureka Airport – Non Major Governmental	48,223
Negative cash balance	General – Major Governmental	MTUPP – Non Major Governmental	<u>345</u>
			<u>\$ 97,556</u>

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**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2017:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Indirect cost allocation plan transfer	General – Major Governmental	Road – Major Governmental	\$ 522,389
Residual equity transfer	General – Major Governmental	County Parks-Troy – Non Major Governmental	16,099
Residual equity transfer	General – Major Governmental	Internet Library – Non Major Governmental	2,150
Indirect cost allocation plan transfer	General – Major Governmental	Public Safety – Major Governmental	612,133
Permissive medical levy transfer	General – Major Governmental	Permissive Medical Levy – Non Major Governmental	473,713
Residual equity transfer	General – Major Governmental	Forest Plan Analysis – Non Major Governmental	12
Residual equity transfer	General – Major Governmental	SAMHSA – Non Major Governmental	6,458
Residual equity transfer	General – Major Governmental	CDBG – Non Major Governmental	1,000
Residual equity transfer	General – Major Governmental	WIC – Non Major Governmental	84
Residual equity transfer	General – Major Governmental	Capital Projects – Non Major Governmental	8,757
Indirect cost allocation plan transfer	General – Major Governmental	Solid Waste – Major Business-type	437,580
Permissive medical levy transfer	Noxious Weed – Non Major Governmental	Permissive Medical Levy – Non Major Governmental	10,107
Permissive medical levy transfer	Fair – Non Major Governmental	Permissive Medical Levy – Non Major Governmental	3,016
Residual equity transfer	Fair – Non Major Governmental	LC Fair Capital Imp – Non Major Governmental	8,405
Residual equity transfer	Airport – Non Major Governmental	Airport Capital Improvement – Non Major Governmental	405
Residual equity transfer	Airport – Non Major Governmental	Eureka Airport Capital Improvement – Non Major Governmental	9
Permissive medical levy transfer	District Court – Non Major Governmental	Permissive Medical Levy – Non Major Governmental	38,403
Operating transfer	District Court – Non Major Governmental	PILT –Major Governmental*	16,978
Residual equity transfer	County Park-Libby – Non Major Governmental	Libby Parks Capital Improvement – Non Major Governmental	6,041
Residual equity transfer	County Park-Libby – Non Major Governmental	Kootenai Falls – Non Major Governmental	6

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Permissive medical levy transfer	Major Governmental Library – Non Major Governmental	Governmental Permissive Medical Levy – Non Major Governmental	56,679
Operating transfer	County Planning – Non Major Governmental	Metal Mines License – Non Major Governmental	25,000
Operating transfer	Emergency Disaster – Non Major Governmental	PILT –Major Governmental*	50,126
Permissive medical levy transfer	Public Health – Non Major Governmental	Permissive Medical Levy – Non Major Governmental	12,762
Permissive medical levy transfer	Public Safety – Major Governmental	Permissive Medical Levy – Non Major Governmental	419,880
Operating transfer	Public Safety – Major Governmental	PILT –Major Governmental*	230,000
Residual equity transfer	Public Safety – Major Governmental	Capital Projects – Non Major Governmental	57,108
Operating transfer	Group Health Insurance – Non Major Governmental	PILT –Major Governmental*	2,722
Residual equity transfer	Lincoln Co Fire Coop – Non Major Governmental	PILT –Major Governmental*	1,000
Residual equity transfer	Junk Vehicle – Non Major Governmental	Junk Vehicle Capital Improvement	40
Residual equity transfer	PILT –Major Governmental *	ISTEA – Non Major Governmental	16,587
Residual equity transfer	PILT –Major Governmental*	Airport Construction – Non Major Governmental	712
Operating transfer	EMPG Grant – Non Major Governmental	PILT –Major Governmental*	<u>64,919</u>
			<u>\$ 3,101,280</u>

\*The PILT fund is combined with General fund in accordance with GASB #54.

**NOTE 11. NET PENSION LIABILITY**

**Plan Descriptions**

**PERS**

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

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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 participants of both the *defined contribution* and *defined benefit* retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP. All new members from the universities also have third option to join the university system's Montana University System Retirement Program (MUS-RP).

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.

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**Vesting**

5 years of membership service

*Member's highest average compensation (HAC)*

- Hired prior to July 1, 2011- highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011-highest average compensation during any consecutive 60 months;

*Compensation Cap*

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

**Monthly benefit formula**

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

**Guaranteed Annual Benefit Adjustment (GABA)**

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more.

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SRS

**Eligibility for benefit**

20 years of membership service, regardless of age.

**Other Retirement Option**

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

**Vesting**

5 years of membership service

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

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

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

**Compensation Cap**

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

**Monthly benefit formula**

2.5% of HAC per year of service

**Guaranteed Annual Benefit Adjustment (GABA)**

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

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

**Overview of Contributions**

PERS

1. Rates are specified by state law for periodic employer and employee contributions.
  - a. Contributions are deducted from each member's salary and remitted by participating employers;
  - b. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
  - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
  - b. The 7.90% member contributions is temporary and will be decreased to 6.9%

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on January 1 following actuary valuation results that show the amortization period has dropped below 25-years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

3. Employer contributions to the system:
  - a. Local government entities are required to contribution 8.17% of members' compensation.
  - b. School district employers contributed 7.90% of members' compensation.
  - c. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
  - d. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  - e. The Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan, are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
4. Non Employer Contributions
  - a. Special Funding
    - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
    - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
  - b. Not Special Funding
    - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

**SRS**

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

<b><u>Fiscal Year</u></b>	<b><u>Member</u></b>	<b><u>Employer</u></b>
2010-2017	9.245%	10.115%
2008-2009	9.245%	9.825%
1998-2007	9.245%	9.535%

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Stand-Alone Statements

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

**Net Pension Liability**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS) and Sheriffs' Retirement System (SRS) Statement 68 became effective June 30, 2016 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS that are used to provide pension benefits to the retired members. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2017 and June 30, 2016 (reporting dates).

	PERS NPL as of 6/30/17	PERS NPL as of 6/30/16	Percent of Collective NPL as of 6/30/2017	SRS NPL as of 6/30/17	SRS NPL as of 6/30/16	Percent of Collective NPL as of 6/30/2017	Total NPL as of 6/30/17	Total NPL as of 6/30/16	Percent Collective NPL
Employer Proportionate Share	\$ 5,614,478	\$ 4,861,437	0.3296%	\$ 3,527,540	\$ 1,888,483	2.0080%	\$ 9,142,018	\$ 6,749,920	2.3376%
State of Montana Proportionate Share associated with Employer	68,602	59,715	0.0040%	-	-	-	68,602	59,715	0.0040%
Total	\$ <u>5,683,080</u>	\$ <u>4,921,152</u>	<u>0.3336%</u>	\$ <u>3,527,540</u>	\$ <u>1,888,483</u>	<u>2.0080%</u>	\$ <u>9,210,620</u>	\$ <u>6,809,635</u>	<u>2.3416%</u>

At June 30, 2017, the employer recorded a liability of \$9,142,018 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS, SRS, during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERS, SRS participating employers. At June 30, 2017, the employer's proportion was 2.3376 percent.

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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.

*Changes in benefit terms:* There have been no changes in benefit terms since the previous measurement date.

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

**Pension Expense as of 6/30/17**

	Pension Expense (PERS) as of <u>6/30/2017</u>	Pension Expense (SRS) as of <u>6/30/2017</u>	Total Pension Expense as of <u>6/30/2017</u>
Employer Proportionate Share	\$ 197,182	\$ 428,421	\$ 625,603
State of Montana Proportionate Share associated with the Employer	104,116	-	104,116
Total	<u>\$ 301,298</u>	<u>\$ 428,421</u>	<u>\$ 729,719</u>

At June 30, 2017, the employer recognized a Pension Expense of \$729,719 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$104,116 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, 2017, the employer recognized a beginning deferred outflow of resources for the employers FY 2016 contributions of \$484,157.

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**Deferred Inflows and Outflows**

At June 30, 2017, the employer reported its proportionate share of PERS, SRS deferred outflows of resources and deferred inflows of resources related to PERS, SRS from the following sources:

	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	SRS Deferred Outflows of Resources	SRS Deferred Inflows of Resources	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 30,294	\$ 18,584	\$ 12,537	\$ 2,610	\$ 42,831	\$ 21,194
Changes in actuarial assumptions	-	-	1,526,637	568,451	1,526,637	568,451
Actual vs. Expected Investment Earnings	528,210	-	192,717	-	720,927	-
Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions	-	451,198	-	86,239	-	537,437
Employer contributions subsequent to the measurement date - FY17	347,498	-	141,525	-	489,023	-
<b>Total</b>	<u>\$ 906,002</u>	<u>\$ 469,782</u>	<u>\$ 1,873,416</u>	<u>\$ 657,300</u>	<u>\$ 2,779,418</u>	<u>\$ 1,127,082</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:

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**Deferred Inflows and Outflows**

PERS: Year ended June 30, 2017	Amount of deferred outflows and deferred inflows recongized in furture years as an increase or (decrease) to Pension Expense	
2017	\$	25,573
2018	\$	25,573
2019	\$	300,163
2020	\$	188,612
2021	\$	-
Thereafter	\$	-

SRS: Year ended June 30, 2017	Amount of deferred outflows and deferred inflws recongized in furture years as an increase or (decrease) to Pension Expense	
2017	\$	205,010
2018	\$	205,010
2019	\$	297,084
2020	\$	261,170
2021	\$	192,556
Thereafter	\$	-

**Actuarial Assumptions**

**PERS**

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2015, with update procedures to roll forward the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth\* 4.00%
- \*includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return (net of admin expense) 7.75%
- Admin Expense as a % of Payroll 0.27%
- Postretirement Benefit Increases

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**Guaranteed Annual Benefit Adjustment(GABA)**

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage 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.

**SRS**

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2015, with update procedures to roll forward the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- |  |            |
|--|------------|
| • General Wage Growth*                     | 4.00%      |
| • *includes Inflation at                   | 3.00%      |
| • Merit Increases                          | 0% to 7.3% |
| • Investment Return (net of admin expense) | 7.75%      |
| • Admin Expense as a % of Payroll          | 0.17%      |
| • Postretirement Benefit Increases         |            |

**Guaranteed Annual Benefit Adjustment(GABA)**

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Mortality assumptions among contributing members, 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.

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**Discount Rate**

**PERS**

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 2117. 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.

**SRS**

The discount rate used to measure the TPL was 5.93%, which is a blend of the assumed long-term expected rate of return of 7.75% on Plan's investments and a municipal bond index rate of 3.01%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. Based on those assumptions, the Plan's fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after June 30, 2056. Therefore, the portion of future projected benefit payments after June 30, 2056 are discounted at the municipal bond index rate.

**Target Allocations**

**PERS, SRS**

<u>Asset Class</u>	<u>Target Asset Allocation</u>	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	<u>8.00%</u>	4.00%	<u>0.32%</u>
Total	<u>100.00%</u>		<u>4.37%</u>
	Inflation		3.00%
	Portfolio Return Expectation		7.37%

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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. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2016, are summarized in the table above.

**Sensitivity Analysis**

		1.0% Decrease		Current		1.0% Increase
		-6.75%		Discount Rate		-8.75%
PERS	\$	8,147,021	\$	5,614,478	\$	3,432,939
SRS	\$	5,024,006	\$	3,527,540	\$	2,309,715

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2017

**NOTE 12. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

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

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. 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.

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

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

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

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 13,259,298	Road repairs, maintenance, and supplies
Public Safety/Law Enforcement	331,955	Law enforcement and emergency services and supplies
All Other Aggregate:	66,081	Weed control services & supplies
	25,289	Culture and recreation services and supplies
	83,106	Repairs and maintenance services
	170,897	General government administration and services
	41,288	Parks and recreations services
	75,110	Culture and recreation services and supplies
	413,092	Law enforcement and emergency services and supplies
	86,515	Public health services and supplies
	27,523	Miscellaneous
	5,393	Social and economic services and travel
	336,308	Economic development
	36,375	Law enforcement services
	8,112	Animal control
	27,688	Miscellaneous
	<u>190,874</u>	Firewise program services and supplies
	<u>\$ 15,184,904</u>	

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2017

**Committed Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other Aggregate:	\$ <u>38,683</u>	Construction and asset purchases

**NOTE 13. DEFICIT FUND BALANCES/NET POSITION**

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
District Court	\$ (10,548)	Negative cash balance - overspent expenditures	Future tax revenues
Group Health Insurance	\$ (50)	Negative cash balance - overspent expenditures	Transfer from the General fund
Lincoln County Fire Coop	\$ (87)	Negative cash balance - overspent expenditures	Transfer from the General fund
Eureka Grant	\$ (12,504)	Negative cash balance - overspent expenditures	Future grant revenues
Council on Aging	\$ (2,820)	Negative cash balance - overspent expenditures	Transfer from the General fund
Eureka Airport Construction	\$ (48,223)	Negative cash balance - overspent expenditures	Future grant revenues
MTUPP	\$ (762)	Negative cash balance - overspent expenditures	Transfer from the General fund
SAMHSA	\$ (32,344)	Negative cash balance - overspent expenditures	Transfer from the General fund
	\$ <u>(107,338)</u>		

**NOTE 14. RESTATEMENTS**

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

<u>Fund</u>	<u>Amount</u>
General	\$ 5,000
Internet Library	2,000
Board of Health-Nurse	6,882
Public Safety/Law Enforcement	(27,906)
Clean Air Grant	3,655
Airport Construction	(20,520)
Solid Waste	2,363
Governmental Activities	<u>(85,011)</u>
	\$ <u>(113,537)</u>

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**NOTE 15. SERVICES PROVIDED TO OTHER GOVERNMENTS**

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

**NOTE 16. RISK MANAGEMENT**

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

Insurance Policies:

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

Insurance Pools:

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.

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

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

**NOTE 17. PENDING LITIGATION**

The following is a list of litigation pending against the County and the amount of damages claimed by the Plaintiff. The County Attorney has made no evaluation as to the outcome of each case.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
<i>Estate of Robert Stalie v. Lincoln County Sheriff's Office et al</i>	Unknown	Unknown
<i>Harry Richards and Bully Budd Sullivan v. Lincoln County et al</i>	Unknown	Unknown
<i>Davenport v. Lincoln County, Lincoln County Sheriff and Sheriff Roby Bowe</i>	\$547,547.92	Unknown
<i>Kenny Hamilton v. Lincoln County, Lincoln County Sheriff's Office and John Does I-V</i>	Unknown	Unknown

**NOTE 18. SIGNIFICANT COMMITMENT TO CONSTRUCTION**

In fiscal year 2018, the County continued construction work on the Eureka Airport project. To date, the County has incurred expenditures related to this project of \$349,990. They have received grant reimbursements for these costs from the Federal Aviation Administration of \$390,338.

**NOTE 19. INTERLOCAL AGREEMENTS**

In October of 2016, the County entered into an interlocal agreement with the City of Libby to work together in the provisions of Planning and Emergency Management Services within the City. This agreement was established in order to enhance the ability of the City and County to plan for future development and to provide an economical mechanism to provide for the common defense and protect the public peace, health, and safety of the citizens. The County agreed to provide the following services to the City: Planning, emergency management, website maintenance, and grant management.

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

The County also has interlocal agreements set up with the City of Troy, City of Libby, and Town of Eureka to establish a City-County Board of Health in order to maintain one organization that has countywide jurisdiction in matters of public health. The Board is made up of one County Commissioner, three additional members appointed by the Board of County Commissioners, and one person appointed by each of the participating cities/town. The financial activity of this Board is reported in its own fund by the County.

The Northwest Montana Drug Task Force (NWMDTF) is another interlocal agreement the County participates in along with the City of Kalispell, City of Whitefish, City of Columbia Falls, City of Polson, Flathead County, Lake County, Mineral County, Sanders County, and Glacier County. The NWMDTF was created to disrupt the illicit drug traffic by gathering and reporting intelligence data relating to trafficking in narcotics and dangerous drugs, and conduct undercover operations where appropriate and engage other traditional methods of investigation. The County agreed to provide two deputies for these purposes.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Lincoln County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2017**

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 254,786	\$ 254,786	\$ 252,754	\$ (2,032)
Licenses and permits	21,000	21,000	25,350	4,350
Intergovernmental	695,005	695,005	671,651	(23,354)
Charges for Service	191,243	191,243	208,894	17,651
Fines & forfeitures	94,129	94,129	106,744	12,615
Miscellaneous	31,500	31,500	102,194	70,694
Investment earnings	20,000	20,000	21,825	1,825
Internal Services	1,452,347	1,452,347	-	(1,452,347)
Amounts available for appropriation	\$ 2,760,010	\$ 2,760,010	\$ 1,389,412	\$ (1,370,598)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 3,183,589	\$ 3,183,589	\$ 3,233,046	\$ (49,457)
Public safety	166,906	166,906	140,175	26,731
Public works	25,450	25,450	19,950	5,500
Public health	349,251	385,251	342,800	42,451
Social and economic services	2,500	2,500	2,255	245
Capital outlay	-	-	8,654	(8,654)
Total charges to appropriations	\$ 3,727,696	\$ 3,763,696	\$ 3,746,880	\$ 16,816
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 565,296	\$ 565,296	\$ 2,140,374	\$ 1,575,078
Total other financing sources (uses)	\$ 565,296	\$ 565,296	\$ 2,140,374	\$ 1,575,078
Net change in fund balance			\$ (217,094)	
Fund balance - beginning of the year			\$ 991,077	
Restatements			5,000	
Fund balance - beginning of the year - restated			\$ 996,077	
<b>Fund balance - end of the year</b>			<b>\$ 778,983</b>	

**Lincoln County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2017**

	<b>Road</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 600,000	\$ 600,000	\$ 757,039	\$ 157,039
Intergovernmental	206,736	206,736	526,606	319,870
Charges for Service	215,818	215,818	86,668	(129,150)
Miscellaneous	5,000	5,000	72,437	67,437
Investment earnings	200,000	200,000	(15,060)	(215,060)
Amounts available for appropriation	<u>\$ 1,227,554</u>	<u>\$ 1,227,554</u>	<u>\$ 1,427,690</u>	<u>\$ 200,136</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public works	\$ 3,574,953	\$ 3,574,953	\$ 3,078,779	\$ 496,174
Miscellaneous	541,695	541,695	-	541,695
Capital outlay	-	-	115,034	(115,034)
Total charges to appropriations	<u>\$ 4,116,648</u>	<u>\$ 4,116,648</u>	<u>\$ 3,193,813</u>	<u>\$ 922,835</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ -	\$ -	\$ (522,389)	\$ (522,389)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (522,389)</u>	<u>\$ (522,389)</u>
Net change in fund balance			<u>\$ (2,288,512)</u>	
Fund balance - beginning of the year			<u>\$ 15,547,810</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 13,259,298</u></u>	

**Lincoln County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2017**

<b>Public Safety/Law Enforcement</b>				
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 2,347,225	\$ 2,347,225	\$ 2,349,424	\$ 2,199
Intergovernmental	\$ 321,883	321,883	200,682	(121,201)
Charges for Service	227,700	227,700	442,909	215,209
Miscellaneous	5,000	5,000	48,109	43,109
Amounts available for appropriation	\$ 2,901,808	\$ 2,901,808	\$ 3,041,124	\$ 139,316
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public safety	\$ 3,076,725	\$ 3,172,466	\$ 3,179,046	\$ (6,580)
Miscellaneous	526,399	526,399	-	526,399
Capital outlay	120,000	120,000	104,010	15,990
Total charges to appropriations	\$ 3,723,124	\$ 3,818,865	\$ 3,283,056	\$ 535,809
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 723,639	\$ 723,639	\$ 706,988	(16,651)
Transfers out	-	-	(612,133)	(612,133)
Total other financing sources (uses)	\$ 723,639	\$ 723,639	\$ 94,855	\$ (628,784)
Net change in fund balance			\$ (147,077)	
Fund balance - beginning of the year			\$ 506,938	
Restatements			(27,906)	
Fund balance - beginning of the year - restated			\$ 479,032	
<b>Fund balance - end of the year</b>			\$ 331,955	

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

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

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>
<b>Sources/Inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,389,412	\$ 1,427,690	\$ 3,041,124
Combined funds (GASBS 54) revenues	673,188	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,062,600</u>	<u>\$ 1,427,690</u>	<u>\$ 3,041,124</u>
<b>Uses/Outflows of resources</b>			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 3,746,880	\$ 3,193,813	\$ 3,283,056
Combined funds (GASBS 54) expenditures	311,266	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 4,058,146</u>	<u>\$ 3,193,813</u>	<u>\$ 3,283,056</u>

**Note B**

The Public Safety fund exceeded its budgeted authority by \$76,323. See audit finding 2017-001.

**Lincoln County, Montana**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2014	\$ -	\$ 2,612,837	\$ 2,612,837	0%	\$ 6,210,993	42.1%

**Lincoln County, Montana**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**For the Year Ended June 30, 2017**

	PERS <b>2017</b>	PERS <b>2016</b>	PERS <b>2015</b>
Employer's proportion of the net pension liability	0.3296%	0.3478%	0.3773%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 5,614,478	\$ 4,861,437	\$ 4,701,584
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 68,602	\$ 59,715	\$ 57,413
Total	<u>\$ 5,683,080</u>	<u>\$ 4,921,152</u>	<u>\$ 4,758,997</u>
Employer's covered payroll	\$ 3,948,206	\$ 4,058,594	\$ 4,277,299
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	74.71%	78.40%	79.87%
	SRS <b>2017</b>	SRS <b>2016</b>	SRS <b>2015</b>
Employer's proportion of the net pension liability	2.0080%	1.9590%	2.1466%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 3,527,540	\$ 1,888,483	\$ 893,366
Total	<u>\$ 3,527,540</u>	<u>\$ 1,888,483</u>	<u>\$ 893,366</u>
Employer's covered payroll	\$ 1,417,485	\$ 1,333,032	\$ 1,388,286
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	248.86%	141.67%	64.35%
Plan fiduciary net position as a percentage of the total pension liability	63.00%	75.40%	87.24%

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

**Lincoln County, Montana**  
**Schedule of Contributions**  
**For the Year Ended June 30, 2017**

	PERS <b>2017</b>	PERS <b>2016</b>	PERS <b>2015</b>
Contractually required contributions	\$ 347,498	\$ 330,013	\$ 334,444
Contributions in relation to the contractually required contributions	\$ 347,498	\$ 336,677	\$ 340,584
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered payroll	\$ 4,151,814	\$ 3,948,206	\$ 4,058,594
Contributions as a percentage of covered payroll	8.37%	8.53%	8.39%

	SRS <b>2017</b>	SRS <b>2016</b>	SRS <b>2015</b>
Contractually required contributions	\$ 141,525	\$ 146,916	\$ 135,221
Contributions in relation to the contractually required contributions	\$ 141,525	\$ 146,916	\$ 135,221
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered payroll	\$ 1,399,749	\$ 1,417,485	\$ 1,333,032
Contributions as a percentage of covered payroll	10.11%	10.36%	10.14%

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

**Lincoln 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, 2017**

**Public Employees Retirement System (PERS)**

**Changes of Benefit Terms**

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

**2013 Legislative Changes:**

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

**Guaranteed Annual Benefit Adjustment (GABA) - for PERS**

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
  - a. 1.5% each year PERS is funded at or above 90%;
  - b. 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and,
  - c. 0% whenever the amortization period for PERS is 40 years or more.

**2015 Legislative Changes:**

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

**Second Retirement Benefit - for PERS**

- 1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and
  - GABA starts again the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
  - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
  - GABA starts the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and,
  - GABA starts again the January immediately following second retirement.

**Lincoln 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, 2017**

- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
- member receives same retirement benefit as prior to return to service;
  - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
  - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

**Employer Contributions and the Defined Contribution Plan** – for PERS and MUS-RP  
The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member’s account.

**Changes in Actuarial Assumptions and Methods**

**Method and assumptions used in calculations of actuarially determined contributions**  
The following addition was adopted in 2014 based on implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%
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There were no changes following the 2013 Economic Experience study.  
The following Actuarial Assumptions were adopted from the June 2010 Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Merit increase	0% to 6.0%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed mark
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

**Sheriffs’ Retirement System (SRS)**

**Changes of Benefit Terms**

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

**2015 Legislative Changes:** none

**Changes in Actuarial Assumptions and Methods**

**Method and assumptions used in calculations of actuarially determined contributions**

The following change to the actuarial assumptions was adopted in 2016:

**Lincoln 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, 2017**

SRS Discount rate - Used to measure the TPL	5.93 percent, which is a blend of the assumed long-term expected rate of return of 7.75% on pension plan investments and a municipal bond index rate of 3.01%.
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The following change to the actuarial assumptions was adopted in 2015:

SRS Discount rate - Used to measure the TPL	6.86 percent, which is a blend of the assumed long-term expected rate of return of 7.75% on pension plan investments and a municipal bond index rate of 3.80%.
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The following additions were adopted in 2014 based on implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.17%
SRS Discount rate - Used to measure the TPL	7.75 percent, which is the assumed long-term expected rate of return on pension plan investments

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

SRS Discount rate - Used to measure the TPL	6.68 percent, which is a blend of the assumed long-term expected rate of return of 7.75% on pension plan investments and the municipal bond index rate.
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There were no changes following the 2013 Economic Experience study.

The following Actuarial Assumptions were adopted from the June 2010 Experience Study:

General Wage Growth	4.00%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

# **SINGLE AUDIT SECTION**

**Lincoln County, Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2017**

<u>Cluster Title/Federal Grantor/Pass-through Grantor /Program</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor Number</u>	<u>Federal Expenditures</u>
<b>Other Programs</b>			
<b><u>Department of Homeland Security</u></b>			
<i>Passed through Montana Department of Military Affairs</i>			
Emergency Management Performance Grants	97.042	EMD-2016-Ep-00002	\$ 51,820
Homeland Security Grant Program	97.067	EMW-2015-SS-0005-S01	126,073
<b>Total Department of Homeland Security</b>			<b>\$ 177,893</b>
<b><u>United States Department of Justice</u></b>			
<i>Passed through Montana Board of Crime Control</i>			
Crime Victim Assistance	16.575	15-V01-91797	\$ 11,191
<b>Total United States Department of Justice</b>			<b>\$ 11,191</b>
<b><u>Department of Transportation</u></b>			
<i>Direct</i>			
Airport Improvement Program	20.106	N/A	\$ 86,486
<i>Passed through Montana Department of Transportation</i>			
Highway Planning and Construction	20.205	8820	291,018
<b>Total Department of Transportation</b>			<b>\$ 377,504</b>
<b><u>Department of Education</u></b>			
<i>Passed through Montana Department of Public Health and Human Services</i>			
Preschool Development Grants	84.419	1602PROS0321	\$ 20,630
<b>Total Department of Education</b>			<b>\$ 20,630</b>
<b><u>United States Environmental Protection Agency</u></b>			
<i>Passed through Montana Department of Environmental Quality</i>			
Air Pollution Control Program Support	66.001	517006	\$ 31,757
Air Pollution Control Program Support	66.001	516005	7,939
<b>Total United States Environmental Protection Agency</b>			<b>\$ 39,696</b>
<b><u>Department of Health and Human Services</u></b>			
<i>Passed through Montana Department of Public Health and Human Services</i>			
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	17-07-6-1-030-0	\$ 29,584
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	15-07-6-11-030-0	10,231
Immunization Cooperative Agreements	93.268	16-07-4-31-125-0	9,903
Drug-Free Communities Support Program Grants	93.276	5H79SP020426-05	146,596
Maternal and Child Health Services Block Grant to the States	93.994	17-07-5-01-027-0	12,045
<b>Total Department of Health and Human Services</b>			<b>\$ 208,359</b>
<b><u>United States Department of Agriculture</u></b>			
<i>Passed through Western Montana Area on Aging</i>			
Commodity Supplemental Food Program	10.565	16-027-21010-30	\$ 5,751
<i>Passed through Montana Department of Natural Resources</i>			
Cooperative Forestry Assistance	10.664	VFA-17-270	7,825
<i>Direct</i>			
Schools and Roads -Grants to States	10.665	N/A	3,804,463
<i>Passed through Montana Department of Agriculture</i>			
Forest Health Protection	10.680	2015-703	5,073
Forest Health Protection	10.680	2016-708X	13,433
<b>Total United States Department of Agriculture</b>			<b>\$ 3,836,545</b>
<b>Total Other Programs</b>			<b>\$ 4,671,818</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 4,671,818</b>

The accompanying notes are an integral part of this schedule

LINCOLN COUNTY, MONTANA

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

Fiscal year Ended June 30, 2017

*Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lincoln County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

*The County has not elected to use the 10% de minimis cost rate.*

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

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

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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  
Lincoln County  
Libby, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Montana, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lincoln County’s basic financial statements and have issued our report thereon dated June 18, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lincoln 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 Lincoln County, Montana’s internal control. Accordingly, we do not express an opinion on the effectiveness of Lincoln County’s internal control over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 Lincoln County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-001.

### **Lincoln County's Response to Findings**

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

### **Purpose of this Report**

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

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

June 18, 2018

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

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

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

Board of County Commissioners  
Lincoln County  
Libby, Montana

**Report on Compliance for Each Major Federal Program**

We have audited Lincoln County, Montana's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Lincoln County's major federal programs for the year ended June 30, 2017. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Lincoln County, Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S., *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, Lincoln County, Montana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

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

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

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

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

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

June 18, 2018

LINCOLN COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2017

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

**Financial Statements**

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

**Federal Awards**

Internal control over major federal programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	No

**Identification of major programs:**

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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	No

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section II – Financial Statement Findings

#### 2017-001      Exceeding Budgetary Authority

**Condition:**

The County exceeded its budgetary authority in the Public Safety fund.

**Context:**

During the audit, we compared the budgeted appropriations per fund to the actual expenditures incurred during the year. Upon completion of this comparison, it was noted that the County exceeded their budgetary authority in the Public Safety fund by \$76,323.

**Criteria:**

MCA 7-6-4005 states the following: “Expenditures are limited to appropriations:

- (1) Local government officials may not make a disbursement or expenditure or incur an obligation in excess of the total appropriations for a fund.”

**Effect:**

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

**Cause:**

The County did not check the budget to actual amounts in all funds after year-end closing and complete amendments as needed.

**Recommendation:**

We recommend the County to check budget to actuals in all funds at year-end and after closing has been completed to ensure they are within budget and limit expenditures to the amounts budgeted.

### Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

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

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Lincoln County  
Libby, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
School and Roads – Grants to States	Implemented

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

June 18, 2018

# *Lincoln County Finance Department*

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**DARREN COLDWELL, Administrator**  
406-283-2345  
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**DALLAS BOWE, Director of HR**  
406-283-2312  
[dbowe@libby.org](mailto:dbowe@libby.org)

## Contact Person:

Darren Coldwell, Lincoln County Administrator

## Expected Completion Date of Corrective Action Plan:

August 1, 2018

## CORRECTIVE ACTION PLAN

FINDING 2017-001: Exceeding Budgetary Authority

## Response:

To check month 13 cash/ budget before year end budget amendment.

## STATUS OF PRIOR AUDIT FINDINGS

FINDING 2016-001: Schools and Roads — Grants to States

Status: Implemented