

LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

**AUDIT REPORT**

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

LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

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LINCOLN COUNTY, MONTANA

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LINCOLN COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2016

**BOARD OF COUNTY COMMISSIONERS**

Mike Cole  
Gregory Larson  
Mark Peck

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

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

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

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2016

Our discussion and analysis of Lincoln County's financial performance provides an overview of Fiscal Year 2015-2016 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole. Readers should review the 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 2016 are as follows:

- Continued decreased interest earnings due to low interest rates and a declining amount to be invested in short-term opportunities.
- Federal PILT payment extended to be paid in 2016 rather than ending in 2015.
- 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 Position and the Statement of Activities**

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

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

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2016

**Fund Financial Statements**

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

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

The fiduciary fund and notes to the financial statements can be found in the Audit 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 \$25,688,025 at the close of the most recent fiscal year. The following table provides a summary comparison for the County's Governmental and Business type net position for fiscal year 2016 and compared to the prior year.

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2016

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	FY16	FY15	Change	FY16	FY15	Change
			Inc (Dec)			Inc (Dec)
Current and other assets	\$ 23,107,679	\$ 23,038,997	\$ 68,682	\$ 4,242,529	\$ 4,116,081	\$ 126,448
Capital assets	9,638,343	10,153,978	(515,635)	959,276	995,431	(36,155)
Total assets	\$ 32,746,022	\$ 33,192,975	\$ (446,953)	\$ 5,201,805	\$ 5,111,512	\$ 90,293
Long-term debt outstanding	\$ 2,012,889	\$ 1,821,227	\$ 191,662	\$ 265,136	\$ 237,561	\$ 27,575
Other liabilities	8,514,180	8,092,839	421,341	1,467,597	1,693,609	(226,012)
Total liabilities	\$ 10,527,069	\$ 9,914,066	\$ 613,003	\$ 1,732,733	\$ 1,931,170	\$ (198,437)
Net position:						
Net investment in capital assets	\$ 9,638,343	\$ 10,153,978	\$ (515,635)	\$ 959,276	\$ 995,431	\$ (36,155)
Restricted	18,179,027	18,306,210	(127,183)	975,189	1,781,919	(806,730)
Unrestricted (deficit)	(5,598,417)	(5,181,279)	(417,138)	1,534,607	402,992	1,131,615
Total net position	\$ 22,218,953	\$ 23,278,909	\$ (1,059,956)	\$ 3,469,072	\$ 3,180,342	\$ 288,730

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	FY16	FY15	Change	FY16	FY15	Change
			Inc (Dec)			Inc (Dec)
<b>Revenues</b>						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 1,058,539	\$ 920,433	\$ 138,106	\$ 1,784,386	\$ 1,791,549	\$ (7,163)
Operating grants and contributions	4,282,607	4,694,618	(412,011)	-	-	-
Capital grants and contributions	374,278	503,563	(129,285)	-	-	-
<i>General revenues (by major source):</i>						
Property taxes for general purposes	5,261,889	4,372,122	889,767	-	-	-
Licenses and permits	20,362	18,550	1,812	-	63	(63)
Miscellaneous	190,036	215,731	(25,695)	5,000	2,614	2,386
Interest/investment earnings	270,692	258,811	11,881	10,774	-	10,774
PILT	684,405	579,014	105,391	-	-	-
State entitlement	891,815	873,197	18,618	-	-	-
Grants and entitlements not restricted to specific programs	66,018	4,073	61,945	-	-	-
Contributions & donations	10,624	9,041	1,583	-	-	-
State contributions to retirement	111,599	116,739	(5,140)	8,781	16,202	(7,421)
Total revenues	\$ 13,222,864	\$ 12,565,892	\$ 656,972	\$ 1,808,941	\$ 1,810,428	\$ (1,487)
<b>Program expenses</b>						
General government	\$ 3,738,502	\$ 4,105,346	\$ (366,844)	\$ -	\$ -	\$ -
Public safety	4,253,574	4,022,993	230,581	-	-	-
Public works	4,409,855	4,257,207	152,648	-	-	-
Public health	891,551	903,510	(11,959)	-	-	-
Social and economic services	150,140	140,650	9,490	-	-	-
Culture and recreation	674,036	625,932	48,104	-	-	-
Housing and community development	159,792	128,878	30,914	-	-	-
Conservation of natural resources	-	21,348	(21,348)	-	-	-
Miscellaneous	101,162	85,051	16,111	-	-	-
Solid Waste	\$ -	\$ -	\$ -	\$ 1,462,577	\$ 1,438,468	\$ 24,109
Total expenses	\$ 14,378,612	\$ 14,290,915	\$ 87,697	\$ 1,462,577	\$ 1,438,468	\$ 24,109
Excess (deficiency) before special items and transfers	\$ (1,155,748)	\$ (1,725,023)	\$ 569,275	\$ 346,364	\$ 371,960	\$ (25,596)
Gain (loss) on sale of capital assets	(23,236)	-	(23,236)	(3,333)	(35,133)	31,800
Transfers - net	326,000	295,086	30,914	(326,000)	(295,086)	(30,914)
<b>Increase (decrease) in net position</b>	\$ (852,984)	\$ (1,429,937)	\$ 576,953	\$ 17,031	\$ 41,741	\$ (24,710)

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2016

**Condensed Financial Statements**

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

The cost of all Governmental activities this year was \$14,709,073 as found in the Statement of Activities. However, as shown on the same statement, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$5,261,889 with some of the costs being paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with operating grants. Other revenues such as interest earnings, entitlement reimbursements, general contributions and other miscellaneous revenues along with remaining cash carryovers from the prior fiscal year financed the remaining portions of budgets.

**BUSINESS TYPE ACTIVITIES**

Enterprise Funds: The County owns and operates the Solid Waste District. The program provides disposal of wastes delivered to its central landfill in Libby. A transfer station is operated in Eureka. Other rural areas in the County are serviced by "green box" sites, which are picked up by the County. User fees support all Solid Waste District services wholly. The enterprise fund's prime objective is to provide disposal services to County residents and businesses. As maintenance and operating expenses increased a little while revenues remain at a fairly consistent level, fund balances are effected and investment in capital assets are at lower levels. Total net position increased over the prior year by \$288,730.

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

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

***Governmental Funds Overview***

The focus of County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular, unassigned 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 2016 the combined ending fund balances of Lincoln County's governmental funds were \$21,268,465. Remaining cash may be re-appropriated in accordance with the purposes of the specific funds.



LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2016

Lincoln County has five major governmental funds: the General, Road, Public Safety, Group Health Insurance, and Asbestos Resource Program Funds. They had one proprietary fund, the Solid Waste.

**General Fund.**

This is the chief operating fund of Lincoln County. At the end of the fiscal year 2016 unassigned fund balance of the general fund was \$3,376,860. Unassigned 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 2016 the unassigned fund balance represented 99% 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 2016 the fund balance was \$15,547,810. All of which is restricted to road projects.

**Public Safety Fund.**

This fund is a special revenue fund used to account for Lincoln County's sheriff, dispatch, coroner and detention services. At the end of the fiscal year 2016 fund balance of the public safety fund was \$506,938. Prior year ending fund balance was \$530,348. This is restricted for law enforcement services.

**Group Health Insurance**

This is a special revenue fund used to account for the group health insurance type expenditures. Funds are transferred into this fund from the other funds to pay these expenditures. At year end, they had a slight deficit fund balance of \$2,772. They County only transfers in what is needed to pay the insurance, therefore, we do not keep a reserve in this fund.

**Asbestos Resource Project**

This is a special revenue fund used to account for the revenues and related expenditures of the Asbestos Resource Program (ARP) grant from the Environmental Protection Agency to the City County Board of Health (a blended component unit of Lincoln County) for the EPA Superfund Site to clean up the asbestos contamination. At year end, there was \$280,853 in revenues received in advance which will fund future ARP expenditures.

**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 2016, the Solid Waste fund had a total net position of \$3,469,072 which was an increase from the prior year balance of \$3,180,342.

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2016

**FY16 General Fund Budgetary Highlights**

Over the course of the year, Lincoln County's general fund was not revised. The general fund expenditure budget was \$3,395,892. Over the course of the year, our actual reported resources were more than budgeted by \$3,887. Our anticipated taxes and assessments for the general fund show a positive difference of \$3,302. Appropriations for General Government show \$216,918 budgeted for expenditures that were not expended in this fiscal year. Overestimates in several departments contribute to this.

**Capital Assets**

Lincoln County's investment in capital assets (depreciable, net) for its governmental and business type activities as of June 30, 2016 was \$10,597,619. 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:

	Balance June 30, 2015	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Restatements</u>	Balance June 30, 2016
Capital assets not being depreciated:						
Land	\$ 525,267	\$ -	\$ -	\$ -	\$ -	\$ 525,267
Construction in Progress	<u>116,766</u>	<u>24,695</u>	<u>-</u>	<u>(116,767)</u>	<u>26,101</u>	<u>50,795</u>
Total Capital Assets not being depreciated	\$ <u>642,033</u>	\$ <u>24,695</u>	\$ <u>-</u>	\$ <u>(116,767)</u>	\$ <u>26,101</u>	\$ <u>576,062</u>
Other capital assets:						
Buildings	\$ 5,038,752	\$ 7,735	\$ -	\$ (112,870)	\$ -	\$ 4,933,617
Improvements other than buildings	8,347,204	418,038	-	20,592	(85,128)	8,700,706
Machinery and equipment	11,643,958	181,726	(281,950)	(241,294)	-	11,302,440
Infrastructure	1,978,475	-	-	450,339	-	2,428,814
Total other capital assets at historical cost	\$ <u>27,008,389</u>	\$ <u>607,449</u>	\$ <u>(281,950)</u>	\$ <u>116,767</u>	\$ <u>(85,128)</u>	\$ <u>27,365,577</u>
Less accumulated depreciation:						
Total	\$ <u>(17,496,444)</u>	\$ <u>(1,065,566)</u>	\$ <u>258,714</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(18,303,296)</u>
	\$ <u>10,153,978</u>	\$ <u>(433,372)</u>	\$ <u>(23,236)</u>	\$ <u>-</u>	\$ <u>(59,027)</u>	\$ <u>9,638,343</u>

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

	Balance July 1, 2015	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Transfers</u>	Balance June 30, 2016
Capital assets not being depreciated:						
Land	\$ <u>850</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>850</u>
Other capital assets:						
Buildings	\$ 272,880	\$ 30,860	\$ -	\$ -	\$ -	\$ 303,740
Improvements other than buildings	38,613	32,925	-	-	16,551	88,089
Machinery and equipment	2,045,661	39,000	(38,819)	-	(16,551)	2,029,291
Total other capital assets at historical cost	\$ <u>2,357,154</u>	\$ <u>102,785</u>	\$ <u>(38,891)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,421,120</u>
Less accumulated depreciation:						
Total	\$ <u>(1,362,573)</u>	\$ <u>(134,140)</u>	\$ <u>35,486</u>	\$ <u>(1,467)</u>	\$ <u>-</u>	\$ <u>(1,462,694)</u>
	\$ <u>995,431</u>	\$ <u>(31,355)</u>	\$ <u>(3,333)</u>	\$ <u>(1,467)</u>	\$ <u>-</u>	\$ <u>959,276</u>

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2016

**Long-term debt.** As of June 30, 2016, the only debt held by the County is, the amounts recorded below for compensating absences, Landfill Closure and Post closure, and other post-employment benefits.

Governmental Activities:

	Balance				Balance		Due Within
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2016</u>	<u>One Year</u>	
Compensated absences	\$ 615,808	\$ -	\$ (9,658)	\$ -	\$ 606,150	\$ 404,303	
Net pension liability	5,021,937	1,100,218	-	273,166	6,395,321	-	
Other post-employment benefits	<u>1,205,419</u>	<u>201,320</u>	<u>-</u>	<u>-</u>	<u>1,406,739</u>	<u>-</u>	
Total	<u>\$ 6,843,164</u>	<u>\$ 1,301,538</u>	<u>\$ (9,658)</u>	<u>\$ 273,166</u>	<u>\$ 8,408,210</u>	<u>\$ 404,303</u>	

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

	Balance				Balance		Due Within
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2016</u>	<u>One Year</u>	
Compensated absences	\$ 88,576	\$ 2,693	\$ -	\$ -	\$ 91,269	\$ 69,226	
Landfill Closure/Postclosure	941,831	103,489	-	-	1,045,320	-	
Net pension liability	573,013	54,752	-	(273,166)	354,599	-	
Other post-employment benefits	<u>148,985</u>	<u>24,882</u>	<u>-</u>	<u>-</u>	<u>173,867</u>	<u>-</u>	
Total	<u>\$ 1,752,405</u>	<u>\$ 185,816</u>	<u>\$ -</u>	<u>\$ (273,166)</u>	<u>\$ 1,665,055</u>	<u>\$ 69,226</u>	

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

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

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

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

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

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Lincoln County  
Libby, Montana

**Report on the Financial Statements**

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

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

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding 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, 58 through 62, 63, 64 and 65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, on our consideration of Lincoln County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln County, Montana's internal control over financial reporting and compliance.

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

April 25, 2017

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 21,100,396	\$ 2,962,011	\$ 24,062,407
Taxes and assessments receivable, net	285,497	-	285,497
Special assessments receivable	-	280,429	280,429
Notes and loans receivable	7,693	-	7,693
Due from other governments	547,769	-	547,769
Total current assets	<u>\$ 21,941,355</u>	<u>\$ 3,242,440</u>	<u>\$ 25,183,795</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 975,189	\$ 975,189
Capital assets - land	525,267	850	526,117
Capital assets - construction in progress	50,795	-	50,795
Capital assets - depreciable, net	9,062,281	958,426	10,020,707
Total noncurrent assets	<u>\$ 9,638,343</u>	<u>\$ 1,934,465</u>	<u>\$ 11,572,808</u>
Total assets	<u>\$ 31,579,698</u>	<u>\$ 5,176,905</u>	<u>\$ 36,756,603</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources - pensions	\$ 1,166,324	\$ 24,900	\$ 1,191,224
Total deferred outflows of resources	<u>\$ 1,166,324</u>	<u>\$ 24,900</u>	<u>\$ 1,191,224</u>
<b>LIABILITIES</b>			
Current liabilities			
Warrants payable	\$ 3,255	\$ -	\$ 3,255
Accounts payable	2,815	-	2,815
Accrued payroll	100,470	9,047	109,517
Current portion of compensated absences payable	404,303	69,226	473,529
Total current liabilities	<u>\$ 510,843</u>	<u>\$ 78,273</u>	<u>\$ 589,116</u>
Noncurrent liabilities			
Landfill closure postclosure liability	\$ -	\$ 1,045,320	\$ 1,045,320
Noncurrent portion of long-term liabilities	1,406,739	173,867	1,580,606
Noncurrent portion of compensated absences	201,847	22,043	223,890
Net pension liability	6,395,321	354,599	6,749,920
Total noncurrent liabilities	<u>\$ 8,003,907</u>	<u>\$ 1,595,829</u>	<u>\$ 9,599,736</u>
Total liabilities	<u>\$ 8,514,750</u>	<u>\$ 1,674,102</u>	<u>\$ 10,188,852</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources - grants received in advance	\$ 280,853	\$ -	\$ 280,853
Deferred inflows of resources - pensions	1,731,466	58,631	1,790,097
Total Deferred Inflows of resources	<u>\$ 2,012,319</u>	<u>\$ 58,631</u>	<u>\$ 2,070,950</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 9,638,343	\$ 959,276	\$ 10,597,619
Restricted for capital projects	21,231	-	21,231
Restricted for special projects	18,157,796	-	18,157,796
Restricted for other purposes	-	975,189	975,189
Unrestricted	(5,598,417)	1,534,607	(4,063,810)
Total net position	<u>\$ 22,218,953</u>	<u>\$ 3,469,072</u>	<u>\$ 25,688,025</u>

See accompanying Notes to the Financial Statements



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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Indirect Expense Allocation</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
			<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
						<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 5,050,017	\$ (1,311,515)	\$ 325,943	\$ 149,468	\$ -	\$ (3,263,091)	\$ -	\$ (3,263,091)
Public safety	3,767,719	485,855	439,824	545,797	-	(3,267,953)	-	(3,267,953)
Public works	3,914,656	495,199	186,542	2,978,459	355,272	(889,582)	-	(889,582)
Public health	891,551		79,808	597,188	-	(214,555)	-	(214,555)
Social and economic services	150,140		9,375	11,695	-	(129,070)	-	(129,070)
Culture and recreation	674,036		17,047	-	19,006	(637,983)	-	(637,983)
Housing and community development	159,792		-	-	-	(159,792)	-	(159,792)
Miscellaneous	101,162		-	-	-	(101,162)	-	(101,162)
Total governmental activities	\$ 14,709,073	\$ (330,461)	\$ 1,058,539	\$ 4,282,607	\$ 374,278	\$ (8,663,188)	\$ -	\$ (8,663,188)
Business-type activities:								
Solid Waste	\$ 1,132,116	\$ 330,461	\$ 1,784,386	\$ -	\$ -	\$ -	\$ 321,809	\$ 321,809
Total business-type activities	\$ 1,132,116	\$ 330,461	\$ 1,784,386	\$ -	\$ -	\$ -	\$ 321,809	\$ 321,809
Total primary government	\$ 15,841,189	\$ -	\$ 2,842,925	\$ 4,282,607	\$ 374,278	\$ (8,663,188)	\$ 321,809	\$ (8,341,379)
General Revenues:								
Property taxes for general purposes						\$ 5,261,889	\$ -	\$ 5,261,889
Licenses and permits						20,362	-	20,362
Miscellaneous						190,036	5,000	195,036
Interest/investment earnings						270,692	10,774	281,466
PILT						684,405	-	684,405
State entitlement						891,815	-	891,815
Grants and entitlements not restricted to specific programs						66,018	-	66,018
Contributions & donations						10,624	-	10,624
State contributions to retirement						111,599	8,781	120,380
Gain (loss) on sale of capital assets						(23,236)	(3,333)	(26,569)
Transfers - net						326,000	(326,000)	-
Total general revenues, special items and transfers						\$ 7,810,204	\$ (304,778)	\$ 7,505,426
Change in net position						\$ (852,984)	\$ 17,031	\$ (835,953)
Net position - beginning						\$ 23,278,909	\$ 3,180,342	\$ 26,459,251
Restatements						(206,972)	271,699	64,727
Net position - beginning - restated						\$ 23,071,937	\$ 3,452,041	\$ 26,523,978
Net position - end						\$ 22,218,953	\$ 3,469,072	\$ 25,688,025

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>	<u>Group Health Insurance</u>	<u>Asbestos Resource Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>							
Current assets:							
Cash and investments	\$ 2,902,718	\$ 15,563,151	\$ 511,518	\$ -	\$ 312,995	\$ 1,810,014	\$ 21,100,396
Taxes and assessments receivable, net	15,453	-	141,923	-	-	128,121	285,497
Notes and loans receivable	7,693	-	-	-	-	-	7,693
Due from other funds	230,352	-	-	-	-	-	230,352
Due from other governments	263,105	-	27,906	-	-	256,758	547,769
Total assets	<u>\$ 3,419,321</u>	<u>\$ 15,563,151</u>	<u>\$ 681,347</u>	<u>\$ -</u>	<u>\$ 312,995</u>	<u>\$ 2,194,893</u>	<u>\$ 22,171,707</u>
Current liabilities:							
Warrants payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,255	\$ 3,255
Accounts payable	-	-	-	-	-	2,815	2,815
Accrued payroll	27,008	15,341	32,486	-	2,756	22,879	100,470
Due to other funds	-	-	-	2,772	-	227,580	230,352
Total liabilities	<u>\$ 27,008</u>	<u>\$ 15,341</u>	<u>\$ 32,486</u>	<u>\$ 2,772</u>	<u>\$ 2,756</u>	<u>\$ 256,529</u>	<u>\$ 336,892</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred inflows of resources- taxes	\$ 15,453	\$ -	\$ 141,923	\$ -	\$ -	\$ 128,121	\$ 285,497
Deferred inflows of resources - grants received in advance	-	-	-	-	280,853	-	280,853
Total deferred inflows of resources	<u>\$ 15,453</u>	<u>\$ -</u>	<u>\$ 141,923</u>	<u>\$ -</u>	<u>\$ 280,853</u>	<u>\$ 128,121</u>	<u>\$ 566,350</u>
<b>FUND BALANCES</b>							
Restricted	\$ -	\$ 15,547,810	\$ 506,938	\$ -	\$ 29,386	\$ 1,854,364	\$ 17,938,498
Committed	-	-	-	-	-	120,296	120,296
Unassigned fund balance	3,376,860	-	-	(2,772)	-	(164,417)	3,209,671
Total fund balance	<u>\$ 3,376,860</u>	<u>\$ 15,547,810</u>	<u>\$ 506,938</u>	<u>\$ (2,772)</u>	<u>\$ 29,386</u>	<u>\$ 1,810,243</u>	<u>\$ 21,268,465</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, 2016**

<b>Total fund balances - governmental funds</b>	\$ 21,268,465
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,638,343
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.	285,497
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,012,889)
Proportionate share of ending collective net pension liability	(6,395,321)
Deferred outflows related to net pension liability	1,166,324
Deferred inflows related to net pension liability	(1,731,466)
<b>Total net position - governmental activities</b>	<b>\$ <u>22,218,953</u></b>

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>	<u>Group Health Insurance</u>	<u>Asbestos Resource Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>							
Taxes and assessments	\$ 245,781	\$ 722,960	\$ 2,255,760	\$ 19	\$ -	\$ 2,043,897	\$ 5,268,417
Licenses and permits	25,400	-	-	-	-	69,617	95,017
Intergovernmental	1,351,654	2,709,262	352,378	-	324,787	1,435,744	6,173,825
Charges for services	224,177	111,758	294,564	-	-	342,366	972,865
Fines and forfeitures	102,756	-	-	-	-	27,615	130,371
Miscellaneous	87,720	25,560	7,706	-	37	71,961	192,984
Investment earnings	54,380	208,993	24	-	-	7,290	270,687
Total revenues	\$ <u>2,091,868</u>	\$ <u>3,778,533</u>	\$ <u>2,910,432</u>	\$ <u>19</u>	\$ <u>324,824</u>	\$ <u>3,998,490</u>	\$ <u>13,104,166</u>
<b>EXPENDITURES</b>							
General government	\$ 2,809,698	\$ -	\$ -	\$ 417,601	\$ -	\$ 386,752	\$ 3,614,051
Public safety	169,049	-	2,579,682	483,609	-	907,328	4,139,668
Public works	28,859	2,895,665	-	412,322	-	310,514	3,647,360
Public health	296,024	-	-	61,717	270,014	258,771	886,526
Social and economic services	2,255	-	-	-	-	147,885	150,140
Culture and recreation	-	2,861	-	54,947	-	532,857	590,665
Housing and community development	-	-	-	-	-	158,592	158,592
Miscellaneous	-	-	-	-	-	101,162	101,162
Capital outlay	53,954	-	71,111	-	-	507,129	632,194
Total expenditures	\$ <u>3,359,839</u>	\$ <u>2,898,526</u>	\$ <u>2,650,793</u>	\$ <u>1,430,196</u>	\$ <u>270,014</u>	\$ <u>3,310,990</u>	\$ <u>13,920,358</u>
Excess (deficiency) of revenues over expenditures	\$ <u>(1,267,971)</u>	\$ <u>880,007</u>	\$ <u>259,639</u>	\$ <u>(1,430,177)</u>	\$ <u>54,810</u>	\$ <u>687,500</u>	\$ <u>(816,192)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	\$ 1,335,615	\$ 267,825	\$ 673,468	\$ 1,930,976	\$ 3,678	\$ 400,187	\$ 4,611,749
Transfers out	(425,539)	(757,048)	(936,019)	(1,034,215)	(58,451)	(1,074,477)	(4,285,749)
Total other financing sources (uses)	\$ <u>910,076</u>	\$ <u>(489,223)</u>	\$ <u>(262,551)</u>	\$ <u>896,761</u>	\$ <u>(54,773)</u>	\$ <u>(674,290)</u>	\$ <u>326,000</u>
Net Change in Fund Balance	\$ <u>(357,895)</u>	\$ <u>390,784</u>	\$ <u>(2,912)</u>	\$ <u>(533,416)</u>	\$ <u>37</u>	\$ <u>13,210</u>	\$ <u>(490,192)</u>
Fund balances - beginning	\$ 3,607,755	\$ 15,157,026	\$ 530,348	\$ 530,644	\$ 29,349	\$ 1,778,314	\$ 21,633,436
Restatements	127,000	-	(20,498)	-	-	18,719	125,221
Fund balances - beginning, restated	\$ <u>3,734,755</u>	\$ <u>15,157,026</u>	\$ <u>509,850</u>	\$ <u>530,644</u>	\$ <u>29,349</u>	\$ <u>1,797,033</u>	\$ <u>21,758,657</u>
Fund balance - ending	\$ <u>3,376,860</u>	\$ <u>15,547,810</u>	\$ <u>506,938</u>	\$ <u>(2,772)</u>	\$ <u>29,386</u>	\$ <u>1,810,243</u>	\$ <u>21,268,465</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, 2016**

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

**Net change in fund balances - total governmental funds** \$ (490,192)

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	632,194
- Depreciation expense	(1,065,566)

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:

- Gain on the sale of capital assets	(23,236)
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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)	7,099
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The change in compensated absences is shown as an expense in the Statement of Activities

9,658

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	(201,320)
--	-----------

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

(292,778)

State aid revenue related to net pension liability is shown as a revenue on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance

111,599

Current year contributions to retirement reclassified to deferred outflows

459,558

**Change in net position - Statement of Activities** \$ (852,984)

See accompanying Notes to the Financial Statements

**Lincoln County, Montana**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2016**

	<u><b>Business-Type Activities - Enterprise Fund</b></u>
	<u><b>Solid Waste</b></u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 2,962,011
Special assessments receivable	280,429
Total current assets	<u>\$ 3,242,440</u>
Noncurrent assets:	
Restricted cash and investments	\$ 975,189
Capital assets - land	850
Capital assets - depreciable, net	958,426
Total noncurrent assets	<u>\$ 1,934,465</u>
Total assets	<u>\$ 5,176,905</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources - pensions	\$ 24,900
Total deferred outflows of resources	<u>\$ 24,900</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accrued payroll	\$ 9,047
Current portion of compensated absences payable	69,226
Total current liabilities	<u>\$ 78,273</u>
Noncurrent liabilities:	
Landfill closure postclosure liability	\$ 1,045,320
Noncurrent portion of long-term liabilities	173,867
Noncurrent portion of compensated absences	22,043
Net pension liability	354,599
Total noncurrent liabilities	<u>\$ 1,595,829</u>
Total liabilities	<u>\$ 1,674,102</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources - pensions	\$ 58,631
Total deferred inflows of resources	<u>\$ 58,631</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 959,276
Restricted for other purposes	975,189
Unrestricted	1,534,607
Total net position	<u>\$ 3,469,072</u>
Total liabilities and net position	<u>\$ 5,143,174</u>

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, 2016**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b><u>Solid Waste</u></b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 120,524
Special assessments	1,668,863
Total operating revenues	<u>\$ 1,789,387</u>
<b>OPERATING EXPENSES</b>	
Personal services	\$ 629,134
Supplies	186,670
Purchased services	512,633
Depreciation	134,140
Total operating expenses	<u>\$ 1,462,577</u>
Operating income (loss)	<u>\$ 326,810</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Intergovernmental revenue	\$ 8,781
Interest revenue	10,773
Total non-operating revenues (expenses)	<u>\$ 19,554</u>
Income (loss) before contributions and transfers	<u>\$ 346,364</u>
Transfers in	<u>\$ 140,547</u>
Transfers out	<u>\$ (466,547)</u>
<b>SPECIAL AND EXTRAORDINARY ITEMS</b>	
Gain (loss) on sale of capital assets	<u>\$ (3,333)</u>
Change in net position	<u>\$ 17,031</u>
Net Position - Beginning of the year	\$ 3,180,342
Restatements	271,699
Net Position - Beginning of the year - Restated	<u>\$ 3,452,041</u>
Net Position - End of the year	<u><u>\$ 3,469,072</u></u>

See accompanying Notes to the Financial Statements

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

	<b>Business - Type Activities</b>
	<b>Solid Waste</b>
<b>Cash flows from operating activities:</b>	
Cash received from providing services	\$ 120,524
Cash received from special assessments	1,741,400
Cash payments to suppliers	(595,814)
Cash payments to employees	(642,229)
Net cash provided (used) by operating activities	\$ 623,881
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(102,785)
Net cash provided (used) by capital and related financing activities	\$ (102,785)
<b>Cash flows from non-capital financing activities:</b>	
Cash to transfers with governmental funds, net	\$ (326,000)
Cash received from other sources	8,781
Net cash provided (used) from non-capital financing activities	\$ (317,219)
<b>Cash flows from investing activities:</b>	
Interest on investments	10,773
Net cash provided (used) by investing activities	\$ 10,773
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ 214,650
<b>Cash and cash equivalents at beginning</b>	3,722,550
<b>Cash and cash equivalents at end</b>	\$ 3,937,200
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 326,810
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	134,140
Other post-employment benefits	24,882
Net pension liability	(20,308)
Changes in assets and liabilities:	
Closure/post closure liability	103,489
Capital assets adjustment	1,467
Compensated absences	2,693
Accrued wages	(20,362)
Net cash provided (used) by operating activities	\$ 623,881

See accompanying notes to the financial statements



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

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 10,711,112	\$ 3,954,246
Taxes receivable	-	1,138,038
Total assets	<u>\$ 10,711,112</u>	<u>\$ 5,092,284</u>
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 1,178,394
Due to others	-	3,913,890
Total liabilities	<u>\$ -</u>	<u>\$ 5,092,284</u>
<b>NET POSITION</b>		
Assets held in trust	<u>\$ 10,711,112</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, 2016**

	<u><b>Investment Trust Funds</b></u>
<b>ADDITIONS</b>	
Contributions:	
Contributions to Investment Trust Fund	\$ 17,313,714
Investment earnings:	
Interest and change in fair value of investments	\$ <u>35,795</u>
Total additions	\$ <u><u>17,349,509</u></u>
<b>DEDUCTIONS</b>	
Distributions from investment trust fund	\$ <u>18,235,803</u>
Total deductions	\$ <u>18,235,803</u>
Change in net position	\$ <u><u>(886,294)</u></u>
 Net Position - Beginning of the year	 \$ 11,597,406
 Net Position - End of the year	 \$ <u><u>10,711,112</u></u>

See accompanying Notes to the Financial Statements

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

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

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

**Financial Reporting Entity**

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

*Primary Government*

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

*Related Organizations*

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

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

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

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

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

*Basis of Presentation*

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function. The County charges indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

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

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*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

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

**Fund Financial Statements:**

*Basis of Presentation*

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

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

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*Measurement Focus and Basis of Accounting*

***Governmental Funds***

Modified Accrual

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

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

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

Major Funds:

The County reports the following major governmental funds:

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

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

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

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*Group Health Insurance Fund* – A special revenue fund used to account for the transfers in to pay the health related expenditures for the group health insurance plan.

*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.

***Major Funds:***

The County reports the following major proprietary funds:

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

***Fiduciary Funds***

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

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

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

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

**Cash Composition**

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash on hand:	
Petty Cash	\$ 400
Vault Balance	2,000
Cash in banks:	
Demand deposits	79,212
Savings deposits	26,097,733
Time deposits	4,391,256
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	40,968
U.S. Government Securities	9,091,385
Total	\$ <u><u>39,702,954</u></u>

**Credit Risk**

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

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

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

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

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



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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.

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

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

\*Beginning with the period of June 30, 2016, the STIP portfolio is shown at fair value. For the period prior to June 30, 2016, the STIP portfolio was shown at amortized cost.

\*\*Credit Quality Rating is weighted.

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

	June 30, 2016
	<u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 5,749,279
- Collateral held by the pledging bank's trust department but not in the County's name	15,487,850
- Uninsured and uncollateralized	\$ 9,381,239
Total deposits and investments	<u>\$ 30,618,368</u>

Deposit Security

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

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

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

**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, 2016 alone with their related interest rates and maturity dates.

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
Federal National Mortgage Association Note	1.050%	3/27/2018	\$ 287,130
Federal National Mortgage Association Note	1.060%	4/10/2018	250,008
Federal National Mortgage Association Note	1.100%	4/17/2018	250,025
Federal Home Loan Mortgage Corp Note	1.050%	4/30/2018	1,000,110
Federal National Mortgage Association Note	1.250%	3/29/2019	501,265
Federal Farm Credit Banks Debenture	1.300%	6/6/2019	1,003,540
Federal Home Loan Mortgage Corp Note	1.300%	7/26/2019	225,045
Federal Home Loan Banks Debenture	1.530%	2/24/2020	501,380

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Federal Farm Credit Banks Debenture	1.400%	6/15/2020	501,075
Federal Home Loan Banks Debenture	1.700%	10/19/2020	504,305
Federal Farm Credit Banks Debenture	1.680%	10/29/2020	500,010
Federal National Mortgage Association Note	1.660%	11/20/2020	500,365
Federal Farm Credit Banks Debenture	1.620%	2/17/2021	501,010
Federal Farm Credit Banks Debenture	1.650%	3/1/2021	500,720
Federal Home Loan Banks Debenture	1.625%	4/20/2021	500,820
Federal Farm Credit Banks Debenture	1.550%	5/17/2021	500,510
Federal Farm Credit Banks Debenture	1.690%	6/2/2021	502,005
US Treasury Notes	1.625%	3/31/2019	40,156
Federal Farm Credit Banks	1.000%	4/11/2018	4,009
Federal Farm Credit Banks	1.950%	12/28/2021	30,006
Federal Home Loan Banks	1.000%	9/27/2017	40,207
Federal Home Loan Banks	1.450%	3/30/2020	30,194
Federal Home Loan Mortgage Corp	1.000%	7/28/2017	30,247
Federal National Mortgage Association	1.625%	11/27/2018	24,548
US Treasury Notes	1.250%	12/31/2017	86,356
US Treasury Notes	1.625%	3/31/2019	54,572
US Treasury Notes	0.750%	12/31/2017	28,080
Federal Farm Credit Banks	1.000%	4/11/2018	12,027
Federal Farm Credit Banks	1.950%	12/28/2021	71,014
Federal Home Loan Banks	1.000%	9/27/2017	45,233
Federal Home Loan Banks	1.450%	3/30/2020	60,387
Federal National Mortgage Association	1.250%	9/28/2016	5,026
Total			<u>\$ 9,091,385</u>

**Cash and Investment Pool**

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

**Investment in the Treasurer's Pools**

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

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

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

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

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

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

Investment Income

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

**Condensed statements of investments pools**

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

**Statement of Net Position**

Net position held in trust for all pool participants:

Equity of internal pool participants	\$ 12,655,103
Equity of external pool participants	10,711,112
Total equity	\$ <u><u>23,366,215</u></u>

**Condensed Statement of Changes in Net Position**

	External	Internal
Investment earnings	\$ 35,795	\$ 27,349
Contributions to trust	17,313,714	22,115,686
Distributions paid	(18,235,803)	(21,413,154)
Net change in net position	\$ (886,294)	\$ 729,881
Net position at beginning of year	11,597,406	11,925,222
Net position at end of year	\$ <u><u>10,711,112</u></u>	\$ <u><u>12,655,103</u></u>

**Cash equivalents**

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

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**NOTE 3. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the County as of June 30, 2016. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>Amount</u>
Landfill Closure/Post-closure	\$ <u>975,189</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.

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

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

As part of the due from other governments in the General fund, \$251,360 of the balance is for two loans to the Lincoln County Port Authority. The first loan, made in September of 2013 in the amount of \$152,633 at 0% interest was for infrastructure improvements. The second loan, made July of 2015 for \$127,000 at 0% interest was for the sale of equipment to the Port. This is not expected to be collected within one year.

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As part of the due from other governments in the All Other Aggregate, \$105,247 is for the loan from the Hard Rock Mine Trust Fund to the Troy Rural Fire District. The loan assisted the District in financing their capital improvement needs. The District agreed to pay the County 5.5% interest on the loan. This is not expected to be collected within one year.

**NOTE 5. INVENTORIES**

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

Buildings	10 – 20 years
Improvements	5 – 15 years
Equipment	5 – 60 years
Infrastructure	10 – 40 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2016 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

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

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Restatements</u>	Balance <u>June 30, 2016</u>
Capital assets not being depreciated:						
Land	\$ 525,267	\$ -	\$ -	\$ -	\$ -	\$ 525,267
Construction in progress	116,766	24,695	(116,767)	-	26,101	50,795
Total capital assets not being depreciated	\$ 642,033	\$ 24,695	\$ (116,767)	\$ -	\$ 26,101	\$ 576,062
Other capital assets:						
Buildings	\$ 5,038,752	\$ 7,735	\$ -	\$ -	\$ -	\$ 4,933,617
Improvements other than buildings	8,347,204	418,038	116,767	-	(85,128)	8,700,706
Machinery and equipment	11,643,958	181,726	-	(281,950)	-	11,302,440
Infrastructure	1,978,475	-	-	-	-	2,428,814
Total other capital assets at historical cost	\$ 27,008,389	\$ 607,499	\$ 116,767	\$ (281,950)	\$ (85,128)	\$ 27,365,577
Less: accumulated depreciation	\$ (17,496,444)	\$ (1,065,566)	\$ -	\$ 258,714	\$ -	\$ (18,303,296)
Total	\$ 10,153,978	\$ (433,372)	\$ -	\$ (23,236)	\$ (59,027)	\$ 9,638,343

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Governmental activities depreciation expense was charged to functions as follows:

General government	\$ 60,653
Public safety	152,822
Public works	762,495
Public health	5,025
Culture and recreation	83,371
Housing and community development	<u>1,200</u>
Total governmental activities depreciation expense	<u>\$ 1,065,566</u>

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets not being depreciated:						
Land	\$ 850	\$ -	\$ -	\$ -	\$ -	\$ 850
Total capital assets not being depreciated	<u>\$ 850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 850</u>
Other capital assets:						
Buildings	\$ 272,880	\$ 30,860	\$ -	\$ -	\$ -	\$ 303,740
Improvements other than buildings	38,613	32,925	-	-	16,551	88,089
Machinery and equipment	<u>2,045,661</u>	<u>39,000</u>	<u>(38,819)</u>	<u>-</u>	<u>(16,551)</u>	<u>2,029,291</u>
Total other capital assets at historical cost	\$ 2,357,154	\$ 102,785	\$ (38,819)	\$ -	\$ -	\$ 2,421,120
Less: accumulated depreciation	\$ (1,362,573)	\$ (134,140)	\$ 35,486	\$ (1,467)	\$ -	\$ (1,462,694)
Total	<u>\$ 995,431</u>	<u>\$ (31,355)</u>	<u>\$ (3,333)</u>	<u>\$ (1,467)</u>	<u>\$ -</u>	<u>\$ 959,276</u>

**NOTE 7. LONG TERM DEBT OBLIGATIONS**

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

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

Governmental Activities:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Within</u> <u>One Year</u>
Compensated absences	\$ 615,808	\$ -	\$ (9,658)	\$ -	\$ 606,150	\$ 404,303
Net pension liability*	5,021,937	1,100,218	-	273,166	6,395,321	-
Other post-employment benefits**	<u>1,205,419</u>	<u>201,320</u>	<u>-</u>	<u>-</u>	<u>1,406,739</u>	<u>-</u>
Total	<u>\$ 6,843,164</u>	<u>\$ 1,301,538</u>	<u>\$ (9,658)</u>	<u>\$ 273,166</u>	<u>\$ 8,408,210</u>	<u>\$ 404,303</u>

\*See Note 11

\*\*See Note 8

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

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Business-type Activities:

	Balance				Balance		Within
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2016</u>	<u>One Year</u>	
Compensated absences	\$ 88,576	\$ 2,693	\$ -	\$ -	\$ 91,269	\$	69,226
Landfill Closure/Postclosure	941,831	103,489	-	-	1,045,320	-	-
Net pension liability*	573,013	54,752	-	(273,166)	354,599	-	-
Other post-employment benefits**	148,985	24,882	-	-	173,867	-	-
Total	<u>\$ 1,752,405</u>	<u>\$ 185,816</u>	<u>\$ -</u>	<u>\$ (273,166)</u>	<u>\$ 1,665,055</u>	<u>\$</u>	<u>69,226</u>

\*See Note 11

\*\*See Note 8

**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.



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*Funding Status and funding Progress.* The funded status of the plan as of June 30, 2016, was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,416,762
Actuarial value of plan assets	\$ _____ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 2,416,762</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 6,210,993
UAAL as a percentage of covered payroll	38.9%

*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)	\$ 226,202
Interest on net OPEB obligation	-
Adjustment to ARC	_____ -
Annual OPEB cost (expense)	\$ 226,202
Contributions made	_____ -
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	<u>1,354,404</u>
Net OPEB obligation - end of year	<u>\$ 1,580,606</u>

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

Actuarial cost method	Actuarial Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	4.25%
Average salary increase (Consumer Price Index)	2.5%

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

<u>Year</u>	<u>% Increase</u>
2017	6.5%
2018	6.0%
2019	5.5%
2020	5.0%
2021 and after	4.5%

**NOTE 9. LANDFILL CLOSURE AND POST-CLOSURE 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 post-closure 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 post-closure care costs as an operating expense each period. The costs expensed during a period are based on landfill capacity used as of each balance sheet date. The \$1,045,320 reported as landfill closure and post-closure liability at June 30, 2016, represents the cumulative amount reported to date based on the use of 88.04% of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and post-closure care of \$141,979 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure in 2016. 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 post-closure care costs by April 9, 1996. For the fiscal year ended June 30, 2016, Lincoln County demonstrated its ability to handle closure and post-closure care costs by creating a trust fund. The trust fund cash balance is \$975,189.

**NOTE 10. INTERFUND RECEIVABLES AND PAYABLES**

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

<u>Purpose</u>	<u>Due to/from other funds:</u> <u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Clear negative cash balance	General- Major Governmental	Fair- Nonmajor Governmental	894
Clear negative cash balance	General- Major Governmental	Emergency Disaster- Nonmajor Governmental	107,863
Clear negative cash balance	General- Major Governmental	Senior Citizen Fund- Nonmajor Governmental	1,629
Clear negative cash balance	General- Major Governmental	Group Health Insurance- Major Governmental	2,722
Clear negative cash balance	General- Major Governmental	SAMHSA- Nonmajor Governmental	12,426
Clear negative cash balance	General- Major Governmental	Homeland Security- Nonmajor Governmental	5,769

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Clear negative cash balance	General- Major Governmental	Capital Projects- Nonmajor Governmental	15,540
Clear negative cash balance	General- Major Governmental	Crisis Intervention- Nonmajor Governmental	20,969
Clear negative cash balance	General- Major Governmental	Eureka Grant-Nonmajor Governmental	49,622
Clear negative cash balance	General- Major Governmental	Communication Mountain Tops- Nonmajor Governmental	<u>12,918</u>
			<u>\$ 230,352</u>

**Interfund Transfers**

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

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Indirect Allocation Plan	General- Major Governmental	Road- Major Governmental	495,199
Indirect Allocation Plan	General- Major Governmental	Public Safety/Law Enforcement-Major Governmental	485,855
Residual equity transfer	General- Major Governmental	Disaster/flood-Nonmajor Governmental	794
Administration fees	General- Major Governmental	Asbestos- Major Governmental	23,305
Indirect Allocation Plan	General- Major Governmental	Solid Waste-Major Proprietary	330,462
Health Care Cost Allocation	Road- Major Governmental	Group Health Insurance-Major Governmental	267,825
Health Care Cost Allocation	Noxious Weed- Non Major Governmental	Group Health Insurance Major Governmental	11,060
Health Care Cost Allocation	Noxious Weed Revolving- Non Major Governmental	Group Health Insurance Major Governmental	5,527
Health Care Cost Allocation	Fair-Nonmajor Governmental	Group Health Insurance Major Governmental	3,305
Health Care Cost Allocation	Airport- Non Major Governmental	Group Health Insurance Major Governmental	5,044
Health Care Cost Allocation	District Court- Non Major Governmental	Group Health Insurance Major Governmental	46,064

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Operating transfer	District Court- Non Major Governmental	PILT-Major Governmental*	57,609
Residual equity transfer	County Parks-Troy- Non Major Governmental	Kootenai Falls- Non Major Governmental	12,818
Health Care Cost Allocation	Library- Non Major Governmental	Group Health Insurance Major Governmental	47,365
Health Care Cost Allocation	Planning- Non Major Governmental	Group Health Insurance Major Governmental	11,692
Operating transfer	Public Health- Non Major Governmental	General-major Governmental	26,451
Health Care Cost Allocation	Public Health- Non Major Governmental	Group Health Insurance Major Governmental	1,221
Health Care Cost Allocation	Public Health Preparedness- Non Major Governmental	Group Health Insurance Major Governmental	2,947
Health Care Cost Allocation	Public Safety/Law Enforcement-Major Governmental	Group Health Insurance Major Governmental	460,335
Salary contribution	Public Safety/Law Enforcement-Major Governmental	Sheriff Charges- Non Major Governmental	11,195
Operating transfer	Public Safety/Law Enforcement-Major Governmental	PILT-Major Governmental*	200,000
Travel expense reimbursement	Public Safety/Law Enforcement-Major Governmental	Homeland Security- Non Major Governmental	1,938
Health Care Cost Allocation	Group Health-Major Governmental	Road-Major Governmental	261,849
Health Care Cost Allocation	Group Health-Major Governmental	Noxious Weed-Nonmajor Governmental	10,812
Health Care Cost Allocation	Group Health-Major Governmental	Noxious Weed Revolving- Non Major Governmental	5,405
Health Care Cost Allocation	Group Health-Major Governmental-Major Governmental	Fair- Non Major Governmental	3,232
Health Care Cost Allocation	Group Health-Major Governmental	Airport- Non Major Governmental	5,405
Health Care Cost Allocation	Group Health-Major Governmental	District Court- Non Major Governmental	45,417

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Health Care Cost Allocation	Group Health-Major Governmental	Library- Non Major Governmental	46,975
Health Care Cost Allocation	Group Health-Major Governmental	County Planning- Non Major Governmental	10,248
Health Care Cost Allocation	Group Health-Major Governmental	Public Health Preparedness- Non Major Governmental	5,386
Health Care Cost Allocation	Group Health-Major Governmental	Public Health- Non Major Governmental	450,164
Health Care Cost Allocation	Group Health-Major Governmental	Permissive- Non Major Governmental	888,622
Health Care Cost Allocation	Group Health-Major Governmental	Junk Vehicle-Nonmajor Governmental	1,347
Health Care Cost Allocation	Group Health-Major Governmental	Crime Victims- Non Major Governmental	9,724
Health Care Cost Allocation	Group Health-Major Governmental	SAMHSA- Non Major Governmental	15,159
Health Care Cost Allocation	Group Health-Major Governmental	Asbestos-Major Governmental	35,146
Health Care Cost Allocation	Group Health-Major Governmental	Solid Waste-Major Proprietary	136,085
Operating transfer	Lincoln Co Fire- Non Major Governmental	PILT-Major Governmental*	1,000
Health Care Cost Allocation	Junk Vehicle-Nonmajor Governmental	Group Health Insurance Major Governmental	1,378
Health Care Cost Allocation	Crime Victims Assistance- Non Major Governmental	Group Health Insurance - Major Governmental	9,946
Health Care Cost Allocation	SAMHSA-Nonmajor Governmental	Group Health Insurance - Major Governmental	15,507
Health Care Cost Allocation	EMPG Grant- Non Major Governmental	Group Health Insurance - Major Governmental	774
Operating transfer	ISTEA- Non Major Governmental	PILT-Major Governmental*	100,379
Health Care Cost Allocation	Asbestos-Major Governmental	Group Health Insurance - Major Governmental	3,678
Construction	Airport Construction- Non Major Governmental	PILT-Major Governmental*	40,100

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Health Care Cost Allocation	Solid Waste- Major Proprietary	Group Health Insurance Major Governmental	140,547
			\$ 4,752,296

\*The PILT fund is combined with the General fund for financial statement reporting purposes according to GASB 54.

**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.



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Members hired on or after July 1, 2011:

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

**Guaranteed Annual Benefit Adjustment (GABA)**

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

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

SRS

**Eligibility for benefit**

20 years of membership service, regardless of age.

**Other Retirement Option**

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

**Vesting**

5 years of membership service

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

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

**Compensation Cap**

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



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**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 benefit.

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

**Overview of Contributions**

**PERS**

1. Rates are specified by state law for periodic employer and employee contributions.
  - a. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
  - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
  - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
  - a. Local government entities are required to contribution 8.17% of members' compensation.
  - b. School district employers contributed 7.90% of members' compensation.
  - c. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
  - d. Effective July 1, 2013, the additional employer contributions for DCRP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability. The portion of the employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

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- e. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
- 4. Non Employer Contributions
  - a. Special Funding
    - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
    - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
  - b. Not Special Funding
    - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

**SRS**

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

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

**Stand-Alone Statements**

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

**Net Pension Liability**

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

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The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2016 and June 30, 2015 (reporting dates).

	<u>PERS NPL as of 6/30/15</u>	<u>PERS NPL as of 6/30/16</u>	<u>Percent of Collective NPL</u>	<u>SRS NPL as of 6/30/15</u>	<u>SRS NPL as of 6/30/16</u>	<u>Percent of Collective NPL</u>	<u>Total NPL as of 6/30/15</u>	<u>Total NPL as of 6/30/16</u>	<u>Percent of Collective NPL</u>
Employer Proportionate Share	\$ 4,701,584	\$ 4,861,437	0.347774%	\$ 893,366	\$ 1,888,483	1.959030%	\$ 5,594,950	\$ 6,749,920	2.3068%
State of Montana Proportionate Share associated with Employer	57,413	59,715	0.004272%	-	-	0.0000%	57,413	59,715	0.0043%
Total	<u>\$ 4,758,997</u>	<u>\$ 4,921,152</u>	<u>0.352046%</u>	<u>\$ 893,366</u>	<u>\$ 1,888,483</u>	<u>1.959030%</u>	<u>\$ 5,652,363</u>	<u>\$ 6,809,635</u>	<u>2.3111%</u>

At June 30, 2016, the employer recorded a liability of \$6,749,920 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS, SRS, during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS and SRS participating employers. At June 30, 2016, the employer's proportion was 2.3068 percent.

*Changes in actuarial assumptions and methods:*

**PERS**

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

**SRS**

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

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

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

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

	PERS	SRS	Total
Employer Proportionate Share	\$ 195,606	\$ 108,000	\$ 303,606
State of Montana Proportionate Share associated with the Employer	3,711	-	3,711
Total	\$ 199,317	\$ 108,000	\$ 307,317

At June 30, 2016, the employer recognized a Pension Expense of \$307,317 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$3,711 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

**Recognition of Beginning Deferred Outflow**

At June 30, 2016, the employer recognized a beginning deferred outflow of resources for the employers FY 2015 contributions of \$479,708.

**Deferred Inflows and Outflows**

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

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	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	SRS Deferred Outflows of Resources	SRS Deferred Inflows of Resources	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 29,412	\$ -	\$ 3,183	\$ -	\$ 32,595
Changes in actuarial assumptions	-	-	702,936	693,249	702,936	693,249
Difference between projected and actual investment earnings	-	411,572	-	129,339	-	540,911
Difference between actual and expected contributions	-	-	-	-	-	-
Changes in proportion	-	362,830	-	160,128	-	522,958
*Contributions paid subsequent to the measurement date - FY 2016 Contributions	337,241	-	146,916	-	484,157	-
Total	\$ <u>337,241</u>	\$ <u>803,814</u>	\$ <u>849,852</u>	\$ <u>985,899</u>	\$ <u>1,187,093</u>	\$ <u>1,789,713</u>

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

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

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**Deferred Inflows and Outflows**

PERS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$ -	\$ 304,786	\$ (304,786)
2018	\$ -	\$ 304,786	\$ (304,786)
2019	\$ -	\$ 301,285	\$ (301,285)
2020	\$ -	\$ (107,042)	\$ 107,042
2021	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

SRS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$ -	\$ 85,517	\$ (85,517)
2018	\$ -	\$ 85,517	\$ (85,517)
2019	\$ -	\$ 85,517	\$ (85,517)
2020	\$ -	\$ (4,314)	\$ 4,314
2021	\$ -	\$ 30,725	\$ (30,725)
Thereafter	\$ -	\$ -	\$ -

**Actuarial Assumptions**

**PERS and SRS**

The Total Pension Liability(TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth\* 4.00%
- \*includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Admin Expense as a % of Payroll .27%.
- Postretirement Benefit Increases

**Guaranteed Annual Benefit Adjustment(GABA)**

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Member hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;

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- 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
- 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

**PERS**

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

**SRS**

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

**Discount Rate**

**PERS and SRS**

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

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

**Target Allocations**

**PERS and SRS**

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

LINCOLN COUNTY, MONTANA  
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The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015, is summarized in the above table.

**Sensitivity Analysis**

	1.0% Decrease	Current	1.0% Increase
	<u>-6.75%</u>	<u>Discount Rate</u>	<u>-8.75%</u>
PERS	\$ 7,495,284	\$ 4,861,437	\$ 2,637,214
SRS	\$ 3,032,777	\$ 1,888,483	\$ 950,439

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

**Summary of Significant Accounting Policies**

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



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

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

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

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

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

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

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

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

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$15,547,810	Road repairs and maintenance
Public Safety / Law Enforcement	506,938	Law enforcement services
Asbestos Research Program	29,386	Asbestos Mitigation
<u>All Other Aggregate:</u>		
	8,112	Animal Control
	58,738	Culture and recreation services and supplies
	427,950	Economic Development
	278,427	Fire-wise program services and supplies
	175,915	General government administration and services
	469,062	Law Enforcement services
	69,544	Miscellaneous
	56,700	Parks and recreation services
	65,619	Public health services and supplies
	26,418	Social and economic services and travel
	62,972	Weed control service and supplies
	21,231	Airport construction
	93,317	Infrastructure
	40,359	Repairs and maintenance services
	<u>\$ 17,938,498</u>	

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

**Committed Fund Balance**

	<u>Amount</u>	<u>Purpose of Commitment</u>
<u>All Other Aggregate:</u>		
	\$ <u>120,296</u>	Construction and asset purchases

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

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
Emergency Disaster	\$ 107,820	Due to other funds larger than cash balance	An emergency 2 mills was instituted and transfer from General fund if needed.
Senior Citizens	\$ 129	Due to other funds	Transfer from General fund
Group Health Insurance	\$ 2,772	Due to other funds	Transfer from General fund
Homeland Security	\$ 6,846	Due to other funds and accrued payroll	Transfer from General fund
Eureka Grant	\$ <u>49,622</u>	Due to other funds	Transfer from General fund
	\$ <u>167,189</u>		

**NOTE 14. RESTATEMENTS**

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Solid Waste	\$273,166	Change in GASB 68 allocation
Solid Waste	(1,467)	Depreciation adjustment
Public Safety/Law Enforcement	(20,498)	Prior year due from other governments
County Planning Board	18,719	Prior year due from other governments
General	127,000	To book prior year loan to the Port Authority
Governmental Activities	(59,027)	Capital asset adjustment
Governmental Activities	<u>(273,166)</u>	Change is GASB 68 allocation
	<u>\$ 64,727</u>	

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

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

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

**NOTE 16. RISK MANAGEMENT**

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

Insurance Policies:

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

Insurance Pools:

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

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

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.

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

**NOTE 17. PENDING LITIGATION**

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

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

**REQUIRED SUPPLEMENTAL  
INFORMATION**

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

**General**

	<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>See Note A</u>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 242,479	\$ 242,479	\$ 245,781	\$ 3,302
Licenses and permits	19,000	19,000	25,400	6,400
Intergovernmental	639,160	639,160	667,249	28,089
Charges for services	179,189	179,189	224,177	44,988
Fines and forfeitures	88,640	88,640	102,756	14,116
Miscellaneous	37,930	37,930	78,553	40,623
Investment earnings	20,000	20,000	53,457	33,457
Amounts available for appropriation	<u>\$ 1,226,398</u>	<u>\$ 1,226,398</u>	<u>\$ 1,397,373</u>	<u>\$ 170,975</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 2,809,453	\$ 2,809,453	\$ 2,695,112	\$ 114,341
Public safety	234,512	234,512	130,273	104,239
Public works	31,000	31,000	28,859	2,141
Public health	318,427	318,427	296,024	22,403
Social and economic services	2,500	2,500	2,255	245
Total charges to appropriations	<u>\$ 3,395,892</u>	<u>\$ 3,395,892</u>	<u>\$ 3,152,523</u>	<u>\$ 243,369</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 1,502,703	\$ 1,502,703	\$ 1,335,615	\$ (167,088)
Transfers out	-	-	(26,451)	(26,451)
Total other financing sources (uses)	<u>\$ 1,502,703</u>	<u>\$ 1,502,703</u>	<u>\$ 1,309,164</u>	<u>\$ (193,539)</u>
Net change in fund balance			<u>\$ (445,986)</u>	
Fund balance - beginning of the year			<u>\$ 1,437,063</u>	
<b>Fund balance - end of the year</b>			<u>\$ 991,077</u>	

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

		<b>Road</b>			
		<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>VARIANCE WITH FINAL BUDGET</b>
		<b>ORIGINAL</b>	<b>FINAL</b>		
<b>RESOURCES (INFLOWS):</b>					
Taxes and assessments	\$	600,000	\$ 600,000	\$ 722,960	\$ 122,960
Intergovernmental		2,745,251	2,745,251	2,709,262	(35,989)
Charges for services		305,000	305,000	111,758	(193,242)
Miscellaneous		7,523	7,523	25,560	18,037
Investment earnings		140,000	140,000	208,993	68,993
Amounts available for appropriation	\$	3,797,774	\$ 3,797,774	\$ 3,778,533	\$ (19,241)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>					
Public works	\$	3,220,018	\$ 3,220,018	\$ 2,895,665	324,353
Miscellaneous		731,935	731,935	-	731,935
Capital outlay		195,000	195,000	-	195,000
Total charges to appropriations	\$	4,146,953	\$ 4,146,953	\$ 2,898,526	\$ 1,248,427
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$	244,398	\$ 244,398	\$ 267,825	\$ 23,427
Transfers out		(261,849)	(261,849)	(757,048)	(495,199)
Total other financing sources (uses)	\$	(17,451)	\$ (17,451)	\$ (489,223)	\$ (471,772)
Net change in fund balance				\$ 390,784	
Fund balance - beginning of the year				\$ 15,157,026	
<b>Fund balance - end of the year</b>				<b>\$ 15,547,810</b>	

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

<b>Public Safety/Law Enforcement</b>				
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 2,255,655	\$ 2,255,655	\$ 2,255,760	\$ 105
Intergovernmental	316,026	316,026	352,378	36,352
Charges for services	227,700	227,700	294,564	66,864
Miscellaneous	5,000	5,000	7,706	2,706
Investment earnings	-	-	24	24
Amounts available for appropriation	\$ 2,804,381	\$ 2,804,381	\$ 2,910,432	\$ 106,051
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public safety	\$ 2,637,281	\$ 2,637,281	\$ 2,579,682	\$ 57,599
Miscellaneous	469,966	469,966	-	469,966
Capital outlay	85,000	85,000	71,111	13,889
Total charges to appropriations	\$ 3,192,247	\$ 3,192,247	\$ 2,650,793	\$ 541,454
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 635,615	\$ 635,615	\$ 673,468	\$ 37,853
Transfers out	(450,164)	(450,164)	(936,019)	(485,855)
Total other financing sources (uses)	\$ 185,451	\$ 185,451	\$ (262,551)	\$ (448,002)
Net change in fund balance			\$ (2,912)	
Fund balance - beginning of the year			\$ 530,348	
Restatements			(20,498)	
Fund balance - beginning of the year - restated			\$ 509,850	
<b>Fund balance - end of the year</b>			<b>\$ 506,938</b>	



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

<b>Group Health Insurance</b>				
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 19	\$ 19	\$ 19	\$ -
Amounts available for appropriation	\$ 19	\$ 19	\$ 19	\$ -
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 453,486	\$ 453,486	\$ 417,601	\$ 35,885
Public safety	486,246	486,246	483,609	2,637
Public works	420,901	420,901	412,322	8,579
Public health	80,396	80,396	61,717	18,679
Culture and recreation	50,207	50,207	54,947	(4,740)
Total charges to appropriations	\$ 1,491,236	\$ 1,491,236	\$ 1,430,196	\$ 61,040
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 1,931,303	\$ 1,931,303	\$ 1,930,976	\$ (327)
Transfers out	(970,374)	(970,374)	(1,034,215)	(63,841)
Total other financing sources (uses)	\$ 960,929	\$ 960,929	\$ 896,761	\$ (64,168)
Net change in fund balance			\$ (533,416)	
Fund balance - beginning of the year			\$ 530,644	
<b>Fund balance - end of the year</b>			\$ (2,772)	

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

**Asbestos Resource Program**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</b>		<b>VARIANCE WITH FINAL BUDGET</b>
	<b><u>ORIGINAL</u></b>	<b><u>FINAL</u></b>			
<b>RESOURCES (INFLOWS):</b>					
Intergovernmental	\$ 428,345	\$ 428,345	\$ 324,787		\$ (103,558)
Amounts available for appropriation	\$ 428,345	\$ 428,345	\$ 324,824		\$ (103,521)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>					
Public health	\$ 361,254	\$ 361,254	\$ 270,014		\$ 91,240
Capital outlay	63,640	63,640	-		63,640
Total charges to appropriations	\$ 424,894	\$ 424,894	\$ 270,014		\$ 154,880
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ 32,804	\$ 32,804	\$ 3,678		\$ (29,126)
Transfers out	(58,451)	(58,451)	(58,451)		-
Total other financing sources (uses)	\$ (25,647)	\$ (25,647)	\$ (54,773)		\$ (29,126)
Net change in fund balance			\$ 37		
Fund balance - beginning of the year			\$ 29,349		
<b>Fund balance - end of the year</b>			<b>\$ 29,386</b>		

**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>Group Health Insurance</u>	<u>Asbestos Resource Program</u>
<b>Sources/Inflows of resources</b>					
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,397,373	\$ 3,778,533	\$ 2,910,432	\$ 19	\$ 324,824
Combined funds (GASBS 54) revenues	<u>694,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,091,868</u>	<u>\$ 3,778,533</u>	<u>\$ 2,910,432</u>	<u>\$ 19</u>	<u>\$ 324,824</u>
<b>Uses/Outflows of resources</b>					
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 3,152,523	\$ 2,898,526	\$ 2,650,793	\$ 1,430,196	\$ 270,014
Combined funds (GASBS 54) expenditures	<u>207,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,359,839</u>	<u>\$ 2,898,526</u>	<u>\$ 2,650,793</u>	<u>\$ 1,430,196</u>	<u>\$ 270,014</u>

**Lincoln County, Montana**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2016**

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, 2016**

	PERS <u>2016</u>	PERS <u>2015</u>	SRS <u>2016</u>	SRS <u>2015</u>
Employer's proportion of the net pension liability	0.347774%	0.377331%	1.959030%	2.146636%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 4,861,437	\$ 4,701,584	\$ 1,888,483	\$ 893,366
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 59,715	\$ 57,413	\$ -	\$ -
Total	\$ 4,921,152	\$ 4,758,997	\$ 1,888,483	\$ 893,366
Employer's covered-employee payroll	\$ 4,058,594	\$ 4,271,379	\$ 1,333,032	\$ 1,388,286
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	119.781%	110.072%	141.668%	64.350%
Plan fiduciary net position as a percentage of the total pension liability	78.4%	79.9%	75.4%	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, 2016**

	PERS <u>2016</u>	PERS <u>2015</u>	SRS <u>2016</u>	SRS <u>2015</u>
Contractually required contributions	\$ 337,241	\$ 340,584	\$ 146,916	\$ 135,221
Contributions in relation to the contractually required contributions	\$ 337,241	\$ 340,584	\$ 146,916	\$ 135,221
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 3,948,206	\$ 4,058,594	\$ 1,417,485	\$ 133,032
Contributions as a percentage of covered-employee payroll	8.542%	8.392%	10.365%	10.144%

*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, 2016**

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

**Changes of Benefit Terms**

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

**2013 Legislative Changes:**

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

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

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

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

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

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

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

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

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

## 2015 Legislative Changes:

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

Second Retirement Benefit - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

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

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

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

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

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

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

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

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

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

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase

previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

## **Changes in Actuarial Assumptions and Methods**

Method and assumptions used in calculations of actuarially determined contributions



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

<b>Admin Expense as % of Payroll</b>	<b>0.27%</b>
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The following changes were adopted in 2013 based on the 2013 Economic Experience study:

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

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

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

### **Sheriffs' Retirement System of Montana (SRS)**

#### **Changes of Benefit Terms**

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

#### **2013 Legislative Changes:**

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

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

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

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

**2015 Legislative Changes:** none

#### **Changes in Actuarial Assumptions and Methods**

Method and assumptions used in calculations of actuarially determined contributions

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

<b>SRS Discount rate - Used to measure the TPL</b>	<b>6.86 percent, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%.</b>
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The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

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

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

<b>SRS Discount rate - Used to measure the TPL</b>	<b>6.68 percent, which is a blend of the assumed long-term expected rate of return of 7.82% on System's investments and a municipal bond index rate of 4.27%.</b>
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The following changes were adopted in 2013 based on the 2013 Economic Experience study:

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

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

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

# **SINGLE AUDIT SECTION**

**Lincoln County, Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

<u>Cluster Title/Federal Grantor/Pass-through Grantor /Program</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor Number</u>	<u>Federal Expenditures</u>
<b><u>Other Programs</u></b>			
<b><u>United States 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	\$ 7,607
Emergency Management Performance Grants	97.042	EMW-2015-EP-00004	98,206
Homeland Security Grant Program	97.067	EMW-2015-SS-00005-S01	119,560
<b>Total United States Department of Homeland Security</b>			<b>\$ 225,373</b>
<b><u>United States Department of Justice</u></b>			
<i>Passed through Montana Board of Crime Control</i>			
Crime Victim Assistance	16.575	15-V01-91797	\$ 45,772
<b>Total United States Department of Justice</b>			<b>\$ 45,772</b>
<b><u>United States Department of Transportation</u></b>			
<i>Passed through Montana Department of Transportation</i>			
Highway Planning and Construction	20.205	N/A	\$ 105,107
<i>Direct</i>			
Airport Improvement Program	20.106	N/A	327,910
<b>Total United States Department of Transportation</b>			<b>\$ 433,017</b>
<b><u>United States Department of Education</u></b>			
<i>Passed through Montana Department of Health and Human Services</i>			
Preschool Development Grants	84.419	1602PROS0321	69
<b>Total United States Department of Education</b>			<b>\$ 69</b>
<b><u>United States Environmental Protection Agency</u></b>			
<i>Passed through the Montana Department of Environmental Quality</i>			
Air Pollution Control Program Support	66.001	516005	\$ 31,757
<i>Direct</i>			
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	N/A	324,787
<b>Total United States Environmental Protection Agency</b>			<b>\$ 356,544</b>
<b><u>Department of Health and Human Services</u></b>			
<i>Direct</i>			
Drug Free Communities Support Program Grants	93.276	5H79SP020426-04	109,914
<i>Passed through Montana Department of Public Health and Human Services</i>			
Public Health Emergency Preparedness	93.069	15-07-6-11-030-0	\$ 19,511
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	16-07-6-11-030-0	21,446
Immunization Cooperative Agreements	93.268	16-07-4-31-125-0	9,903
Maternal and Child Health Services Block Grant to the States	93.994	15-07-5-01-027-0	3,293
Maternal and Child Health Services Block Grant to the States	93.994	16-07-5-01-027-0	13,361
<b>Total Department of Health and Human Services</b>			<b>\$ 177,428</b>
<b><u>United States Department of Agriculture</u></b>			
<i>Passed through Western Montana Area Agency on Aging Region</i>			
Commodity Supplemental Food Program	10.565	15-027-210010-30	11,695
<i>Passed through Montana Department of Natural Resources and Conservation</i>			
Cooperative Forestry Assistance	10.664	VFA-16-270	8,098
<i>Passed through Montana Department of Administration</i>			
Schools and Roads-Grants to States	10.665	N/A	2,487,117
<i>Passed through Montana Department of Administration</i>			
Schools and Roads-Grants to States	10.665	N/A	101,112
<b>Total United States Department of Agriculture</b>			<b>\$ 2,608,022</b>
<b>Total Other Programs</b>			<b>\$ 3,846,225</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 3,846,225</b>

LINCOLN COUNTY, MONTANA

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

Fiscal Year Ended June 30, 2016

*Basis of Presentation*

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

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

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

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

Board of County Commissioners  
Lincoln County  
Libby, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Montana, as of and for the year ended June 30, 2016, 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 April 25, 2017.

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

### **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.

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

April 25, 2017

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

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

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

Board of County Commissioners  
Lincoln County  
Libby, Montana

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

We have audited Lincoln County, Montana's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Lincoln County's major federal programs for the year ended June 30, 2016. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of 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, 2016.



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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be significant deficiencies.

Lincoln County, Montana's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Lincoln County, Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

April 25, 2017

LINCOLN COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2016

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

**Financial Statements**

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

**Federal Awards**

Internal control over major federal programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified	Yes
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	Yes

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads –Grants to States
20.106	Airport Improvement Program

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**Section II – Financial Statement Findings**

There were no Financial Statement findings or questioned costs reported.

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

**2016-002      School and Roads- Grants to States**

**CFDA Title: Schools and Roads – Grants to States**

**CFDA Number: 10.665**

**Federal Agency: United States Department of Agriculture**

**Pass-through Entity: Montana Department of Administration**

**Condition:**

The County did not allocate the County-Wide School portion of the Secure Rural Schools Title I payment between the funds properly.

**Context:**

During the audit of the Secure Rural Schools federal program, a redistribution of the County-wide school allocation between the Transportation, High School Retirement, Elementary retirement, Elementary General, and High School General Funds was completed based on the mill levies within each of those school funds. We noted that the County did not distribute the amount to the funds correctly to these Countywide School Funds.

**Criteria:**

Montana Code Annotated (MCA) 17-3-213(2) governs the allocation of the forest reserve distribution to the school funds based on the mills levied. A proper system of internal controls would ensure that the allocation is in compliance with the MCA.

**Effect:**

For the County-wide school funds, the transportation fund was over distributed \$662, the High School Retirement Fund was under distributed \$15,346, the Elementary Retirement was over distributed \$92,226, the Elementary General (Equalization) was under distributed \$47,270, and the High School General (Equalization) was under distributed \$31,514.

**Cause:**

There was an error when calculating the distribution and the wrong mill levy was used.

**Recommendation:**

We recommend the County uses the correct mill levy when distributing to the school funds.

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Lincoln County  
Libby, Montana

The prior audit report contained two (2) recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Unallowable Transfer	Implemented
PILT Loan Receivable	Implemented

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

April 25, 2017



*Lincoln County Treasurer*  
*Lincoln County Superintendent of Schools*

*Nancy Trotter Higgins*

[lctreasurer@libby.org](mailto:lctreasurer@libby.org) or [lcupt@libby.org](mailto:lcupt@libby.org)

*512 California Avenue*  
*Libby, MT 59923*  
*406-283-2400, 2401,*  
*2402, 2404, 2406*

Contact Person: Nancy Trotter Higgins

The distribution for the Forest Reserves will be corrected. Since the distribution is done in the fiscal year following receipt of the funds, the correction will be done in the same year as the mistake occurred.

Expected Completion Date of Corrective Action Plan:

May 15, 2017

**CORRECTIVE ACTION PLAN**

FINDING 2016-001: School and Roads: Grants to States. Allocation of the County-Wide School Portion of Title I.

Response:

An error was made when the calculation for the distribution of Forest Reserve funds was done to the five county-wide funds. The County Superintendent will make an effort to double check the figures for the distribution of the Forest funds prior to having the distribution done by the treasurer's staff.

**STATUS OF PRIOR AUDIT FINDINGS**

FINDING 2015-001: Unallowable transfer

Response: Implemented