

LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2015

**AUDIT REPORT**

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

LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2015

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LINCOLN COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2015

**BOARD OF COUNTY COMMISSIONERS**

Mark Peck  
Greg Larson  
Mike Cole

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Bernard G. Cassidy  
Nancy Trotter Higgins  
Robin Benson  
Susan Farmer  
Jay Sheffield  
Nancy Trotter Higgins  
Roby Bowe  
Steven Schnackenberg

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

Lincoln County, Montana  
Management Discussion & Analysis  
Fiscal Year Ended June 30, 2015

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

## **FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2015 are as follows:

- Continued decreased interest earnings due to low interest rates and a declining amount to be invested in shorter-term opportunities.
- Federal PILT payment extended to be paid in 2015 rather than ending in 2014.
- Forest Receipts have been reinstated for an additional year under the Congressional re-authorization of the Secure Rural Schools and Communities Act.

## **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 Assets and the Statement of Activities**

The Statement of Net Asset and the Statement of Activities report information about the County as a whole and about its activities. These statements include all assets and liabilities of the County using the full accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in them. Net assets 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 assets 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 & Analysis  
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## **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 are available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources available to finance future county services. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets 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 Assets and the Statement of Activities.
- **Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the governmental wide financial statements because the resources of those funds are not available to support the County's programs 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 \$25,617,312 at the close of the most recent fiscal year. The following table provided a summary comparison for the County's Governmental and business type net assets for fiscal year 2015 and compare to the prior year.

Lincoln County, Montana  
Management Discussion & Analysis  
Fiscal Year Ended June 30, 2015

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY15</u>	<u>FY14</u>	<u>Change Inc (Dec)</u>	<u>FY15</u>	<u>FY14</u>	<u>Change Inc (Dec)</u>
	Current and other assets	\$ 22,601,321	\$ 23,914,816	\$ (1,313,495)	\$ 4,074,049	\$ 3,697,758
Capital assets	10,153,978	10,289,570	(135,592)	995,431	1,288,339	(292,908)
Total assets	\$ 32,755,299	\$ 34,204,386	\$ (1,449,087)	\$ 5,069,480	\$ 4,986,097	\$ 83,383
Long-term debt outstanding	\$ 1,821,227	\$ 635,564	\$ 1,185,663	\$ 237,561	\$ 92,783	\$ 144,778
Other liabilities	5,316,760	705,928	4,610,832	1,544,253	934,867	609,386
Total liabilities	\$ 7,137,987	\$ 1,341,492	\$ 5,796,495	\$ 1,781,814	\$ 1,027,650	\$ 754,164
Net investment in capital assets	\$ 10,153,978	\$ 10,289,570	\$ (135,592)	\$ 995,431	\$ 1,288,339	\$ (292,908)
Restricted	18,306,210	19,710,641	(1,404,431)	1,781,919	-	1,781,919
Unrestricted (deficit)	(5,181,279)	2,862,683	(8,043,962)	402,992	2,670,108	(2,267,116)
Total net position	\$ 23,278,909	\$ 32,862,894	\$ (9,583,985)	\$ 3,180,342	\$ 3,958,447	\$ (778,105)

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY15</u>	<u>FY14</u>	<u>Change Inc (Dec)</u>	<u>FY15</u>	<u>FY14</u>	<u>Change Inc (Dec)</u>
	<b>Revenues</b>					
<i>Program revenues (by major source):</i>						
Charges for services	\$ 920,433	\$ 960,253	\$ (39,820)	\$ 1,791,549	\$ 1,819,623	\$ (28,074)
Operating grants and contributions	4,694,618	4,703,566	(8,948)	-	-	-
Capital grants and contributions	503,563	228,115	275,448	-	151,111	(151,111)
<i>General revenues (by major source):</i>						
Property taxes for general purposes	4,372,122	6,285,156	(1,913,034)	-	-	-
Miscellaneous	215,731	139,789	75,942	63	2,500	(2,437)
Interest/investment earnings	258,811	328,077	(69,266)	2,614	9,050	(6,436)
PILT	579,014	628,135	(49,121)	-	-	-
State entitlement	873,197	791,939	81,258	-	-	-
Grants and entitlements not restricted to specific programs	4,073	58,706	(54,633)	-	-	-
Licenses and permits	18,550	16,904	1,646	-	-	-
Contributions & donations	9,041	8,906	135	-	-	-
State contributions to retirement	116,739	-	116,739	16,202	-	16,202
Total revenues	\$ 12,565,892	\$ 14,149,546	\$ (1,583,654)	\$ 1,810,428	\$ 1,982,284	\$ (171,856)
<b>Program expenses</b>						
General government	\$ 4,105,346	\$ 3,959,061	\$ 146,285			
Public safety	4,022,993	4,411,015	(388,022)			
Public works	4,257,207	4,637,010	(379,803)			
Public health	903,510	815,068	88,442			
Social and economic services	140,650	132,007	8,643			
Culture and recreation	625,932	673,478	(47,546)			
Housing and community development	128,878	225,692	(96,814)			
Conservation of natural resources	21,348	17,927	3,421			
Debt service - interest	-	1,104	(1,104)			
Miscellaneous	85,051	138,934	(53,883)			
Solid Waste				\$ 1,438,468	\$ 1,553,402	\$ (114,934)
Total expenses	\$ 14,290,915	\$ 15,011,296	\$ (720,381)	\$ 1,438,468	\$ 1,553,402	\$ (114,934)
Excess (deficiency) before special items and transfers	\$ (1,725,023)	\$ (861,750)	\$ (863,273)	\$ 371,960	\$ 428,882	\$ (56,922)
Gain (loss) on sale of capital assets	-	-	-	(35,133)	-	(35,133)
Transfers - net	295,086	248,179	46,907	(295,086)	(248,179)	(46,907)
<b>Increase (decrease) in net position</b>	\$ (1,429,937)	\$ (613,571)	\$ (816,366)	\$ 41,741	\$ 180,703	\$ (138,962)

Lincoln County, Montana  
Management Discussion & Analysis  
Fiscal Year Ended June 30, 2015

**Condensed Financial Statements**

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

The cost of all Governmental activities this year was \$14,563,580 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 \$4,372,122 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 for 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 effected 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 financing 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 2015 the combined ending fund balances of Lincoln County's governmental funds were \$21,633,436. A reserve of \$21,895,763 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  
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Fiscal Year Ended June 30, 2015

Lincoln County has three major governmental funds: the General Fund, Public Safety Fund, and the Asbestos Resource Program fund.

**General Fund.**

This is the chief operating fund of Lincoln County. At the end of the fiscal year 2015 unreserved fund balance of the general fund was \$3,607,755. 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 2014 the unreserved fund balance represented 106% 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 2015 the fund balance was \$15,157,026. All of which is restricted for 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 2015 unreserved fund balance of the public safety fund was \$530,348. Prior year ending fund balance was \$850,844.

**Asbestos Resource Program Fund.**

This fund is a special revenue fund used to account for Lincoln County's Federal Assistance from the United States EPA for the Libby Asbestos Superfund site. At the end of the fiscal year 2015 unreserved fund balance of the Asbestos Resource Program fund was \$29,349. Prior year ending fund balance was \$22,446.

**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 2015, the Solid Waste fund had total net position of \$3,180,342 which was a decrease from the prior year balance of 3,958,447.

**FY15 General Fund Budgetary Highlights**

Over the course of the year, Lincoln County's general fund was not revised. The general fund expenditure budget was \$3,459,607. Over the course of the year, our actual reported resources were less than budgeted by \$1,730,761. Our anticipated taxes and assessments for the general fund show a positive difference of \$53,515. Our investment earnings show a positive difference of \$8,559 from the budgeted amount. Appropriations for General Government show \$213,776 budgeted for expenditures that were not expended in this fiscal year. Overestimates in several departments contribute to this.

Lincoln County, Montana  
Management Discussion & Analysis  
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**Capital Assets**

Lincoln County's investment in capital assets (depreciable, net) for its governmental and business type activities as of June 30, 2015 was \$11,149,409. This investment in capital assets includes land, significant road projects, construction in progress, buildings, machinery & equipment, and improvements other than buildings.

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 525,267		\$ -	\$ 525,267
Construction in Progress	<u>116,766</u>	<u>-</u>	<u>-</u>	<u>116,766</u>
Total Capital Assets not being depreciated	\$ <u>642,033</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>642,033</u>
Other capital assets:				
Buildings	\$ 5,038,752	\$ -	\$ -	\$ 5,038,752
Improvements other than buildings	7,823,338	523,866		8,347,204
Machinery and equipment	11,464,947	330,822	(151,811)	11,643,958
Infrastructure	<u>1,894,082</u>	<u>84,393</u>	<u>-</u>	<u>1,978,475</u>
Total other capital assets at historical cost	\$ <u>26,221,119</u>	\$ <u>939,081</u>	\$ <u>(151,811)</u>	\$ <u>27,008,389</u>
Less accumulated depreciation:	<u>\$(16,537,582)</u>	<u>\$(1,067,184)</u>	<u>\$ 144,322</u>	<u>\$(17,496,444)</u>
Total	\$ <u>10,289,570</u>	\$ <u>(128,103)</u>	\$ <u>(7,489)</u>	\$ <u>10,153,978</u>

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ <u>850</u>	<u>-</u>	<u>-</u>	\$ <u>850</u>
Other capital assets:				
Buildings	\$ 272,880	\$ -	\$ -	\$ 272,880
Improvements other than buildings	38,613	-	-	38,613
Machinery and equipment	<u>2611,450</u>	<u>47,234</u>	<u>(613,023)</u>	<u>2,045,661</u>
Total other capital assets at historical cost	\$ <u>2,922,943</u>	\$ <u>47,234</u>	\$ <u>(613,023)</u>	\$ <u>2,357,154</u>
Less accumulated depreciation:	<u>\$(1,635,454)</u>	<u>\$(125,232)</u>	<u>\$ 398,113</u>	<u>\$(1,362,573)</u>
Total	\$ <u>1,288,339</u>	\$ <u>(77,998)</u>	\$ <u>(214,910)</u>	\$ <u>995,431</u>

**Long-term debt.** As of June 30, 2015, the only debt held by the County were the amounts recorded below for compensated absences, Landfill Closure and Post closure, and other post-employment benefits.

Lincoln County, Montana  
Management Discussion & Analysis  
Fiscal Year Ended June 30, 2015

Governmental Activities:

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	Balance <u>June 30, 2015</u>	Due Within <u>One Year</u>
Compensated absences	\$ 635,564	\$ -	\$ (19,756)	\$ -	\$ 615,808	\$ 418,817
Net pension liability	-	-	(2,583,248)	7,605,185	5,021,937	-
Other post-employment benefits	-	<u>200,903</u>	-	<u>1,004,516</u>	<u>1,205,419</u>	-
<b>Total</b>	<u>\$ 635,564</u>	<u>\$ 200,903</u>	<u>\$(2,603,004)</u>	<u>\$ 8,609,701</u>	<u>\$ 6,843,164</u>	<u>\$ 418,817</u>

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

Proprietary

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	Balance <u>June 30, 2015</u>	Due Within <u>One Year</u>
Landfill Closure/Post closure	\$ 906,072	\$ 35,759	\$ -	\$ -	\$ 941,831	\$ -
Compensated absences	92,783	-	(4,207)	-	88,576	68,933
Net pension liability	-	-	(164,367)	737,380	573,013	-
Other post-employment benefits	-	<u>24,831</u>	-	<u>124,154</u>	<u>148,985</u>	-
<b>Total</b>	<u>\$ 998,855</u>	<u>\$ 60,590</u>	<u>\$(168,574)</u>	<u>\$ 861,534</u>	<u>\$ 1,752,405</u>	<u>\$ 68,933</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.

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 down due to a landslide.

Lincoln County, Montana  
Management Discussion & Analysis  
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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.

***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, County, Montana, as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

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

### **Change in Accounting Principle**

As described in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB statement No. 68, *Accounting and financial Reporting for Pensions, (an amendment of GASB No. 27)*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding for other post-employment benefits other than pensions, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 9, 57 through 61, 62, 63, and 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2016, on our consideration of the Lincoln County, 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, County, Montana's internal control over financial reporting and compliance.

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

June 15, 2016

**Lincoln County, Montana**  
**Statement of Net Position**  
**June 30, 2015**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 21,895,763	\$ 2,790,264	\$ 24,686,027
Taxes and assessments receivable, net	278,398	-	278,398
Special assessments receivable	-	351,499	351,499
Due from other governments	427,160	-	427,160
Total current assets	<u>\$ 22,601,321</u>	<u>\$ 3,141,763</u>	<u>\$ 25,743,084</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 932,286	\$ 932,286
Capital assets - land	525,267	850	526,117
Capital assets - construction in progress	116,766	-	116,766
Capital assets - depreciable, net	9,511,945	994,581	10,506,526
Total noncurrent assets	<u>\$ 10,153,978</u>	<u>\$ 1,927,717</u>	<u>\$ 12,081,695</u>
Total assets	<u>\$ 32,755,299</u>	<u>\$ 5,069,480</u>	<u>\$ 37,824,779</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources - county contribution	\$ 437,676	\$ 42,032	\$ 479,708
Total deferred outflows of resources	<u>\$ 437,676</u>	<u>\$ 42,032</u>	<u>\$ 479,708</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 9,545	\$ -	\$ 9,545
Accrued payroll	285,278	29,409	314,687
Current portion of compensated absences payable	418,817	68,933	487,750
Total current liabilities	<u>\$ 713,640</u>	<u>\$ 98,342</u>	<u>\$ 811,982</u>
Noncurrent liabilities			
Landfill closure postclosure liability	\$ -	\$ 941,831	\$ 941,831
Noncurrent portion of long-term liabilities	1,205,419	148,985	1,354,404
Noncurrent portion of compensated absences	196,991	19,643	216,634
Net pension liability	5,021,937	573,013	5,594,950
Total noncurrent liabilities	<u>\$ 6,424,347</u>	<u>\$ 1,683,472</u>	<u>\$ 8,107,819</u>
Total liabilities	<u>\$ 7,137,987</u>	<u>\$ 1,781,814</u>	<u>\$ 8,919,801</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources-Taxes	\$ 394,664	\$ -	\$ 394,664
Deferred inflows of resources	2,381,415	149,356	2,530,771
Total Deferred Inflows of resources	<u>\$ 2,776,079</u>	<u>\$ 149,356</u>	<u>\$ 2,925,435</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 10,153,978	\$ 995,431	\$ 11,149,409
Restricted for special projects	18,306,210	-	18,306,210
Restricted for other purposes	-	1,781,919	1,781,919
Unrestricted	(5,181,279)	402,992	(4,778,287)
Total net position	<u>\$ 23,278,909</u>	<u>\$ 3,180,342</u>	<u>\$ 26,459,251</u>

See accompanying Notes to the Financial Statements

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

<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>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 5,608,049	\$ (1,502,703)	\$ 296,406	\$ 140,206	\$ -	\$ (3,668,734)	\$ -	\$ (3,668,734)
Public safety	3,538,917	484,076	308,191	601,599	11,488	(3,101,715)	-	(3,101,715)
Public works	3,511,245	745,962	238,172	3,186,722	492,075	(340,238)	-	(340,238)
Public health	903,510	-	52,502	570,852	-	(280,156)	-	(280,156)
Social and economic services	140,650	-	12,277	11,239	-	(117,134)	-	(117,134)
Culture and recreation	625,932	-	12,885	-	-	(613,047)	-	(613,047)
Housing and community development	128,878	-	-	184,000	-	55,122	-	55,122
Conservation of natural resources	21,348	-	-	-	-	(21,348)	-	(21,348)
Miscellaneous	85,051	-	-	-	-	(85,051)	-	(85,051)
Total governmental activities	\$ <u>14,563,580</u>	\$ <u>(272,665)</u>	\$ <u>920,433</u>	\$ <u>4,694,618</u>	\$ <u>503,563</u>	\$ <u>(8,172,301)</u>	\$ <u>-</u>	\$ <u>(8,172,301)</u>
Business-type activities:								
Solid Waste	\$ <u>1,165,803</u>	\$ <u>272,665</u>	\$ <u>1,791,549</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>353,081</u>	\$ <u>353,081</u>
Total business-type activities	\$ <u>1,165,803</u>	\$ <u>272,665</u>	\$ <u>1,791,549</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>353,081</u>	\$ <u>353,081</u>
Total primary government	\$ <u>15,729,383</u>	\$ <u>-</u>	\$ <u>2,711,982</u>	\$ <u>4,694,618</u>	\$ <u>503,563</u>	\$ <u>(8,172,301)</u>	\$ <u>353,081</u>	\$ <u>(7,819,220)</u>
General Revenues:								
Property taxes for general purposes						\$ 4,372,122	\$ -	\$ 4,372,122
Miscellaneous						215,731	63	215,794
Interest/investment earnings						258,811	2,614	261,425
PILT						579,014	-	579,014
State entitlement						873,197	-	873,197
Grants and entitlements not restricted to specific programs						4,073	-	4,073
Licenses and permits						18,550	-	18,550
Contributions & donations						9,041	-	9,041
State contributions to retirement						116,739	16,202	132,941
Gain (loss) on sale of capital assets						-	(35,133)	(35,133)
Transfers - net						295,086	(295,086)	-
Total general revenues, special items and transfers						\$ <u>6,742,364</u>	\$ <u>(311,340)</u>	\$ <u>6,431,024</u>
Change in net position						\$ <u>(1,429,937)</u>	\$ <u>41,741</u>	\$ <u>(1,388,196)</u>
Net position - beginning						\$ 32,862,894	\$ 3,958,447	\$ 36,821,341
Restatements						<u>(8,154,048)</u>	<u>(819,846)</u>	<u>(8,973,894)</u>
Net position - beginning - restated						\$ <u>24,708,846</u>	\$ <u>3,138,601</u>	\$ <u>27,847,447</u>
Net position - end						\$ <u>23,278,909</u>	\$ <u>3,180,342</u>	\$ <u>26,459,251</u>

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>	<u>Asbestos Resource Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 3,459,553	\$ 15,215,608	\$ 557,436	\$ 433,045	\$ 2,230,121	\$ 21,895,763
Taxes and assessments receivable, net	9,972	-	138,891	-	129,535	278,398
Due from other funds	80,069	-	-	-	-	80,069
Due from other governments	153,043	-	55,140	-	218,977	427,160
Total current assets	<u>\$ 3,702,637</u>	<u>\$ 15,215,608</u>	<u>\$ 751,467</u>	<u>\$ 433,045</u>	<u>\$ 2,578,633</u>	<u>\$ 22,681,390</u>
Total assets	<u>\$ 3,702,637</u>	<u>\$ 15,215,608</u>	<u>\$ 751,467</u>	<u>\$ 433,045</u>	<u>\$ 2,578,633</u>	<u>\$ 22,681,390</u>
Current liabilities:						
Accounts payable	\$ -	\$ 9,545	\$ -	\$ -	\$ -	\$ 9,545
Accrued payroll	84,910	49,037	82,228	9,032	60,071	285,278
Due to other funds	-	-	-	-	80,069	80,069
Total current liabilities	<u>\$ 84,910</u>	<u>\$ 58,582</u>	<u>\$ 82,228</u>	<u>\$ 9,032</u>	<u>\$ 140,140</u>	<u>\$ 374,892</u>
Total liabilities	<u>\$ 84,910</u>	<u>\$ 58,582</u>	<u>\$ 82,228</u>	<u>\$ 9,032</u>	<u>\$ 140,140</u>	<u>\$ 374,892</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows of resources-Taxes	\$ 9,972	\$ -	\$ 138,891	\$ -	\$ 129,535	\$ 278,398
Deferred inflows of resources-Grants received in advance	-	-	-	394,664	-	394,664
Total deferred inflows of resources	<u>\$ 9,972</u>	<u>\$ -</u>	<u>\$ 138,891</u>	<u>\$ 394,664</u>	<u>\$ 129,535</u>	<u>\$ 673,062</u>
<b>FUND BALANCES</b>						
Restricted	\$ -	\$ 15,157,026	\$ 510,522	29,349	\$ 2,094,665	\$ 17,791,562
Committed	-	-	-	-	217,915	217,915
Unassigned fund balance	3,607,755	-	19,826	-	(3,622)	3,623,959
Total fund balance	<u>\$ 3,607,755</u>	<u>\$ 15,157,026</u>	<u>\$ 530,348</u>	<u>\$ 29,349</u>	<u>\$ 2,308,958</u>	<u>\$ 21,633,436</u>

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, 2015**

<b>Total fund balances - governmental funds</b>	\$	21,633,436
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		10,153,978
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.		278,398
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,821,227)
Proportionate share of ending collective net pension liability		(5,021,937)
Deferred outflows related to net pension liability		437,676
Deferred inflows related to net pension liability		(2,381,415)
<b>Total net position - governmental activities</b>	\$	<u><u>23,278,909</u></u>

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, 2015**

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>	<u>Asbestos Resource Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Taxes and assessments	\$ 131,858	\$ 709,284	\$ 1,891,137	\$ -	\$ 1,782,793	\$ 4,515,072
Licenses and permits	26,250	-	-	-	-	26,250
Intergovernmental	1,339,511	2,893,622	319,835	342,549	1,638,376	6,533,893
Charges for services	194,818	175,023	455,445	-	147,950	973,236
Fines and forfeitures	95,107	-	-	-	31,603	126,710
Miscellaneous	53,967	3,671	9,599	9	91,252	158,498
Investment earnings	29,890	223,714	135	-	5,052	258,791
Total revenues	<u>\$ 1,871,401</u>	<u>\$ 4,005,314</u>	<u>\$ 2,676,151</u>	<u>\$ 342,558</u>	<u>\$ 3,697,026</u>	<u>\$ 12,592,450</u>
<b>EXPENDITURES</b>						
General government	\$ 2,889,307	\$ -	\$ -	\$ -	\$ 942,500	\$ 3,831,807
Public safety	281,223	-	2,532,397	-	1,164,297	3,977,917
Public works	22,871	2,823,765	-	-	642,915	3,489,551
Public health	323,390	-	-	307,678	267,493	898,561
Social and economic services	2,255	-	-	-	138,395	140,650
Culture and recreation	-	370	-	-	540,637	541,007
Housing and community development	-	-	-	-	127,734	127,734
Conservation of natural resources	-	-	-	-	21,348	21,348
Miscellaneous	-	-	-	-	77,562	77,562
Capital outlay	77,147	274,667	-	-	587,267	939,081
Total expenditures	<u>\$ 3,596,193</u>	<u>\$ 3,098,802</u>	<u>\$ 2,532,397</u>	<u>\$ 307,678</u>	<u>\$ 4,510,148</u>	<u>\$ 14,045,218</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (1,724,792)</u>	<u>\$ 906,512</u>	<u>\$ 143,754</u>	<u>\$ 34,880</u>	<u>\$ (813,122)</u>	<u>\$ (1,452,768)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	\$ 1,570,500	\$ -	\$ -	\$ -	\$ 2,172,593	\$ 3,743,093
Transfers out	(309,965)	(949,122)	(464,250)	(27,977)	(1,696,693)	(3,448,007)
Total other financing sources (uses)	<u>\$ 1,260,535</u>	<u>\$ (949,122)</u>	<u>\$ (464,250)</u>	<u>\$ (27,977)</u>	<u>\$ 475,900</u>	<u>\$ 295,086</u>
Net Change in Fund Balance	<u>\$ (464,257)</u>	<u>\$ (42,610)</u>	<u>\$ (320,496)</u>	<u>\$ 6,903</u>	<u>\$ (337,222)</u>	<u>\$ (1,157,682)</u>
Fund balances - beginning	\$ 4,068,164	\$ 15,199,636	\$ 850,844	\$ 22,446	\$ 2,646,103	\$ 22,787,193
Restatements	3,848	-	-	-	77	3,925
Fund balances - beginning, restated	<u>\$ 4,072,012</u>	<u>\$ 15,199,636</u>	<u>\$ 850,844</u>	<u>\$ 22,446</u>	<u>\$ 2,646,180</u>	<u>\$ 22,791,118</u>
Fund balance - ending	<u>\$ 3,607,755</u>	<u>\$ 15,157,026</u>	<u>\$ 530,348</u>	<u>\$ 29,349</u>	<u>\$ 2,308,958</u>	<u>\$ 21,633,436</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, 2015**

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

**Net change in fund balances - total governmental funds** \$ (1,157,682)

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 939,081  
- Depreciation expense (1,067,184)

In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:

- Proceeds from the sale of capital assets (7,489)

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) (143,297)

The change in compensated absences is shown as an expense in the Statement of Activities

19,756

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 (200,903)

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

(366,634)

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

116,739

Current year contributions to retirement reclassified to deferred outflows

437,676

**Change in net position - Statement of Activities** \$ (1,429,937)

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2015**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Solid Waste</b>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 2,790,264
Special assessments receivable	351,499
Total current assets	\$ 3,141,763
Noncurrent assets:	
Restricted cash and investments	\$ 932,286
Capital assets - land	850
Capital assets - depreciable, net	994,581
Total noncurrent assets	\$ 1,927,717
Total assets	\$ 5,069,480
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources - county contribution	\$ 42,032
Total deferred outflows of resources	\$ 42,032
<b>LIABILITIES</b>	
Current liabilities:	
Accrued payroll	\$ 29,409
Current portion of compensated absences payable	68,933
Total current liabilities	\$ 98,342
Noncurrent liabilities:	
Landfill closure postclosure liability	\$ 941,831
Noncurrent portion of long-term liabilities	148,985
Noncurrent portion of compensated absences	19,643
Net pension liability	573,013
Total noncurrent liabilities	\$ 1,683,472
Total liabilities	\$ 1,781,814
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources	\$ 149,356
Total deferred inflows of resources	\$ 149,356
<b>NET POSITION</b>	
Net investment in capital assets	\$ 995,431
Restricted for other purposes	1,781,919
Unrestricted	402,992
Total net position	\$ 3,180,342
Total liabilities and net position	\$ 4,962,156

See accompanying Notes to the Financial Statements

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

		<u>Business-Type</u> <u>Activities - Enterprise</u> <u>Fund</u>
		<u>Solid Waste</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$	147,930
Miscellaneous revenues		63
Special assessments		1,643,618
State contribution to retirement		16,202
Total operating revenues	\$	<u>1,807,813</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$	675,462
Supplies		318,219
Purchased services		319,537
Depreciation		125,250
Total operating expenses	\$	<u>1,438,468</u>
Operating income (loss)	\$	<u>369,345</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest revenue	\$	<u>2,615</u>
Total non-operating revenues (expenses)	\$	<u>2,615</u>
Income (loss) before contributions and transfers	\$	371,960
Transfers in		75,000
Transfers out		(370,086)
Gain (loss) on sale of capital assets		(35,133)
Change in net position	\$	<u>41,741</u>
Net Position - Beginning of the year	\$	3,958,447
Restatements		(819,846)
Net Position - Beginning of the year - Restated	\$	<u>3,138,601</u>
Net Position - End of the year	\$	<u>3,180,342</u>

See accompanying Notes to the Financial Statements

**Lincoln County  
Combined Statement of Cash Flows  
Proprietary Fund Type  
Fiscal Year Ended June 30, 2015**

	<b>Business - Type Activities</b>
	<b>Solid Waste</b>
<b>Cash flows from operating activities:</b>	
Cash received from providing services	\$ 897,452
Cash received from miscellaneous sources	16,265
Cash payments to suppliers	(211,722)
Cash payments for professional services	(283,778)
Cash payments to employees	43,770
Net cash provided (used) by operating activities	\$ 461,987
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	\$ 132,525
Net cash provided (used) by capital and related financing activities	\$ 132,525
<b>Cash flows from non-capital financing activities:</b>	
Cash to transfers with governmental funds, net	\$ (295,086)
Net cash provided (used) from non-capital financing activities	\$ (295,086)
<b>Cash flows from investing activities:</b>	
Interest on investments	\$ 2,615
Net cash provided (used) by investing activities	\$ 2,615
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ 302,041
<b>Cash and cash equivalents at beginning</b>	3,420,509
<b>Cash and cash equivalents at end</b>	\$ 3,722,550
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 369,345
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	125,250
Other post-employment benefits	23,752
Net pension expense	(121,600)
Changes in assets and liabilities:	
Increase in special assessments receivable	(74,250)
Increase in closure/post closure liability	35,759
Increase in net pension liability	107,324
Decrease in accounts payable	(827)
Decrease in compensated absences	(4,207)
Increase in accrued payroll	1,441
Net cash provided (used) by operating activities	\$ 461,987

See accompanying notes to the financial statements

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

	<u>Investment Trust Funds</u>		<u>Agency Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 11,597,406	\$	2,680,543
Taxes receivable	-		1,242,973
Total assets	<u>\$ 11,597,406</u>	\$	<u>3,923,516</u>
<b>LIABILITIES</b>			
Warrants payable	\$ -	\$	1,192,148
Due to others	-		2,731,368
Total liabilities	<u>\$ -</u>	\$	<u>3,923,516</u>
<b>NET POSITION</b>			
Assets held in trust	<u>\$ 11,597,406</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, 2015**

		<u>Investment Trust Funds</u>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$	7,062,933
Investment earnings:		
Interest and change in fair value of investments	\$	34,168
Total additions	\$	<u>7,097,101</u>
 <b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	6,931,306
Total deductions	\$	<u>6,931,306</u>
Change in net position	\$	<u>165,795</u>
Net Position - Beginning of the year	\$	11,431,611
Net Position - End of the year	\$	<u><u>11,597,406</u></u>

See accompanying Notes to the Financial Statements

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Recent Accounting Pronouncements:**

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

**Financial Reporting Entity**

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2015

*Primary Government*

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

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.

LINCOLN COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
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**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.

*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.

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2015

**Fund Financial Statements:**

*Basis of Presentation*

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

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

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

**Modified Accrual**

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

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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.

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 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.

*Asbestos Resource Program Fund* – A special revenue fund that is used to account for resources received from the EPA for the Libby Asbestos Superfund Site and related expenditures thereof.

***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.

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2015

Major Funds:

The County reports the following major proprietary funds:

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

***Fiduciary Funds***

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

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

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

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

**Cash Composition**

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 2,400
Cash in banks:	
Demand deposits	197,303
Savings deposits	24,073,667
Time deposits	3,237,315
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	62,406
U.S. Government Securities	12,323,173
Total	\$ <u><u>39,896,264</u></u>

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2015

**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.

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.

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2015:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 779,579,000	A1	25
Corporation rate Commercial Paper	101,299,000	A1	102
Corporation rate Variable-Rate	571,672,000	A1+	42
Certificates of Deposit Fixed Rate	150,000,000	A1	259
Certificates of Deposit Variable-Rate	450,000,000	A1+	47
Other Asset Backed	27,821,000	NR	NA
U.S. Government Agency Fixed	54,498,000	A1+	236
U.S. Government Agency Variable -Rate	239,008,000	A1+	42
Money Market Funds (Unrated)	161,592,000	NR	1
Money Market Funds (Rated)	<u>3,000,000</u>	A1+	1
Total Investments	\$ <u>2,538,469,000</u>		52
Securities Lending Collateral Investment Pool	\$ <u>5,806,000</u>	NR	30*

“\*As of June 30, 2015, the Securities Lending Quality Trust liquidity pool had an average duration of 30 days and an average weighted final maturity of 115 days for U.S. dollar collateral. In March 2015, all holdings in the Securities Lending Duration Pool were sold.”

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, 2015 the government's bank balance was exposed to custodial credit risk as follows:

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2015

	Balance <u>June 30, 2015</u>
<u>Depository Account</u>	
Insured	\$ 3,912,989
- Collateral held by the pledging bank's trust department but not in the County's name.	13,981,651
- Uninsured and uncollateralized	<u>9,495,718</u>
Total deposits and investments	<u>\$ 27,390,358</u>

Deposit Security

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

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

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

**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, 20XX along with their related interest rates and maturity dates.

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
Federal Farm Credit Banks Debenture	1.250%	7/6/2015	\$ 119,612
Federal Home Loan Banks Debenture	1.100%	2/13/2018	1,001,546
Federal National Mortgage Association Note	1.150%	2/28/2018	250,509
Federal National Mortgage Association Note	1.125%	3/12/2018	1,004,761
Federal National Mortgage Association Note	1.050%	3/27/2018	249,366
Federal National Mortgage Association Note	1.125%	3/28/2018	250,285
Federal National Mortgage Association Note	1.060%	4/10/2018	249,344
Federal National Mortgage Association Note	1.100%	4/17/2018	249,802
Federal National Mortgage Association Note	1.150%	4/25/2018	2,002,834
Federal Home Loan Mortgage Corporation	1.050%	4/30/2018	1,002,731
Federal Home Loan Mortgage Corporation	1.200%	6/12/2018	1,249,741
Federal Home Loan Banks Debenture	1.750%	3/14/2016	1,010,323
Federal Home Loan Banks Debenture	1.000%	7/9/2019	501,566
Federal Home Loan Banks Debenture	1.650%	7/18/2019	250,671
Federal Home Loan Banks Debenture	1.250%	7/23/2019	498,943
Federal Farm Credit Banks Debenture	1.940%	11/20/2019	503,366
Federal Home Loan Mortgage Corporation	1.900%	11/27/2015	502,078
Federal Farm Credit Banks Debenture	1.980%	6/29/2020	501,706
U.S. Treasury Notes	1.625%	3/31/2019	39,466
Federal Home Loan Bank Notes	1.750%	9/11/2015	60,190
Federal Farm Credit Bank Notes	0.680%	12/27/2016	30,002
Federal Home Loan Mortgage Corporation Notes	1.000%	7/28/2017	30,140
Fed Home Loan Bank Notes	1.000%	9/27/2017	40,145
Federal National Mortgage Association Notes	1.150%	2/28/2018	57,948
Federal National Mortgage Association Notes	1.125%	3/28/2018	59,893
Federal Farm Credit Bank Notes	1.000%	4/11/2018	3,990
Federal National Mortgage Association Notes	1.625%	11/27/2018	24,290
Fed Home Loan Mortgage Corporation Notes	1.620%	11/21/2019	59,540
U.S. Treasury Notes	0.750%	12/31/2017	27,941
U.S. Treasury Notes	1.625%	3/31/2019	53,633
Federal Home Loan Bank Notes	1.750%	9/11/2015	55,174
Federal Home Loan Bank Notes	1.250%	9/28/2018	5,048
Federal National Mortgage Association Notes	0.680%	12/27/2016	55,003
Federal Farm Credit Bank Notes	1.000%	9/27/2017	45,162
Federal Home Loan Bank Notes	1.150%	2/28/2018	24,978
Federal National Mortgage Association Notes	1.125%	3/28/2018	49,911
Federal National Mortgage Association Notes	1.000%	4/11/2018	11,970
Federal Farm Credit Bank Notes	1.500%	12/24/2018	75,229
Federal Farm Credit Bank Notes	1.620%	11/21/2019	39,693
Federal National Mortgage Association Notes	1.900%	3/23/2020	74,643
			<u>\$ 12,323,173</u>

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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 are 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 are 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 prices.

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

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

**Investment Income**

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

**Condensed statements of investments pools**

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Statement of Net Assets**

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$	11,925,222
Equity of external pool participants		11,597,406
Total equity	\$	23,522,628

**Condensed Statement of Changes in Net Assets**

	External	Internal
Investment earnings	\$ 34,168	\$ 28,396
Contributions to trust	7,062,933	7,145,627
Distributions paid	(6,931,306)	(7,741,150)
Net change in net assets	\$ 165,795	\$ (567,127)
Net assets at beginning of year	11,431,611	12,492,349
Net assets at end of year	\$ 11,597,406	\$ 11,925,222

**Cash equivalents**

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

**NOTE 3. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the County as of June 30, 2015. These amounts are reported within the cash/investment account on the Statement of Net Assets.

<u>Description</u>	<u>Amount</u>
Landfill Closure /Postclosure	\$ <u>932,286</u>

**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.

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

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

**NOTE 5. INVENTORIES**

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

**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 fixed 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 2015 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2015

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

Governmental activities:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 525,267	\$ -	\$ -	\$ 525,267
Construction in progress	116,766	-	-	116,766
Total capital assets not being depreciated	<u>\$ 642,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 642,033</u>
Other capital assets:				
Buildings	\$ 5,038,752	\$ -	\$ -	\$ 5,038,752
Improvements other than buildings	7,823,338	523,866	-	8,347,204
Machinery and equipment	11,464,947	330,822	(151,811)	11,643,958
Infrastructure	1,894,082	84,393	-	1,978,475
Total other capital assets at historical cost	\$ 26,221,119	\$ 939,081	\$ (151,811)	\$ 27,008,389
Less: accumulated depreciation	\$ (16,573,582)	\$ (1,067,184)	\$ 144,322	\$ (17,496,444)
Total	<u>\$ 10,289,570</u>	<u>\$ (128,103)</u>	<u>\$ (7,489)</u>	<u>\$ 10,153,978</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 78,510
Public safety	130,000
Public works	767,656
Public Health	4,949
Culture and recreation	84,925
Housing and community development	<u>1,144</u>
Total governmental activities depreciation expense	<u>\$1,067,184</u>

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

Business-type activities:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 850	\$ -	\$ -	\$ 850
Total capital assets not being depreciated	<u>\$ 850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 850</u>
Other capital assets:				
Buildings	\$ 272,880	\$ -	\$ -	\$ 272,880
Improvements other than buildings	38,613	-	-	38,613
Machinery and equipment	2,611,450	47,234	(613,023)	2,045,661
Total other capital assets at historical cost	\$ 2,922,943	\$ 47,234	\$ (613,023)	\$ 2,357,154
Less: accumulated depreciation	\$ (1,635,454)	\$ (125,232)	\$ 398,113	\$ (1,362,573)
Total	<u>\$ 1,288,339</u>	<u>\$ (77,998)</u>	<u>\$ (214,910)</u>	<u>\$ 995,431</u>

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2015

**NOTE 7. LONG TERM DEBT OBLIGATIONS**

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

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

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

Governmental Activities:

	Balance				Balance	Due Within
	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2015</u>	<u>One Year</u>
Compensated absences	\$ 635,564	\$ -	\$ (19,756)	\$ -	\$ 615,808	\$ 418,817
Other post-employment benefits*	-	200,903	-	1,004,516	1,205,419	-
Net Pension Liability **	-	-	(2,583,248)	7,605,185	5,021,937	-
Total	<u>\$ 635,564</u>	<u>\$ 200,903</u>	<u>\$ (2,603,004)</u>	<u>\$ 8,609,701</u>	<u>\$ 6,843,164</u>	<u>\$ 418,817</u>

\*See Note 8

\*\*See Note 11

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

Business-type Activities:

	Balance				Balance	Due Within
	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2015</u>	<u>One Year</u>
Compensated absences	\$ 92,783	\$ -	\$ (4,207)	\$ -	\$ 88,576	\$ 68,933
Landfill closure/postclosure	906,072	35,759	-	-	941,831	-
Other post-employment benefits*	-	24,831	-	124,154	148,985	-
Net Pension Liability **	-	-	(121,600)	694,613	573,013	-
Total	<u>\$ 998,855</u>	<u>\$ 60,590</u>	<u>\$ (125,807)</u>	<u>\$ 818,767</u>	<u>\$ 1,752,405</u>	<u>\$ 68,933</u>

\*See Note 8

\*\*See Note 11

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2015

**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 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, 2015, was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,201,510
Actuarial value of plan assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$2,201,510
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 6,210,993
UAAL as a percentage of covered payroll	35,44%

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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)	\$	225,734
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	225,734
Contributions made	\$	-
Increase in net OPEB obligation	\$	225,734
Net OPEB obligation - beginning of year	\$	-
Restatement	\$	1,128,670
Net OPEB obligation - end of year	\$	1,354,404

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

Actuarial cost method		Projected Unit Credit funding Method
Average age of retirement (based on historical data)		0
Discount rate (average anticipated rate)		4.25%
Average salary increase (Consumer Price Index)		2.5%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>		
<u>Year</u>		<u>% Increase</u>
2014		8.0%
2015		7.5%
2016		7.0%
2017		6.5%
2018		6.0%
2019		5.5%
2020		5.0%
2021 and after		4.5%

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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 \$ 941,831 reported as landfill closure and postclosure liability at June 30, 2015, represents the cumulative amount reported to date based on the use of 86% of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$ 346,169 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure in 2015. 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, 2015, Lincoln County demonstrated its ability to handle closure and postclosure care costs by creating a trust fund. The trust fund cash balance is \$ 932,286

**NOTE 10. INTERFUND RECEIVABLES AND PAYABLES**

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

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Clear negative cash balance	General – Major Governmental	SAMHSA – Nonmajor Governmental	\$ 14,907
Clear negative cash balance	General – Major Governmental	Communication Mountain Tops – Nonmajor Governmental	39,063
Clear negative cash balance	General – Major Governmental	ISTEA – Nonmajor Governmental	<u>26,100</u>
			<u>\$ 80,069</u>

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**Interfund Transfers**

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

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Expense reimbursement	General – Major Governmental	Drug Forfeiture – Nonmajor Governmental	\$ 84
Project reviews and proposals	County Planning – Nonmajor Governmental	Metal Mines License Tax – Nonmajor Governmental	80,000
Project reviews and proposals	County Planning – Nonmajor Governmental	Title III After 2008 – Nonmajor Governmental	25,000
Economic Development	Economic Development – Nonmajor Governmental	Hard-Rock Mine Trust – Nonmajor Governmental	621,287
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Road – Major Governmental	76,891
Operating transfer	ISTEA - Nonmajor Governmental	Road – Major Governmental	13,804
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Noxious Weed – Nonmajor Governmental	9,646
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Noxious Weed Revolving – Nonmajor Governmental	4,823
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Fair – Nonmajor Governmental	2,881
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	District Court – Nonmajor Governmental	40,527
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Library – Nonmajor Governmental	44,576
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	County Planning – Nonmajor Governmental	9,624
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Public Health – Nonmajor Governmental	4,337
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Permissive Medical Levy – Nonmajor Governmental	735,000

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Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Junk Vehicle – Nonmajor Governmental	1,353
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Crime Victims Assistance – Nonmajor Governmental	6,507
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Asbestos Resource Program – Major Governmental	27,977
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Solid Waste – Major Proprietary	124,577
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	SAMHSA – Nonmajor Governmental	13,581
Operating transfer	Lincoln County Fire – Nonmajor Governmental	PILT – Major Governmental	1,500
Residual Equity Transfer	Clean Air – Nonmajor Governmental	Drought Relief – Nonmajor Governmental	20,237
Health care cost allocation	Solid Waste – Major Proprietary	Group Health Insurance – Nonmajor Governmental	75,000
Clear out deficit fund balance to close the fund	Grizzly Bear Study – Nonmajor Governmental	PILT – Major Governmental	308,465
Administrative costs	General – Major Governmental	Crime Victims Assistance – Nonmajor Governmental	2,230
Indirect cost allocation	General – Major Governmental	Road – Major Governmental	858,427
Indirect cost allocation	General – Major Governmental	Public safety – Nonmajor Governmental	464,250
Indirect cost allocation	General – Major Governmental	Solid Waste – Major Proprietary	<u>245,509</u>
Total			<u>\$3,818,093</u>

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**NOTE 11. NET PENSION LIABILITY**

**Plan Descriptions**

**PERS**

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

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

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

**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.

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

Early retirement, actuarially reduced:

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

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

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

Guaranteed Annual Benefit Adjustment (GABA)\*

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

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

**SRS**

Member's highest average compensation (HAC)

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

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Eligibility for benefit  
20 years of membership service, regardless of age.

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

Vesting  
5 years of membership service

Monthly benefit formula  
2.5% of HAC per year of service

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

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

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

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

**Overview of Contributions**

**PERS**

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

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3. Employer contributions to the system:
  - a. Local government entities are required to contribution 8.17% of members' compensation.
  - b. School district employers contributed 7.90% of members' compensation.
  - c. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
  - d. Effective July 1, 2013, the additional employer contributions for DCRP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
  - e. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  
4. Non Employer Contributions
  - a. Special Funding
    - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
    - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
  - b. Not Special Funding
    - i. The State contributes from the Coal Tax Severance fund

SRS

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

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Stand-Alone Statements

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

**Net Pension Liability**

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

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

	PERS NPL as of <u>6/30/13</u>	PERS NPL as of <u>6/30/14</u>	Percent of Collective NPL	SRS NPL as of <u>6/30/13</u>	SRS NPL as of <u>6/30/14</u>	Percent of Collective NPL	Total NPL as of <u>6/30/13</u>	Total NPL as of <u>6/30/14</u>	Percent of Collective NPL
<b>Employer Proportionate State of Montana</b>	\$ 6,050,216	\$ 4,701,584	0.3773%	\$ 2,292,349	\$ 893,366	2.1466%	\$ 8,342,565	\$ 5,594,950	2.5240%
<b>Proportionate Share associated with Employer</b>	73,882	57,413	0.4793%	-	-	0.0000%	73,882	57,413	0.4793%
<b>Total</b>	<u>\$ 6,124,098</u>	<u>\$ 4,758,997</u>	<u>0.8567%</u>	<u>\$ 2,292,349</u>	<u>\$ 893,366</u>	<u>2.1466%</u>	<u>\$ 8,416,447</u>	<u>\$ 5,652,363</u>	<u>3.0033%</u>

At June 30, 2015, the employer recorded a liability of \$5,594,950 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS, SRS, during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS, SRS, participating employers. At June 30, 2014, the employer's proportion was 2.5240 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.

**Pension Expense as of 6/30/14**

	<u>PERS</u>	<u>SRS</u>	<u>Total</u>
Proportionate Share	\$ 227,739	\$ 49,912	\$ 277,651
State of Montana			
Proportionate Share	132,941	-	132,941
associated with the			
Employer			
Total	<u>\$ 360,680</u>	<u>\$ 49,912</u>	<u>\$ 410,592</u>

At June 30, 2015, the employer recognized a Pension Expense of \$410,592 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$132,941 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

**Recognition of Beginning Deferred Outflow**

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for the employers FY 2014 contributions of \$494,495.

**Deferred Inflows and Outflows**

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

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	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	SRS Deferred Outflows Resources	SRS Deferred Inflows of Resources	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources
Changes in actuarial assumptions	\$ -	\$ -	\$ -	\$ 911,565	\$ -	\$ 911,565
Difference between projected and actual investment earnings	-	1,214,812	-	393,735	-	1,608,547
Difference between actual and expected contributions	-	10,659	-	-	-	10,659
*Contributions paid subsequent to the measurement date - FY 2015 Contributions	344,872	-	134,836	-	479,708	-
Total	<u>\$ 344,872</u>	<u>\$ 1,225,471</u>	<u>\$ 134,836</u>	<u>\$ 1,305,300</u>	<u>\$ 479,708</u>	<u>\$ 2,530,771</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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**Deferred Inflows and Outflows**

PERS: Year ended June 30, 2015:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	\$ -	\$ 307,256	\$ (307,256)
2017	\$ -	\$ 307,256	\$ (307,256)
2018	\$ -	\$ 307,256	\$ (307,256)
2019	\$ -	\$ 303,703	\$ (303,703)

SRS: Year ended June 30, 2015:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	\$ -	\$ 250,361	\$ (250,361)
2017	\$ -	\$ 250,361	\$ (250,361)
2018	\$ -	\$ 250,361	\$ (250,361)
2019	\$ -	\$ 250,361	\$ (250,361)
2020	\$ -	\$ 151,927	\$ (151,927)
Thereafter	\$ -	\$ 151,928	\$ (151,928)

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**Actuarial Assumptions**

PERS, SRS

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

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

PERS

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

SRS

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

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

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

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**Discount Rate**

PERS, SRS

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

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

**Target Allocations**

PERS, SRS

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

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

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**Sensitivity Analysis**

	<b>1.0% Decrease</b>	<b>Current</b>	<b>1.0% Increase</b>
	<b>-6.75%</b>	<b>Discount Rate</b>	<b>-8.75%</b>
<b>PERS</b>	\$ 7,479,734	\$ 4,701,584	\$ 2,358,486
<b>SRS</b>	\$ 1,880,223	\$ 893,366	\$ 78,908

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

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

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

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

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2015

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 15,269,491	Road maintenance
Public Safety/Law Enforcement	482,616	Sheriff operations
<u>All Other Aggregate:</u>		
	9,303	Airport maintenance
	8,112	Animal control
	74,417	Culture and recreation services a
	587,543	Economic development
	69,017	Emergency services
	249,129	Fire prevention and control
	85,713	Court and legal services
	103,582	Planning and records services
	530,644	Health insurance costs
	154,045	Law enforcement services and equipment
	30,596	Parks and recreation services
	231,770	Civilian healthcare
	15,113	Social and economic services
	59,083	Weed control
	<u>57,090</u>	Miscellaneous
Total	<u>\$17,917,264</u>	

**Committed Fund Balance**

<u>All other aggregate:</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
	162,126	Machinery and equipment
	26,183	Parks and recreation capital projects
	16,890	Road construction
	<u>12,716</u>	Improvements
Total	<u>\$ 217,915</u>	

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2015

**NOTE 13. RESTATEMENTS**

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Hard Rock Mine Trust Account	\$ 18,000	Warrants that were voided but pertained to PY expenditures
PILT	152,633	Loan to the Port Authority but the due from other governments was never recorded in FY14.
PILT	(199,771)	Loan receivable was recorded but paid off in prior years
WIC	(17,923)	Due from other governments never received
General	50,986	Move revenues to period expenditures incurred
Solid Waste	(125,233)	Implementation of GASB #45 Other Post-Employment Benefits
Solid Waste	(694,613)	Implementation of GASB #68 reporting the beginning of the year net pension liability and related deferred inflows and outflows
Governmental Activities	(1,004,516)	Implementation of GASB #45 Other Post-Employment Benefits
Governmental Activities	<u>(7,153,457)</u>	Implementation of GASB #68 reporting the beginning of the year net pension liability and related deferred inflows and outflows
	<u>\$ (8,973,894)</u>	

**NOTE 14. 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 15. 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.

LINCOLN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2015

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.

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 16. 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>Harry Richards and Billy Budd Sullivan v. Lincoln County et al</i>	Unknown	Unknown
<i>Solso et al v. Steed and Lincoln County</i>	Unknown	Unknown
<i>Kevin Kirkwood v. Lincoln County</i>	Unknown	Unknown

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Lincoln County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2015**

	<b>General</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 87,882	\$ 87,882	\$ 131,858	\$ 43,976
Licenses and permits	17,500	17,500	26,250	8,750
Intergovernmental	707,313	799,060	760,497	(38,563)
Charges for services	204,835	204,835	194,818	(10,017)
Fines and forfeitures	106,236	106,236	95,107	(11,129)
Miscellaneous	22,100	22,100	25,602	3,502
Investment earnings	20,000	20,000	28,559	8,559
Internal services	1,735,839	1,735,839	-	(1,735,839)
Amounts available for appropriation	<u>\$ 2,901,705</u>	<u>\$ 2,993,452</u>	<u>\$ 1,262,691</u>	<u>\$ (1,730,761)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 2,834,495	\$ 2,834,495	\$ 2,697,689	\$ 136,806
Public safety	273,119	273,119	183,541	89,578
Public works	23,000	23,000	22,871	129
Public health	326,493	326,493	323,390	3,103
Social and economic services	2,500	2,500	2,255	245
Capital outlay	-	-	16,085	(16,085)
Total charges to appropriations	<u>\$ 3,459,607</u>	<u>\$ 3,459,607</u>	<u>\$ 3,245,831</u>	<u>\$ 213,776</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 1,570,500	\$ 1,570,500
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,570,500</u>	<u>\$ 1,570,500</u>
Net change in fund balance			<u>\$ (412,640)</u>	
Fund balance - beginning of the year			\$ 1,798,717	
Restatements			50,986	
Fund balance - beginning of the year - restated			<u>\$ 1,849,703</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 1,437,063</u></u>	

**Lincoln County, Montana**  
**Budgetary Comparison Schedule - continued**  
**For the Fiscal Year Ended June 30, 2015**

	<b>Road</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 625,000	\$ 625,000	\$ 709,284	\$ 84,284
Intergovernmental	561,267	561,267	2,893,622	2,332,355
Charges for services	135,000	135,000	175,023	40,023
Miscellaneous	-	-	3,671	3,671
Investment earnings	140,000	140,000	223,714	83,714
Amounts available for appropriation	\$ 1,461,267	\$ 1,461,267	\$ 4,005,314	\$ 2,544,047
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public works	\$ 3,196,824	\$ 3,196,824	\$ 2,823,765	\$ 373,059
Culture and recreation	-	-	370	(370)
Miscellaneous	745,962	745,962	-	745,962
Capital outlay	-	-	274,667	(274,667)
Total charges to appropriations	\$ 3,942,786	\$ 3,942,786	\$ 3,098,802	\$ 843,984
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(76,891)	(76,891)	(949,122)	(872,231)
Total other financing sources (uses)	\$ (76,891)	\$ (76,891)	\$ (949,122)	\$ (872,231)
Net change in fund balance			\$ (42,610)	
Fund balance - beginning of the year			\$ 15,199,636	
Fund balance - beginning of the year - restated			\$ 15,199,636	
<b>Fund balance - end of the year</b>			<b>\$ 15,157,026</b>	

**Lincoln County, Montana**  
**Budgetary Comparison Schedule - continued**  
**For the Fiscal Year Ended June 30, 2015**

**Public Safety/Law Enforcement**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u> <u>WITH FINAL</u> <u>BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	
			<u>(BUDGETARY</u> <u>BASIS) See Note A</u>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,819,004	\$ 1,819,004	\$ 1,891,137	\$ 72,133
Intergovernmental	326,258	326,258	319,835	(6,423)
Charges for services	354,600	354,600	455,445	100,845
Miscellaneous	500	500	9,599	9,099
Investment earnings	-	-	135	135
Amounts available for appropriation	<u>\$ 2,500,362</u>	<u>\$ 2,500,362</u>	<u>\$ 2,676,151</u>	<u>\$ 175,789</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public safety	\$ 2,640,560	\$ 2,640,560	\$ 2,532,397	\$ 108,163
Miscellaneous	484,076	484,076	-	484,076
Total charges to appropriations	<u>\$ 3,124,636</u>	<u>\$ 3,124,636</u>	<u>\$ 2,532,397</u>	<u>\$ 592,239</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 153,000	\$ 153,000	\$ -	\$ (153,000)
Transfers out	-	-	(464,250)	(464,250)
Total other financing sources (uses)	<u>\$ 153,000</u>	<u>\$ 153,000</u>	<u>\$ (464,250)</u>	<u>\$ (617,250)</u>
Net change in fund balance			<u>\$ (320,496)</u>	
Fund balance - beginning of the year			<u>\$ 850,844</u>	
Fund balance - beginning of the year - restated			<u>\$ 850,844</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 530,348</u></u>	

**Lincoln County, Montana**  
**Budgetary Comparison Schedule - continued**  
**For the Fiscal Year Ended June 30, 2015**

<b>Asbestos Resource Program</b>				
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>	
			<b>(BUDGETARY</b>	
			<b>BASIS) See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Intergovernmental	\$ 405,078	\$ 405,078	\$ 342,549	\$ (62,529)
Miscellaneous	-	-	9	9
Amounts available for appropriation	\$ 405,078	\$ 405,078	\$ 342,558	\$ (62,520)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public health	\$ 370,337	\$ 370,337	\$ 307,678	\$ 62,659
Capital outlay	96,889	96,889	-	96,889
Total charges to appropriations	\$ 467,226	\$ 467,226	\$ 307,678	\$ 159,548
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ (260,978)	\$ (260,978)	\$ (27,977)	\$ 233,001
Total other financing sources (uses)	\$ (260,978)	\$ (260,978)	\$ (27,977)	\$ 233,001
Net change in fund balance			\$ 6,903	
Fund balance - beginning of the year			\$ 22,446	
Fund balance - beginning of the year - restated			\$ 22,446	
<b>Fund balance - end of the year</b>			\$ 29,349	

**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>	<u>Asbestos Resource Program</u>
<b>Sources/Inflows of resources</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,262,691	\$ 4,005,314	\$ 2,676,151	\$ 342,558
Combined funds (GASBS 54) revenues	608,710	-	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 1,871,401</u>	<u>\$ 4,005,314</u>	<u>\$ 2,676,151</u>	<u>\$ 342,558</u>
<b>Uses/Outflows of resources</b>				
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 3,245,831	\$ 3,098,802	\$ 2,532,397	\$ 307,678
Combined funds (GASBS 54) expenditures	350,362	-	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,596,193</u>	<u>\$ 3,098,802</u>	<u>\$ 2,532,397</u>	<u>\$ 307,678</u>

**Note B**

**Describe all major funds that exceeded budgetary authority and the reasons why**

**Lincoln County**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2015**

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	\$ -	\$ 2,201,510	\$ 2,201,510	0%	\$ 6,210,993	35.4%

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

	PERS <u>2015</u>	SRS <u>2015</u>
Employer's proportion of the net pension liability	\$ 4,701,584	\$ 893,366
Employer's proportionate share of the net pension liability associated with the Employer	0.377331%	2.146636%
State of Montana's proportionate share of the net pension liability associated with the Employer	<u>57,413</u>	<u>-</u>
Total	\$ <u>4,758,997</u>	\$ <u>893,366</u>
Employer's covered-employee payroll	\$ <u>4,271,379</u>	\$ <u>1,388,286</u>
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	110.072%	64.35%
Plan fiduciary net position as a percentage of the total pension liability	79.9%	87.2%

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

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

	PERS 2015	SRS 2015
Contractually required contributions	\$ 350,900	\$ 143,595
Contributions in relation to the contractually required contributions	\$ 350,900	\$ 143,595
District's covered-employee payroll	\$ 4,271,379	\$ 1,388,286
Contributions as a percentage of covered-employee payroll	8.215%	10.343%

*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, 2015**

Public Employees' Retirement System of Montana(PERS)

*Changes of assumptions:*

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

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

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

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

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

Sheriffs' Retirement System of Montana (SRS)

*Changes of assumptions:* None

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

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

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

# **SINGLE AUDIT SECTION**

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

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Federal Expenditure June 30, 2015</b>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed through Western Montana Area Agency on Aging Region 6:</i>			
Commodity Supplemental Food Program	10.565	15-027-210010-30	8,768
<i>Montana Department of Natural Resources and Conservation</i>			
Cooperative Forestry Assistance	10.664	14-DG-11010000-012	9,476
<i>Direct:</i>			
Schools and Roads - Grants to States	10.665	N/A	4,047,924
<i>Passed through Montana Department of Administration:</i>			
Schools and Roads - Grants to States	10.665	N/A	102,563
<b>Total U.S. Department of Agriculture</b>			<b>\$ 4,168,731</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<i>Passed through Montana Department of Commerce:</i>			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	MT-CDBG-ED13-04	\$ 184,000
<b>Total U.S. Department Housing and Urban Development</b>			<b>\$ 184,000</b>
<b><u>U.S. Department of Justice</u></b>			
<i>Passed through Montana Board of Crime Control:</i>			
Crime Victims Assistance	16.575	14-V01-91632	\$ 44,755
Enforcing Underage Drinking Laws	16.738	10-U01-91045	9,543
<b>Total U.S. Department of Justice</b>			<b>\$ 54,298</b>
<b><u>U.S. Department of Transportation</u></b>			
<i>Passed through Federal Aviation Administration:</i>			
Airport Improvement Program	20.106	3-30-0049-012-2013	\$ 76,617
Airport Improvement Program	20.106	3-30-0027-013-2014	348,792
<i>Passed through Montana Department of Transportation:</i>			
Highway Planning and Construction	20.205	UPN8820	26,100
<i>Direct:</i>			
State and Community Highway Safety Program	20.600	N/A	1,413
<b>Total U.S. Department of Transportation</b>			<b>\$ 452,922</b>
<b><u>U.S. Department of Environmental Protection Agency</u></b>			
<i>Passed through Montana Department of Environmental Quality:</i>			
Air Pollution Control Program Support	66.001	515005	\$ 36,914
<i>Direct:</i>			
Superfund State Political Subdivision and Indian Tribe Site Specific Cooperative Agreements	66.802	96803401	342,549
<b>Total U.S. Department of Environmental Protection Agency</b>			<b>\$ 379,463</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through Montana Department of Public Health and Humand Services:</i>			
Public Health Emergency Preparedness	93.069	15-07-6-11-030-0	\$ 22,411
Immunizaton Cooperative Agreements	93.268	15-07-6-11-030-0	6,156
Drug-Free Communities Support Program Grants	93.276	5H79SP020426-04	134,119
PPHF Capacity Building Assistnace to Strengthen Public Health Immunization			
Infrastructure and Perfomance Financee in part by Prevention and Public Health Funds	93.539	14-07-4-31-167-0	4,450
Maternal and Child Health Services Block Grant to States	93.994	14-07-5-01-027-0	13,172
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 180,308</b>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed through Montana Department of Military Affairs:</i>			
Emergency Management Performance Grants	97.042	EW-2014-EP-00006	\$ 77,423
Homeland Security Grant Program	97.067	EMW-2013-SS-0064	102,440
Homeland Security Grant Program	97.067	EMW-2014-SS-00019-S01	66,628
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 246,491</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 5,666,213</b>

N/A = Not Applicable or Not Available

LINCOLN COUNTY, MONTANA

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

Fiscal Year Ended June 30, 2015

*Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

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

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

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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, 2015, and the related notes to the financial statements, which collectively comprise the Lincoln County's basic financial statements and have issued our report thereon dated June 15, 2016.

**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 the 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(s) 2015-001 and 2015-002.

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

Lincoln County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

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

June 15, 2016

***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 OMB CIRCULAR A-133**

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) Circular A-133 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, 2015. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, 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, 2015.

## **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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

June 15, 2016

LINCOLN COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2015

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

**Financial Statements**

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

**Federal Awards**

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

**Identification of major programs:**

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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section II – Financial Statement Findings

#### 2015-001      Unallowable Transfer

**Condition:**

The County transferred \$25,000 from the Secure Rural Schools (SRS) Title III After 2008 program fund to the County Planning fund for costs incurred under the SRS Title II programs for Resource Advisor Committee (RAC) services. RACs are a mechanism for local community collaboration with federal land managers in recommending projects on federal lands or that will benefit resources on federal lands and are not an allowable use of funds under SRS Title III program.

**Context:**

In testing for compliance with transfers, it was noted that the County transferred \$25,000 out of the SRS Title III After 2008 program fund to the County Planning fund for planning costs that were actually attributed to the SRS Title II program for RAC services.

**Criteria:**

Allowable uses of funds under SRS Title III program are as follows:

1. To carry out activities under the Firewise Communities program to provide to homeowners in fire-sensitive ecosystems education on, and assistance with implementing, techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires;
2. To reimburse the county for search and rescue and other emergency series, including firefighting, that are performed on Federal land after the date on which the use was approved (i.e., public comment period – see below); and
3. To develop community wildfire protection plans in coordination with the Secretary of Agriculture.

**Effect:**

The Transfer was not allowable under SRS Title III programs and as such, transfers out of the SRS Title III After 2008 program fund were overstated and transfers out from SRS Title II program were understated.

**Cause:** The County transferred funds under the wrong program.

**Recommendation:**

The County should be sure that transfers are allowable under the applicable program.

**Views of Responsible Officials and Planned Corrective Action:**

This was corrected in the FY15/16 budget process. In FY16, there were no transfers other than for Firewise Communities program under SRS Title III program. Future transfers will be allowable compliant.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### 2015-002     PILT Loan Receivable

**Condition:**

In Fiscal year 2012, the Tobacco Valley Industrial District (TVID) received approval for a reimbursable grant to build a wood distribution center. Since the grant was a reimbursement type grant, they took out a loan from Lincoln County to pay the expenditures until they could get reimbursed. The County loaned TVID \$519,592, out of the Payment in Lieu of Taxes (PILT) fund. In fiscal year 2012, TVID paid the County \$421,234 and in Fiscal year 2013 \$98,358, paying the loan in full. As of June 30, 2015, there was an error of \$199,771 showing as Notes Receivable in the PILT fund. The financial statements have been corrected to remove the full amount of the Notes Receivable from the PILT fund.

**Context:**

While testing receivables as part of the audit, it was noted that not all of the payments that have been made by TVID have been reflected in the Notes Receivable balance, thus overstating Notes Receivable in the PILT fund.

**Criteria:**

Under the Generally Accepted Accounting Principles, when payments on receivables are received by the County, the related receivable should be written down accordingly to ensure that assets are not overstated.

**Effect:**

Notes receivable in the PILT fund were overstated by \$199,771. This has been corrected for financial reporting purposes.

**Cause:**

The County failed to reduce the receivable amount for the entire TVID loan payments received.

**Recommendation:**

The County should be sure to adjust the receivable amount as payments are made and should write the receivable balance down to correctly show all payments received to date.

**Views of Responsible Officials and Planned Corrective Action:**

The County will adjust the receivable balance down to correctly show all payments received to date and adjust receivables as payments are made going forward.

### 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***

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Lincoln County  
Libby, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Other Post-Employment Benefits	Implemented
Forest Reserve Payments	Implemented
Deficit Fund Balances	Implemented
Sheriff's Department	Implemented
Justice Court (Eureka) Internal Controls	Not Repeated
Taxes Levied	Implemented
Permissive Medical Levy	Implemented
Expenditure Classification	Implemented

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

June 15, 2016