

CUSTER COUNTY  
MILES CITY, MONTANA

FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CUSTER COUNTY

ORGANIZATION

June 30, 2015

BOARD OF COUNTY COMMISSIONERS

Kevin Krausz	Board Chairman
Keith Holmlund	Commissioner
Jason Strouf	Commissioner

ELECTED OFFICIALS

Linda Corbett	County Clerk and Recorder
Tara Moorehead	County Treasurer
Tony Harbaugh	County Sheriff/Coroner
Wyatt Glade	County Attorney
Doug Ellingson	County Superintendent
Hazel Parker	Clerk of District Court
Donald Neese	Justice of the Peace
Mary Strouf	Public Administrator



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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners  
Custer County  
Miles City, Montana

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer County, Montana (the government) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the government'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.

### Basis for Qualified Opinions

Because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities, we were unable to form an opinion regarding the amounts at which inventory was recorded in the governmental activities and the aggregate remaining fund information.

### Qualified Opinions

In our opinion, except for the possible effects of the matter discussed under the heading "Basis for Qualified Opinions", the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the aggregate remaining fund information of the government, as of June 30, 2015, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



## INDEPENDENT AUDITOR'S REPORT (Continued)

### Unmodified Opinions

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

### Change in Accounting Principle

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension plan information and the schedule of funding progress—other post employment benefits identified in the table of contents 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 government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic 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 November 6, 2015, on our consideration of the government'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 the government's internal control over financial reporting and compliance.

*O'Hess & Associates, PC*

Billings, Montana  
November 6, 2015



CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of Custer County's financial performance provides an overview of the government's financial activities for the year ended June 30, 2015. Please read the information here in conjunction with our financial statements and footnotes.

- Net position at the close of fiscal year June 30, 2015 was \$4,795,557. Of this amount, \$2,282,926 is restricted and \$5,250,097 was our net investment in capital assets.
- The County's total net position decreased by \$551,198 as a result of this year's operations.
- The general fund's original budgeted amounts were increased for various unanticipated revenues and expenditures. Actual revenues were more than budgeted revenues by \$600, while actual expenditures were less than budgeted appropriations by \$229,921.

## USING THIS AUDIT REPORT

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

**Government-wide financial statements** One of the most important questions asked about the government's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report net position and changes in it. You can think of net position—the difference between assets and deferred outflows and liabilities and deferred inflows—as one way to measure the County's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the property tax base and the condition of the capital assets, to assess the overall health.

In the statement of net position and the statement of activities, our government is divided into two kinds of activities:

**Governmental activities**—Basic services are reported here, including general government, public safety, public works and culture and recreation. Property taxes and state and federal grants finance most of these activities.

**Business-type activities**—Fees are charged to customers to help cover all or most of the cost of the services provided. Solid waste services are reported here.

**Fund financial statements** The fund financial statements provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law and/or by bond covenants. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

### Governmental funds:

Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliations.



CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

Proprietary funds:

Fees are charged to customers for the services provided—whether to outside customers or to other units of the government—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other programs and activities—such as the data processing fund.

Fiduciary funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the same basis of accounting as proprietary funds. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator, of a government's financial position. Net position at the close of fiscal year June 30, 2015 was \$4,795,557. Of this amount, \$2,282,926 is restricted and \$5,250,097 was our net investment in capital assets. Business-type activities restricted net position represents resources that are subject to external restrictions on how they may be used. The \$643,946 is related to the landfill closure/post closure care trust. The money is set aside to satisfy the financial assurance requirements established by the EPA. The remaining restricted net position for the governmental activities is also subject to external resources on how they are used.

The County's total net position decreased \$551,198, as a result of this year's operations. Net position for our governmental activities decreased \$412,098, which represents eight percent. Net position for the business-type activities decreased \$139,100 which can be attributable to increased operating costs.

The following net position and changes in net position schedules provide summaries of the county's governmental and business-type activities.

NET POSITION:	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 5,087,938	\$ 10,742,814	\$ 3,768,570	\$ 3,742,635	\$ 8,856,508	\$ 14,485,449
Capital assets	10,968,525	5,551,608	881,319	959,215	11,849,844	6,510,823
Total assets	16,056,463	16,294,422	4,649,889	4,701,850	20,706,352	20,996,272
Deferred outflows	205,844	-	-	-	205,844	-
Total deferred outflows	205,844	-	-	-	205,844	-
Other liabilities	581,350	506,478	50,842	50,659	632,192	557,137
Long-term liabilities	13,701,359	10,883,863	732,480	1,000,660	14,433,839	11,884,523
Total liabilities	14,282,709	11,390,341	783,322	1,051,319	15,066,031	12,441,660
Deferred inflows	1,050,608	-	-	-	1,050,608	-
Total deferred inflows	1,050,608	-	-	-	1,050,608	-
Net position:						
Net Investment in capital assets	4,368,778	4,112,384	881,319	959,215	5,250,097	5,071,599
Restricted	1,638,980	1,874,585	643,946	272,496	2,282,926	2,147,081
Unrestricted	(5,078,768)	(1,082,888)	2,341,302	2,418,820	(2,737,466)	1,335,932
	<u>\$ 928,990</u>	<u>\$ 4,904,081</u>	<u>\$ 3,866,567</u>	<u>\$ 3,650,531</u>	<u>\$ 4,795,557</u>	<u>\$ 8,554,612</u>



CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET POSITION:

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 853,250	\$ 971,989	\$ 727,595	\$ 733,216	\$ 1,580,845	\$ 1,705,205
Operating grants and contributions	2,442,583	2,153,367	-	-	2,442,583	2,153,367
Capital grants and contributions	-	176,000	-	-	-	176,000
General revenues:						
Taxes	4,238,836	3,769,194	-	-	4,238,836	3,769,194
Licenses and permits	4,910	3,420	-	-	4,910	3,420
Intergovernmental	1,122,997	1,165,595	-	-	1,122,997	1,165,595
Interest	35,432	30,747	19,684	16,311	55,116	47,058
Miscellaneous	98,385	62,739	-	-	98,385	62,739
Gain on disposal of capital assets	210	-	-	-	210	-
Total revenues	8,796,603	8,333,051	747,279	749,527	9,543,882	9,082,578
Expenses:						
General government	2,175,408	1,962,155	-	-	2,175,408	1,962,155
Public safety	1,978,480	1,987,012	-	-	1,978,480	1,987,012
Public works	3,144,575	3,188,402	-	-	3,144,575	3,188,402
Public health	730,934	1,012,114	-	-	730,934	1,012,114
Social and economic services	313,258	302,921	-	-	313,258	302,921
Culture and recreation	413,696	446,737	-	-	413,696	446,737
Housing and community dev.	24,873	25,239	-	-	24,873	25,239
Other current charges	142,581	14,548	-	-	142,581	14,548
Solid Waste	-	-	878,379	666,648	878,379	666,648
Interest on long-term debt	292,896	6,090	-	-	292,896	6,090
Total expenses	9,216,701	8,945,218	878,379	666,648	10,095,080	9,611,866
Change in net position before transfers	(420,098)	(612,167)	(131,100)	82,879	(551,198)	(529,288)
Transfers	8,000	8,000	(8,000)	(8,000)	-	-
Change in net position	(412,098)	(604,167)	(139,100)	74,879	(551,198)	(529,288)
Net position, beginning	4,904,081	7,180,684	3,650,531	3,575,652	8,554,612	10,756,336
Prior period adjustments	(3,562,993)	(1,672,436)	355,136	-	(3,207,857)	(1,672,436)
Net position, ending	\$ 928,990	\$ 4,904,081	\$ 3,866,567	\$ 3,650,531	\$ 4,795,557	\$ 8,554,612

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. The general fund is always reported as a major fund. Governments may choose to report other governmental and enterprise funds as major funds, even though they do not meet this test. To be reported as a major fund, a fund must meet each of the two following criteria:

Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds). The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

The general fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. At the end of the fiscal year, fund balance was unassigned (\$477,846). Overall fund balance decreased \$14,520.

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services. The public safety fund fund balance decreased \$79,141. Available fund balance was used to fund current year operations.

CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

The East Valley Waterline fund accounts for resources accumulated and payments made for the East Valley waterline extension. At the end of the fiscal year, fund balance for the fund was (\$8,029).

The PILT (payments in lieu of taxes) fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Expenditures made from the fund are at the discretion of the Board of County Commissioners. During fiscal year 2015, resources from the PILT fund were distributed to other funds to fund those other fund's budgets. Overall fund balance increased \$123,082. The increase occurred because dollars were not transferred to the public safety fund.

The Jail Construction fund accounts for the bond proceeds and payments made for the construction of a new detention center.

Net position for the solid waste fund decreased \$139,100 which can be attributable to increased operating costs.

General Fund Budgetary Highlights:

The general fund's original budgeted amounts were increased for various unanticipated revenues and expenditures. Actual revenues were more than budgeted revenues by \$600, while actual expenditures were less than budgeted appropriations by \$229,921.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Custer County's net investment in capital assets, as of June 30, 2015, was \$5,250,097. This investment in capital assets includes property, buildings, improvements, machinery and equipment and infrastructure (e.g., roads, bridges, sidewalks and similar items). The County has elected not to report major infrastructure assets retroactively. For more information related to capital assets, see the notes to the basic financial statements.

Compensated absences are a liability of the County for unpaid vacation leave, sick leave, and compensatory time. The liability generally increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. The amount of this liability at June 30, 2015 was \$323,352. Other debt outstanding consists of the net pension liability, other post employment benefits, GO bonds, SID bonds and notes payable, all with various maturities. For more information related to long-term debt, see the notes to the basic financial statements.

**THE GOVERNMENT'S FUTURE**

The following factors were considered in preparing the County Budget for FY2015-16.

Custer County Employees had not had a raise in wages for two years, so wages were a priority again for this year's budget.

- The uncertainty of PILT money is a constant concern.
- Lack of funds and other road and bridge problems continue to plague the Road Dept.
- Progress continues on Fairground's buildings and grounds repair. A new Livestock Pavilion is being considered, funded by outside donations and grants.
- Fuel costs have dropped, but still continue to be a concern for road, fairgrounds, sheriff and maintenance departments.
- The Tusler Bridge crosses the Yellowstone River east of Miles City. This was a Milwaukee RR bridge, and was given to Custer County for vehicle use between Miles City and Kinsey. There was an accident on this bridge, and as a result the commissioners closed the bridge until minor repairs could be made. The bridge is now open, but is in need of major repairs estimated to cost over \$100,000.
- There are issues with the jury room that an architect is checking into.
- With the Detention Center expansion, parking spaces will be minimized. Future land purchase may be necessary.
- A more efficient boiler and energy efficient windows have been recommended by heating experts. High efficiency boilers were installed in another county building that have not been used. They may be able to be transferred to the courthouse.
- Noise cancelling windows have been recommended for the courtroom, and will be purchased and installed in Fall of 2015.
- A planning committee made up of community leaders has been formed to advise the commissioners and planning board of local issues, and help solve area problems.
- Negative impacts from job losses due to less oil production are happening in our area. The commissioners are working closely with our economic development and planning committee on how best to handle the situation.



CUSTER COUNTY  
STATEMENT OF NET POSITION  
June 30, 2015

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents	\$ 1,212,704	\$ 666,478	\$ 1,879,182
Investments	3,097,035	1,702,070	4,799,105
Receivables:			
Taxes and assessments	145,795	14,756	160,551
Governments	451,195	-	451,195
Solid waste	-	8,840	8,840
Cemetery	13,947	-	13,947
Other	12,151	-	12,151
Inventories	128,211	-	128,211
Prepays	26,900	-	26,900
Restricted assets:			
Cash and equivalents	-	17,630	17,630
Investments	-	1,358,796	1,358,796
Capital assets:			
Land and construction in progress	6,566,965	89,338	6,656,303
Capital assets, net of accumulated depreciation	4,401,560	791,981	5,193,541
Total assets	16,056,463	4,649,889	20,706,352
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension plans	205,844	-	205,844
Total deferred outflows of resources	205,844	-	205,844
<b>LIABILITIES</b>			
Accounts payable-vendors	563,044	50,842	613,886
Due to other governments	18,306	-	18,306
Long-term liabilities:			
Due within one year:			
Notes, bonds and capital leases	375,712	-	375,712
Compensated absences	32,335	-	32,335
Due in more than one year:			
Notes, bonds and capital leases	7,727,744	-	7,727,744
Compensated absences	291,017	-	291,017
Landfill closure/postclosure care payable	-	732,480	732,480
Net pension liability	2,639,159	-	2,639,159
Other post employment benefits	2,635,392	-	2,635,392
Total liabilities	14,282,709	783,322	15,066,031
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension plans	1,050,608	-	1,050,608
Total deferred inflows of resources	1,050,608	-	1,050,608
<b>NET POSITION</b>			
Net investment in capital assets	4,368,778	881,319	5,250,097
Restricted for:			
Landfill closure/postclosure care	-	643,946	643,946
General government	226,268	-	226,268
Public safety	341,848	-	341,848
Public works	586,370	-	586,370
Public health	81,127	-	81,127
Social and economic	98,370	-	98,370
Culture and recreation	45,021	-	45,021
Housing and community development	2,801	-	2,801
Capital projects	226,954	-	226,954
Debt service	30,221	-	30,221
Unrestricted	(5,078,768)	2,341,302	(2,737,466)
Total net position	\$ 928,990	\$ 3,866,567	\$ 4,795,557

See notes to basic financial statements.



CUSTER COUNTY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 2,175,408	\$ 185,826	\$ 60,479	\$ (1,929,103)	\$ -	\$ (1,929,103)
Public safety	1,978,480	198,780	268,611	(1,511,089)	-	(1,511,089)
Public works	3,144,575	143,214	1,680,758	(1,320,603)	-	(1,320,603)
Public health	730,934	43,129	299,913	(387,892)	-	(387,892)
Social and economic services	313,258	47,502	131,952	(133,804)	-	(133,804)
Culture and recreation	413,696	234,799	870	(178,027)	-	(178,027)
Housing and community development	24,873	-	-	(24,873)	-	(24,873)
Other current charges	142,581	-	-	(142,581)	-	(142,581)
Interest on long-term debt	292,896	-	-	(292,896)	-	(292,896)
Total governmental activities	9,216,701	853,250	2,442,583	(5,920,868)	-	(5,920,868)
Business-type activities:						
Solid waste	878,379	727,595	-	-	(150,784)	(150,784)
Total business-type activities	878,379	727,595	-	-	(150,784)	(150,784)
Total	\$ 10,095,080	\$ 1,580,845	\$ 2,442,583	(5,920,868)	(150,784)	(6,071,652)
General revenues:						
Property taxes				4,238,836	-	4,238,836
Licenses and permits				4,910	-	4,910
Intergovernmental				1,122,997	-	1,122,997
Unrestricted investment earnings				35,432	19,684	55,116
Miscellaneous				98,385	-	98,385
Gain on disposal of capital assets				210	-	210
Transfers				8,000	(8,000)	-
Total general revenues and transfers				5,508,770	11,684	5,520,454
Change in net position				(412,098)	(139,100)	(551,198)
Net position - beginning				4,904,081	3,650,531	8,554,612
Prior period adjustments				(3,562,993)	355,136	(3,207,857)
Net position - ending				\$ 928,990	\$ 3,866,567	\$ 4,795,557

See notes to basic financial statements.

CUSTER COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2015

	General	Public Safety	East Valley Waterline	PILT	Jail Construction	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 136,782	\$ 78,780	\$ -	\$ 209,937	\$ 432,444	\$ 353,736	\$ 1,211,679
Investments	349,319	201,191	-	536,143	1,104,389	905,993	3,097,035
Receivables:							
Taxes and assessments	34,581	34,497	-	-	-	76,717	145,795
Governments	-	15,669	435,526	-	-	-	451,195
Cemetery	-	-	-	-	-	13,947	13,947
Other	-	5,811	-	-	-	6,340	12,151
Due from other funds	-	-	-	392,826	-	-	392,826
Inventories	-	-	-	-	-	128,211	128,211
Prepaid items	-	-	-	-	-	26,900	26,900
<b>Total assets</b>	<b>\$ 520,682</b>	<b>\$ 335,948</b>	<b>\$ 435,526</b>	<b>\$ 1,138,906</b>	<b>\$ 1,536,833</b>	<b>\$ 1,511,844</b>	<b>\$ 5,479,739</b>
<b>LIABILITIES</b>							
Accounts payable-vendors	\$ 8,255	\$ 64,545	\$ 50,729	\$ -	\$ 321,124	\$ 118,391	\$ 563,044
Due to other funds	-	-	392,826	-	-	-	392,826
Due to other governments	-	-	-	-	-	18,306	18,306
<b>Total liabilities</b>	<b>8,255</b>	<b>64,545</b>	<b>443,555</b>	<b>-</b>	<b>321,124</b>	<b>136,697</b>	<b>974,176</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue-taxes and assessments	34,581	34,497	-	-	-	76,717	145,795
<b>Total deferred inflows of resources</b>	<b>34,581</b>	<b>34,497</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,717</b>	<b>145,795</b>
<b>FUND BALANCES (DEFICITS)</b>							
Nonspendable:							
Inventory	-	-	-	-	-	128,211	128,211
Prepaid items	-	-	-	-	-	26,900	26,900
Restricted for:							
General government	-	-	-	-	-	208,173	208,173
Public safety	-	236,906	-	-	-	70,445	307,351
Public works	-	-	-	-	-	473,287	473,287
Public health	-	-	-	-	-	34,045	34,045
Social and economic services	-	-	-	-	-	92,409	92,409
Culture and recreation	-	-	-	-	-	14,920	14,920
Housing and community development	-	-	-	-	-	2,208	2,208
Capital projects	-	-	-	-	1,215,709	226,954	1,442,663
Debt service	-	-	-	-	-	12,926	12,926
Committed for:							
General government	-	-	-	1,138,906	-	21,605	1,160,511
Culture and recreation	-	-	-	-	-	41,596	41,596
Unassigned	477,846	-	(8,029)	-	-	(55,249)	414,568
<b>Total fund balances (deficits)</b>	<b>477,846</b>	<b>236,906</b>	<b>(8,029)</b>	<b>1,138,906</b>	<b>1,215,709</b>	<b>1,298,430</b>	<b>4,359,768</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<b>\$ 520,682</b>	<b>\$ 335,948</b>	<b>\$ 435,526</b>	<b>\$ 1,138,906</b>	<b>\$ 1,536,833</b>	<b>\$ 1,511,844</b>	<b>\$ 5,479,739</b>

See notes to basic financial statements.

CUSTER COUNTY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2015

Total fund balances, governmental funds	\$ 4,359,768
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,968,525
Deferred inflows of resources related to taxes and assessments are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	145,795
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	205,844
Deferred inflows of resources related to pensions	(1,050,608)
Some liabilities, (such as compensated absences, other post employment benefits, notes payable, bonds payable, net pension liability and capital leases), are not due and payable in the current period and, therefore, are not included in the funds.	(13,696,752)
Internal service funds are used by management to charge the costs of certain activities, such as data processing, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	<u>(3,582)</u>
Net position of governmental activities	<u>\$ 928,990</u>



CUSTER COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2015

	General	Public Safety	E. Valley Waterline	PILT	Jail Construction	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes/assessments	\$ 1,341,787	\$ 1,002,451	\$ -	\$ -	\$ -	\$ 2,092,854	\$ 4,437,092
Fines and forfeitures	94,542	-	-	-	-	8,334	102,876
Licenses and permits	4,420	490	-	-	-	-	4,910
Intergovernmental	265,141	189,105	898,253	779,775	-	1,422,818	3,555,092
Charges for services	154,767	82,934	-	-	-	394,679	632,380
Investment earnings	33,743	5	-	-	-	1,684	35,432
Miscellaneous	36,783	306	-	-	-	102,176	139,265
Total revenues	1,931,183	1,275,291	898,253	779,775	-	4,022,545	8,907,047
<b>EXPENDITURES</b>							
Current:							
General government	1,515,877	-	-	15	-	447,529	1,963,421
Public safety	107,132	1,324,986	-	-	-	316,926	1,749,044
Public works	10,875	-	906,282	-	-	1,959,054	2,876,211
Public health	261,841	2,242	-	-	-	447,554	711,637
Social and economic services	21,435	-	-	1,500	-	265,711	288,646
Culture and recreation	870	-	-	1,000	-	349,818	351,688
Housing and community development	8,305	-	-	-	-	16,568	24,873
Other current charges	-	-	-	-	-	142,581	142,581
Debt service:							
Principal	-	733	-	-	-	351,649	352,382
Interest and other charges	-	252	-	-	-	305,702	305,954
Capital outlay	8,719	46,387	-	8,370	5,492,795	220,798	5,777,069
Total expenditures	1,935,054	1,374,600	906,282	10,885	5,492,795	4,823,890	14,543,506
Excess (deficiency) of revenues over expenditures	(3,871)	(99,309)	(8,029)	768,890	(5,492,795)	(801,345)	(5,636,459)
<b>OTHER FINANCING SOURCES (USES)</b>							
Long-term debt issued	-	-	-	-	-	30,500	30,500
Capital leases	-	10,168	-	-	-	-	10,168
Insurance recoveries	-	10,000	-	-	-	-	10,000
Transfers in	18,000	-	-	-	-	713,517	731,517
Transfers out	(28,649)	-	-	(645,808)	-	(49,060)	(723,517)
Total other financing sources (uses)	(10,649)	20,168	-	(645,808)	-	694,957	58,668
Net change in fund balances	(14,520)	(79,141)	(8,029)	123,082	(5,492,795)	(106,388)	(5,577,791)
Fund balances - beginning	492,366	316,047	-	1,015,824	6,708,504	1,404,818	9,937,559
Fund balances (deficits) - ending	\$ 477,846	\$ 236,906	\$ (8,029)	\$ 1,138,906	\$ 1,215,709	\$ 1,298,430	\$ 4,359,768

See notes to basic financial statements.

CUSTER COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ (5,577,791)

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

Governmental funds report outlay for capital assets as expenditures because such outlay use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. This outlay is allocated over the assets estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay (\$5,777,069) exceeded depreciation (\$360,362) in the current period. 5,416,707

Governmental funds report the entire net sales price from the sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the asset. Thus, the change in net position differs from the change in fund balance by the book value of the asset disposed of.

210

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.

(120,654)

Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits is reported as pension expense.

79,070

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Governmental funds report repayment of principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which debt principal repayments exceeded long term debt issued.

311,714

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences	(25,236)
Other post employment benefits	(480,905)
Amortization of general obligation bond premium.	13,058

Internal service funds are used by management to charge the costs of certain activities, such as data processing, to individual funds. The change in net position of the internal service funds is reported with the governmental activities.

(28,271)

Change in net position of governmental activities \$ (412,098)

CUSTER COUNTY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2015

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 666,478	\$ 288
Investments	1,702,070	737
Receivables:		
Taxes and assessments	14,756	-
Solid waste	8,840	-
Total current assets	<u>2,392,144</u>	<u>1,025</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	17,630	-
Investments	1,358,796	-
	<u>1,376,426</u>	<u>-</u>
Capital assets:		
Land and construction in progress	89,338	-
Buildings and improvements	2,056,024	-
Less accumulated depreciation	(1,264,043)	-
	<u>881,319</u>	<u>-</u>
Total non-current assets	<u>2,257,745</u>	<u>-</u>
Total assets	<u>4,649,889</u>	<u>1,025</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable-vendors	50,842	-
Compensated absences	-	461
Total current liabilities	<u>50,842</u>	<u>461</u>
Non-current liabilities:		
Compensated absences	-	4,146
Landfill closure/postclosure care payable	732,480	-
Total non-current liabilities	<u>732,480</u>	<u>4,146</u>
Total liabilities	<u>783,322</u>	<u>4,607</u>
<b>NET POSITION</b>		
Net investment in capital assets	881,319	-
Restricted for landfill closure/postclosure care	643,946	-
Unrestricted	2,341,302	(3,582)
Total net position	<u>\$ 3,866,567</u>	<u>\$ (3,582)</u>

See notes to basic financial statements.



CUSTER COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2015

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
REVENUES		
Charges for services	\$ 228,475	\$ 99,443
Taxes and assessments	499,120	-
Total operating revenues	727,595	99,443
OPERATING EXPENSES		
Personal services	11,350	89,974
Supplies	255	2,215
Purchased services	677,205	35,025
Fixed charges	4,000	500
Closure/postclosure costs	86,956	-
Depreciation	97,613	-
Total operating expenses	877,379	127,714
Operating loss	(149,784)	(28,271)
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	19,684	-
Grants and contributions to others	(1,000)	-
Total non-operating revenues (expenses)	18,684	-
Loss before transfers	(131,100)	(28,271)
Transfers out	(8,000)	-
Change in net position	(139,100)	(28,271)
Net position - beginning	3,650,531	24,689
Prior period adjustments	355,136	-
Net position - ending	\$ 3,866,567	\$ (3,582)

CUSTER COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2015

	Business-type Activities <u>Solid Waste</u>	Governmental Activities <u>Internal Service Fund</u>
CASH FLOWS FROM OPERATIONS:		
Cash received from customers	\$ 732,710	\$ -
Cash received from interfund services	-	99,443
Cash paid to employees	(11,350)	(93,006)
Cash paid to suppliers for goods and services	(681,277)	(37,740)
	<u>40,083</u>	<u>(31,303)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash paid for grants and contributions to others	(1,000)	-
Cash used for interfund transfer	(8,000)	-
	<u>(9,000)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchase of capital assets	(19,717)	-
	<u>(19,717)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in investments	(802,958)	13,957
Interest received	19,684	-
	<u>(783,274)</u>	<u>13,957</u>
Change in cash and cash equivalents	(771,908)	(17,346)
Cash and cash equivalents - beginning (enterprise fund includes restricted cash and cash equivalents of \$333,654)	<u>1,456,016</u>	<u>17,634</u>
Cash and cash equivalents - ending (enterprise fund includes restricted cash and cash equivalents of \$17,630)	<u>\$ 684,108</u>	<u>\$ 288</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (149,784)	\$ (28,271)
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	97,613	-
Closure/post closure costs	86,956	-
Increase in taxes/assessments receivable	(4,650)	-
Decrease in solid waste receivable	9,765	-
Increase in accounts payable	183	-
Decrease in compensated absences	-	(3,032)
	<u>40,083</u>	<u>(31,303)</u>
Net cash provided (used) by operating activities	<u>\$ 40,083</u>	<u>\$ (31,303)</u>

See notes to basic financial statements.



CUSTER COUNTY  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
June 30, 2015

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 3,309,655	\$ 427,343
Investments	8,452,281	-
Taxes and assessments receivables	-	311,227
Total assets	<u>11,761,936</u>	<u>\$ 738,570</u>
LIABILITIES		
Accounts payable	-	\$ 68,845
Due to special districts	-	5,324
Due to state	-	278,494
Due to schools	-	169,773
Due to cities/towns	-	216,134
Total liabilities	<u>-</u>	<u>\$ 738,570</u>
NET POSITION		
Net position held in trust	<u>\$ 11,761,936</u>	

CUSTER COUNTY  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Year Ended June 30, 2015

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 8,886,722
Investment earnings	<u>72,683</u>
Total additions	<u>8,959,405</u>
DEDUCTIONS	
Distributions to participants	8,782,814
Administrative	<u>3,634</u>
Total deductions	<u>8,786,448</u>
Change in net position	172,957
Net position - beginning	<u>11,588,979</u>
Net position - ending	<u><u>\$ 11,761,936</u></u>



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosure and required supplementary information requirements about pensions also are addressed.

The government adopted the provisions of GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This Statement establishes standards for the amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The government's significant accounting policies are described below.

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. Based on the criteria established by the Governmental Accounting Standards Board, the government has no component units.

Related Organizations - The Board of County Commissioners is responsible for appointing members of the boards of other organizations, but the government's accountability for these organizations does not extend beyond making the appointments.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Property taxes, 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. 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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 nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue funds are reported as major.

The public safety fund accounts for resources accumulated from property taxes, state entitlement and charges for services and payments made for providing law enforcement and public safety services.

The East Valley Waterline fund accounts for resources accumulated and payments made for the East Valley waterline extension.

The PILT fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Payments made from the fund are at the discretion of the Board of County Commissioners.

The jail construction fund (capital projects) accounts for the bond proceeds and payments made for the construction of a new detention center.

The government reports the following major proprietary fund:

The solid waste fund accounts for the activities of the government's sanitation and landfill services.

Additionally, the government reports the following fund types:

Internal service funds account for the financing of services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

The government's investment trust fund accounts for the external portion of the cash management pool, which represents resources that belong to legally separate entities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance

Cash and Investments

The County maintains and controls an investment pool consisting of funds belonging to the government and also of funds held by the County Treasurer belonging to legally separate entities, such as school districts, fire and water districts and other special districts. The investment pool is managed by the County Treasurer and overseen by the Board of County Commissioners. The County Treasurer is responsible for setting the investment policies for the pool, reviewing and monitoring investments to ensure the County's investment policies are met and ensuring investments are in compliance with State statute.

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 58% of the investment pool belongs to these districts.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

The pool unit value is fixed at \$1 for purchases and redemptions. Income is automatically reinvested in additional units. The government did not provide or obtain any legally binding guarantees to support the value of the units.

Investments in the pool are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

Investment income from the pool is allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of each month. The net change in fair value of the pool is also allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of the year.

The government charges a 5% administrative fee to all participants in the pool. The fee is deducted prior to distributing interest to the County funds and pool participants. The administrative fee charged during the year was \$6,425.

#### Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

Cemetery and solid waste receivable bad debts are written-off using the direct write-off method. Use of this method does not result in a material difference from the allowance method required by generally accepted accounting principles.

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

#### Inventories and Prepaid Items

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

#### Restricted Assets

The government is required by state and federal laws and regulations to make annual contributions to a trust to finance the closure and postclosure care costs of its landfill. Additionally, dollars have been set aside by management for replacement and depreciation. These amounts are reported as restricted assets.

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. There was no capitalized interest for the year ended June 30, 2015.

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Assets	Years
Infrastructure	100
Building and improvements	10-100
Machinery and equipment	5-10

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond issuance costs are recognized as an expense in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

The government reports decreases in net position that relate to a future period(s) as deferred outflows of resources in a separate section of its statement of net position. Deferred outflows of resources are related to the government's pension plans and consist of differences between expected and actual results, changes in actuarial assumptions, differences between actual and expected contributions and contributions made to the pension plans subsequent to the measurement date. No deferred outflows of resources affect the governmental funds financial statements in the current year.

The government's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the government's statement of net position for actual pension plan investment earnings in excess of the expected amounts and differences between actual and expected contributions included in determining pension expense. In the governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The government will not recognize the related revenues until they are available under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Proprietary fund equity is classified the same as in the government-wide statements.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the Clerk and Recorder, in conjunction with the County Commissioners, to assign fund balance. There was no assigned fund balance in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The Fire FEMA (\$434), Mitigation (\$19,513), East Valley Waterline (\$8,029), RID 1A (\$30,060), MCH (\$2,650), Home Health (\$1), Buckle Up (\$2,591) and Data Processing (\$3,582) funds had deficit fund balances as of June 30, 2015. The deficits occurred because current year expenditures exceeded current year revenues. The deficits are expected to be eliminated through general fund contributions.

Cash and Cash Equivalents and Investments

The government's cash, cash equivalents and investments are reported as follows:

Governmental activities	\$ 4,309,739
Business-type activities	3,744,974
Fiduciary funds	12,189,279
	<u>\$ 20,243,992</u>

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Total carrying value of cash, cash equivalents and investments as of June 30, 2015, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 1,500	\$ -	\$ 1,500
Cash in banks:			
Demand deposits	5,608,296	-	5,608,296
Savings deposits	6,330	-	6,330
Time deposits	-	1,750,000	1,750,000
Brokerage:			
Money market	17,684	-	17,684
U.S. Government securities	-	12,860,182	12,860,182
	<u>\$ 5,633,810</u>	<u>\$ 14,610,182</u>	<u>\$ 20,243,992</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2015, \$5,936,254 of the government's bank balance of \$7,943,584 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>\$ 5,936,254</u>
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State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2015, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2015 is listed below. The security type percentage is based on the book value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
Time deposits	.55-1.60%	Various	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	11.98%
U.S. government securities	.25-1.85%	Various	12,860,000	12,860,182	12,843,403	88.02%
				<u>\$ 14,610,182</u>	<u>\$ 14,593,403</u>	<u>100.00%</u>

*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. However, under state statute, an investment 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.

*Credit Risk.* Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. The government has no investment policy that would further limit its investment choices. The Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; Category 3-Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Brokers:					
U.S. Government securities	\$ 2,500,000	\$ -	\$ 10,360,182	\$ 12,860,182	\$ 12,843,403
Money Markets	17,684	-	-	17,684	17,684
	<u>\$ 2,517,684</u>	<u>\$ -</u>	<u>\$ 10,360,182</u>	<u>\$ 12,877,866</u>	<u>\$ 12,861,087</u>

Following is the condensed schedule of changes in net position and net position for the investment pool for the year ended June 30, 2015:

	Internal	External	Total
Net position - beginning of year	\$ 13,747,464	\$ 11,588,979	\$ 25,336,443
Contributions from participants	7,699,239	8,886,722	16,585,961
Investment earnings	55,812	72,683	128,495
Administrative fees	(2,791)	(3,634)	(6,425)
Distributions to participants	(13,017,668)	(8,782,814)	(21,800,482)
Net position - end of year	<u>\$ 8,482,056</u>	<u>\$ 11,761,936</u>	<u>\$ 20,243,992</u>

Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 114,111	\$ -	\$ -	\$ 114,111
Construction-in-progress	960,059	5,492,795	-	6,452,854
Total capital assets, not being depreciated	<u>1,074,170</u>	<u>5,492,795</u>	<u>-</u>	<u>6,566,965</u>
Capital assets, being depreciated				
Buildings/improvements	3,378,451	-	-	3,378,451
Improvements other than buildings	324,507	8,719	-	333,226
Machinery and equipment	4,068,571	171,374	(19,850)	4,220,095
Infrastructure	663,040	111,181	-	774,221
Total capital assets, being depreciated	<u>8,434,569</u>	<u>291,274</u>	<u>(19,850)</u>	<u>8,705,993</u>
Less accumulated depreciation for:				
Buildings/improvements	(1,693,497)	(77,690)	-	(1,771,187)
Improvements other than buildings	(91,129)	(19,312)	-	(110,441)
Machinery and equipment	(2,131,720)	(253,132)	13,060	(2,371,792)
Infrastructure	(40,785)	(10,228)	-	(51,013)
Total accumulated depreciation	<u>(3,957,131)</u>	<u>(360,362)</u>	<u>13,060</u>	<u>(4,304,433)</u>
Total capital assets, being depreciated, net	<u>4,477,438</u>	<u>(69,088)</u>	<u>(6,790)</u>	<u>4,401,560</u>
Governmental activities capital assets, net	<u>\$ 5,551,608</u>	<u>\$ 5,423,707</u>	<u>\$ (6,790)</u>	<u>\$ 10,968,525</u>

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 35,267
Public safety	95,727
Public works	158,515
Social and economic	3,888
Culture and recreation	14,898
Housing and community development	52,067
Total depreciation-governmental activities	<u>\$ 360,362</u>

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 1	\$ -	\$ -	\$ 1
Construction-in-progress	69,620	19,717	-	89,337
Total capital assets, not being depreciated	<u>69,621</u>	<u>19,717</u>	<u>-</u>	<u>89,338</u>
Capital assets, being depreciated				
Buildings and systems	70,965	-	-	70,965
Improvements other than buildings	1,985,059	-	-	1,985,059
Total capital assets, being depreciated	<u>2,056,024</u>	<u>-</u>	<u>-</u>	<u>2,056,024</u>
Less accumulated depreciation for:				
Buildings and systems	(20,356)	(1,740)	-	(22,096)
Improvements other than buildings	(1,146,074)	(95,873)	-	(1,241,947)
Total accumulated depreciation	<u>(1,166,430)</u>	<u>(97,613)</u>	<u>-</u>	<u>(1,264,043)</u>
Total capital assets, being depreciated, net	<u>889,594</u>	<u>(97,613)</u>	<u>-</u>	<u>791,981</u>
Business-type activities capital assets, net	<u>\$ 959,215</u>	<u>\$ (77,896)</u>	<u>\$ -</u>	<u>\$ 881,319</u>

Depreciation expense was charged as follows:

Business-type activities:	
Solid Waste	<u>\$ 97,613</u>

Interfund Transfers and Interfund Loans

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
Governmental activities:			
General	\$ 18,000	\$ (28,649)	\$ (10,649)
PILT	-	(645,808)	(645,808)
Nonmajor governmental funds	713,517	(49,060)	664,457
	<u>\$ 731,517</u>	<u>\$ (723,517)</u>	<u>\$ 8,000</u>
Business-type activities:			
Solid Waste	\$ -	\$ (8,000)	\$ (8,000)

Transfers consist of funding capital improvements, grant matching and closing inactive funds. As of June 30, 2015, the East Valley Waterline fund owed the PILT fund \$392,826. The loan was made to cover the cash deficit until accrued revenues are received in fiscal year 2016. The balance is expected to be repaid next year.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Leases

The government has entered into certain capital lease agreements under which the related equipment will become the property of the government when all terms of the lease agreements are met. Assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 103,658
Less: accumulated depreciation	(19,111)
	<u>\$ 84,547</u>

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2015, are as follows:

	Year ending June 30,	Governmental Activities
	2016	\$ 3,941
	2017	22,749
	2018	13,161
Total minimum lease payments		39,851
Less: amount representing interest		(4,044)
Present value of minimum lease payments		<u>\$ 35,807</u>

Long-Term Debt

Notes payable currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2015
Fair skidsteer-2015 (1)	\$ 23,000	4 yr	1.25%	\$ 23,000
Rock crusher for road-2008 (1)	50,000	10 yr	1.25%	17,581
Harris Creek bridge-2011 (1)	180,000	10 yr	1.25%	102,933
Motor grader-2014 (1)	110,000	5 yr	1.25%	88,312
Motor grader-2011 (1)	120,000	7 yr	1.25%	44,713
				<u>\$ 276,539</u>

(1) Through INTERCAP. Interest adjusted each February 1, maximum to 15 percent.

Annual debt service requirements to maturity for notes payable are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 68,658	\$ 2,632	\$ 71,290
2017	69,893	1,949	71,842
2018	61,923	1,226	63,149
2019	47,194	652	47,846
2020	19,431	240	19,671
2021	9,440	47	9,487
	<u>\$ 276,539</u>	<u>\$ 6,746</u>	<u>\$ 283,285</u>

The government issued \$7,500,000 general obligation bonds in 2014 to provide funds for the acquisition and construction of a detention center. The bonds have a rate of interest of 2 percent to 4.25 percent and are payable in installments of principal over the next 20 years. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding as of June 30, 2015 are \$7,255,000.



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 300,000	\$ 239,172	\$ 539,172
2017	305,000	233,172	538,172
2018	310,000	227,073	537,073
2019	320,000	220,873	540,873
2020	325,000	214,473	539,473
2021-2025	1,730,000	962,550	2,692,550
2026-2030	2,025,000	666,686	2,691,686
2031-2035	1,940,000	210,375	2,150,375
	<u>\$ 7,255,000</u>	<u>\$ 2,974,374</u>	<u>\$ 10,229,374</u>

The government issued \$288,000 of special assessment bonds in 2014 to provide funds for utility infrastructure improvements. The bonds have a stated rate of interest of 2.5 percent and are payable in equal installments of principal over the next 40 years. Special assessment bond debt service requirements to maturity are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 4,398	\$ 7,210	\$ 11,608
2017	4,509	709	5,218
2018	4,623	6,985	11,608
2019	4,740	6,868	11,608
2020	4,860	6,748	11,608
2021-2025	26,206	31,834	58,040
2026-2030	29,692	28,348	58,040
2031-2035	33,640	24,400	58,040
2036-2040	38,114	19,926	58,040
2041-2045	43,185	14,855	58,040
2046-2050	48,927	9,113	58,040
2051-2055	45,106	2,643	47,749
	<u>\$ 288,000</u>	<u>\$ 159,639</u>	<u>\$ 447,639</u>

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 7,500,000	\$ -	\$ (245,000)	\$ 7,255,000	\$ 300,000
Bond premium	261,168	-	(13,058)	248,110	-
Special assessment bonds	280,500	7,500	-	288,000	4,398
Total bonds payable	<u>8,041,668</u>	<u>7,500</u>	<u>(258,058)</u>	<u>7,791,110</u>	<u>304,398</u>
Capital leases	59,253	10,168	(33,614)	35,807	2,656
Notes payable	327,307	23,000	(73,768)	276,539	68,658
Compensated absences	301,148	22,204	-	323,352	32,335
Governmental activities long-term liabilities	<u>\$ 8,729,376</u>	<u>\$ 62,872</u>	<u>\$ (365,440)</u>	<u>\$ 8,426,808</u>	<u>\$ 408,047</u>

Internal service funds predominantly serve the governmental funds. Accordingly, internal service fund long-term liabilities are included as part of the governmental activities. At year end, \$4,607 of the internal service fund compensated absences is included in the above

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

amounts. Also, for the governmental activities, notes payable are liquidated by the road and bridge funds. Compensated absences are generally liquidated by the general fund.

Conduit Debt

To provide for the refinancing of existing debt and construction of improvements to the Eastern Montana Community Mental Health Center (EMCMHC), a Montana nonprofit corporation, the County issued Industrial Development Revenue Bonds/Notes amounting to \$850,000. These bonds/notes are special limited obligations of the County payable solely from and secured by payments to be made by EMCMHC under the loan agreement. The bonds/notes do not constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers, and accordingly have not been reported in the accompanying financial statements. As of June 30, 2015, the outstanding balance of the Industrial Development Revenue Bonds/Notes was not available.

Landfill Closure/Postclosure

State and federal laws and regulations require the government to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the government reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$732,480 reported as a landfill closure and postclosure care liability as of June 30, 2015, represents the cumulative amount reported to date based on the use of 25 percent of the estimated capacity of the landfill. The government will recognize the remaining estimated cost of closure and postclosure care of \$835,720 as the remaining estimated capacity of the landfill is filled. These amounts are based on what it would cost to perform all closure and postclosure care as of June 30, 2015. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs. The government is in compliance with the requirements, and, as of June 30, 2015, \$1,376,426 had been set aside for this purpose. The amount set aside is restricted and reported as "restricted net assets." The government expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The following changes occurred in the closure and postclosure care liability during the year ended June 30, 2015:

Balance July 1, 2014	Additions	Adjustment	Balance June 30, 2014
\$ 1,000,660	\$ 86,956	\$ (355,136)	\$ 732,480

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in MACO's Joint Powers Insurance Authority which offers insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

Prior Period Adjustments

Prior period adjustments resulted from recording the beginning balance of the net pension liability and correcting the beginning balance of the landfill closure/postclosure liability.

Interlocal Agreements

The City of Miles City maintains the accounting records for agreements related to the operation of the library, central dispatch, animal control, airport and ambulance. The County levies or makes contributions to the City for these shared services. For the year ended June 30, 2015, the County contributed \$132,000 to the City for these services.



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$1million, primarily for construction projects.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Retirement Plans

Plan Descriptions

The Public Employees Retirement System (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 and 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts. 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. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the PERS web site at [mpera.mt.gov](http://mpera.mt.gov).

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. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the SRS web site at [mpera.mt.gov](http://mpera.mt.gov).

Pension Benefits

Public Employees Retirement System

Plan members hired prior to July 1, 2011 are eligible to retire at age 60 with 5 years of membership service, age 65 regardless of years of membership service or any age with 30 years of membership service. Benefits are calculated as follows: 1) if less than 25 years of membership service, the greater of (a) 1/56 of the member's highest average compensation (HAC) multiplied by years of service credit or (b) the actuarial equivalent of double the member's regular contributions and interest plus the actuarial equivalent of any additional contributions plus interest or 2) if 25 years of membership service or more, the greater of (a) 2% of HAC multiplied by years of service credit or (b) calculation in 1)(b) above.

Plan members hired on or after July 1, 2011 are eligible to retire at age 65 with 5 years of membership service or age 70 regardless of years of membership service. Benefits are calculated as follows: 1) if less than 10 years of membership service, the greater of (a) 1.5% of the member's HAC multiplied by years of service credit or (b) the actuarial equivalent of double the member's regular contributions and interest plus the actuarial equivalent of any additional contributions plus interest 2) if between 10 and 30 years of membership service, the greater of (a) 1/56 of HAC multiplied by years of service credit or (b) calculation in 1)(b) above or 3) if 30 years of membership service or more, the greater of (a) 2% of HAC multiplied by years of service credit or (b) calculation in 1)(b) above.

Plan members hired prior to July 1, 2011 are eligible for early retirement at age 50 with 5 years of membership service or any age under age 60 with 25 years of membership service. Benefits are calculated as follows: 1) members who retire prior to October 1, 2011, the actuarial equivalent of the accrued portion of the service retirement benefit that would have been payable to the member commencing at age 60 or upon completion of 30 years of membership service with the exception that the benefit must be reduced by a factor resulting from multiplying 0.5% (for first 5 years from service retirement eligibility) and by 0.3% (for six to 10 years from service retirement eligibility) by the number of months by which the retirement date precedes the date at which the member would have attained age 60 or completed 30 years of membership service or 2) members who retire on or after October 1, 2011, the actuarial equivalent of the accrued portion of the service retirement benefit that would have been payable to the member commencing at age 60 or upon completion of 30 years of membership service with the exception that the benefit must be reduced using actuarially equivalent factors based on the most recent valuation.



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NOTES TO BASIC FINANCIAL STATEMENTS

Plan members hired on or after July 1, 2011 are eligible for early retirement at age 55 with 5 years of membership service. The benefit is the actuarial equivalent of the accrued portion of the service retirement benefit that would have been payable to the member commencing at age 65 with the exception that the benefit must be reduced using actuarially equivalent factors based on the most recent valuation.

5 years of membership service is required for disability eligibility. Disability benefits are determined as follows: 1) if hired on or before February 24, 1991 and an election was not made, the greater of (a) 90% of 1/56 of HAC multiplied by years of service credit or (b) 25% of HAC, 2) if hired after February 24, 1991 and prior to July 1, 2011 (a) less than 25 years of membership service: 1/56 of HAC multiplied by years of service credit or (b) at least 25 years of membership service: 2% of HAC multiplied by years of service credit or 3) if hired on or after July 1, 2011 (a) if less than 10 years of membership service: 1.5% of HAC multiplied by years of service credit, (b) if between 10 and 30 years of membership service: 1/56 of HAC multiplied by years of service credit or (c) if 30 years of membership service or more: 2% of HAC multiplied by years of service credit.

Death benefits equal the sum of 1) accumulated contributions plus 2) monthly compensation multiplied by the lesser of years of service credit or six, plus 3) interest until the benefit is paid. However, the survivor of an inactive member who was inactive for more than six months will receive only accumulated contributions and interest from the date of death until payment is made. A survivor may elect to receive the payment as a non-increasing annuity that is the actuarial equivalent of the amount of benefit the member would have received.

For members hired prior to July 1, 2011, the survivorship benefit payable to an active vested member's survivor is the actuarial equivalent of the member's accrued retirement benefit at the time of death or, if the member dies prior to age 50 or 25 years of membership service, the actuarial equivalent of the accrued portion of the early retirement benefit that would have been paid to the member at age 50. For members hired on or after July 1, 2011, the survivorship benefit payable to an active vested member's survivor is the actuarial equivalent of the member's accrued retirement benefit at the time of death, or if the member dies prior to age 55, the actuarial equivalent of the accrued portion of the early retirement benefit that would have been paid to the member at age 55.

A member who leaves service may withdraw contributions made. Upon receipt of a refund of contributions, a member's vested right to a monthly benefit is forfeited.

For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to a maximum of 1.5% for each year PERS is funded at or above 90%, with the 1.5% 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.

Sheriff's Retirement System (SRS)

SRS provides retirement, disability and death benefits. Members with 20 years of membership service are eligible to retire. Retirement benefits are determined as 2.5 percent of the member's highest average compensation (HAC) multiplied by years of service credit. For plan members hired prior to July 1, 2011, HAC is determined during any consecutive 36 months. For plan members hired on or after July 1, 2011, HAC is determined during any consecutive 60 months. For plan members hired on or after July 1, 2013, HAC is determined on 110% annual cap on compensation. Members age 50 with 5 years of membership service are eligible for early retirement. Retirement benefits are determined using HAC and years of service credit at early retirement, reduced to the actuarial equivalent.

5 years of membership service is required for a non-duty disability and any membership service for a duty-related disability. Disability benefits for a non-duty-related disability are calculated as the actuarial equivalent of the accrued normal retirement benefit available at the time of disability or for a duty-related disability (a) if less than 20 years of membership service: 50% of HAC, or (b) if 20 years or more of membership service: 2.5% of HAC multiplied by years of service credit.

The non-duty-related death benefit is either a lump-sum payment of the member's accumulated contributions or a monthly survivor benefit equal to 2.5% of HAC for each year of service credit actuarially reduced from age 60 or from the date when 20 years of membership service would have been completed, whichever provides the greater benefit. The duty-related death benefit is either a lump-sum payment of the member's accumulated contributions or a monthly survivor benefit to the designated beneficiary equal to the greater of (a) 50% of HAC or (b) 2.5% of HAC for each year of service credit actuarially reduced from age 60 or from the date when 20 years of membership service would have been completed, whichever provides the greater benefit. A beneficiary may elect to receive the present value of the benefit as a single lump sum. For retired members without a contingent annuitant, a payment will be made to the designated beneficiary equal to the accumulated contributions reduced by any retirement benefits already paid.

A member who leaves service may withdraw contributions made. Upon receipt of a refund of contributions, a member's vested right to a monthly benefit is forfeited.

For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to a maximum of 1.5% for members hired on or after July 1, 2007 and 3% for members hired prior to July 1, 2007.



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Member and Employer Contributions

Public Employees Retirement System

All members contribute 7.9% of their compensation. This is a temporary 1% increase for members hired prior to July 1, 2011 and remains the same for members hired on or after July 1, 2011. Interest is credited to member accounts at the rates determined by the Board. All member contributions will be decreased to 6.9% on January 1 following the actuarial valuation results that project the amortization period to drop below 25 years and remain below 25 years following the termination of the 1% additional member contribution rate. Member contributions are made through an "employer pick-up" arrangement that results in deferral of taxes on the contributions.

Employers contribute 7.9% of each member's compensation. This was temporarily increased from 6.9% on July 1, 2013. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions terminates on January 1 following actuarial 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. Effective July 1, 2013, contributions are also made to the system from the Coal Tax Fund. Beginning July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

Sheriff's Retirement System (SRS)

Members contribute 9.245% of their compensation. Interest is credited at rates determined by the Board. Member contributions are made through an "employer pick-up" arrangement that results in deferral of taxes on the contributions.

Employers contribute 10.115% of each member's compensation. The rate increased from 9.535% to 9.825% on July 1, 2007 and to 10.115% on July 1, 2009. These increased contributions as of 2009 of 0.58% will terminate if an actuarial valuation shows that the period required to amortize the system's unfunded liabilities is less than 25 years, and that the termination of those increases would not cause the amortization to increase beyond 25 years.

Beginning July 1, 2013, employers of retirees who return to work in a position working less than 480 hours contribute 10.115% of the working retiree's compensation.

Net Pension Liability, Pension Expense (Revenue), and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2015, the government recorded a liability of \$2,335,475 (PERS) and \$303,684 (SRS) for its proportionate share of the net pension liability.

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the government. Due to the existence of this special funding situation, the government is required to report the portion of the State of Montana's proportionate share of the collective net pension liability. The government's and State of Montana's proportionate share of the net pension liability are presented below:

	Net Pension Liability June 30, 2014	
	PERS	SRS
Employer proportionate share	\$ 2,335,475	\$ 303,684
State of Montana proportionate share associated with employer	28,520	-
Total	<u>\$ 2,363,995</u>	<u>\$ 303,684</u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The government's proportion of the net pension liability was based on the government's contributions received by PERS and SRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all PERS and SRS participating employers. At June 30, 2014, the government's proportion was .1874 and .7297 percent for PERS and SRS, respectively.

For the year ended June 30, 2015, the government recognized \$109,807 (PERS) and \$16,967 (SRS) for its proportionate share of the pension expense. The government also recognized grant revenue of \$66,037 (PERS) for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the government. Total pension expense recognized was \$175,844 and \$16,967 for PERS and SRS, respectively.

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

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NOTES TO BASIC FINANCIAL STATEMENTS

	PERS		SRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Changes in assumptions	-	-	-	309,871
Net difference between projected and actual earnings on pension plan investments	-	603,448	-	133,843
Changes in the employer's proportion and differences between employer's contributions and the employer's proportionate contributions	-	3,446	-	-
District contributions subsequent to measurement date	153,306	-	52,538	-
	<u>\$ 153,306</u>	<u>\$ 606,894</u>	<u>\$ 52,538</u>	<u>\$ 443,714</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the government's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016.

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

	PERS			SRS		
Year Ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Increase (Decrease) to Pension Expense	Deferred Outflows of Resources	Deferred Inflows of Resources	Increase (Decrease) to Pension Expense
2016	\$ -	\$ 152,011	\$ (152,011)	\$ -	\$ 85,106	\$ (85,106)
2017	-	152,011	(152,011)	-	85,106	(85,106)
2018	-	152,011	(152,011)	-	85,106	(85,106)
2019	-	150,861	(150,861)	-	85,106	(85,106)
2020	-	-	-	-	51,645	(51,645)
Therafter	-	-	-	-	51,645	(51,645)

Actuarial Assumptions

For each of the retirement plans, the total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PERS	SRS
Investment rate of return, net of investment and administrative expenses	7.75%	7.75%
Salary increases	4.00%	4.00%
Inflation	3.00%	3.00%

Mortality rates for the PERS and SRS retirement plans are based on the RP-2000 Combined Employee and Annuitant Mortality Tables with adjustments for mortality improvements based on Scale AA.

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the PERS and SRS plans. The most recent PERS and SRS analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are



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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 PERS' and SRS' target asset allocation as of June 30, 2014, and are summarized in the following table:

Asset Class	PERS		SRS	
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	2.0%	-0.25%	2.0%	-0.25%
Domestic equity	36.0%	4.80%	36.0%	4.80%
Foreign equity	18.0%	6.05%	18.0%	6.05%
Fixed income	24.0%	1.68%	24.0%	1.68%
Private equity	12.0%	8.50%	12.0%	8.50%
Real estate	8.0%	4.50%	8.0%	4.50%
	<u>100.0%</u>		<u>100.0%</u>	

#### Discount Rate

##### Public Employees Retirement System

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 nonemployer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. 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 PERS' fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. 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.

##### Sheriff's Retirement System (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. 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 2122. 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.

#### Sensitivity Analysis

The following presents the employer's proportionate share 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.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability-PERS	\$ 3,715,500	\$ 2,335,475	\$ 1,171,560
Net pension liability-SRS	639,149	303,684	26,823



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Postemployment Benefits Other Than Pensions

*Plan Description.* The government provides postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility is determined based on the minimum of (1) reaching age 50 with at least 5 years of membership service or (2) reaching 25 years of membership at any age.

*Funding Policy.* The required contribution is based on pay-as-you-go financing requirements.

*Annual OPEB Cost and Net OPEB Obligation.* The government's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The government has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 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 to the plan:

Annual required contribution	\$ 520,404
Interest on net OPEB obligation	32,317
Adjustment to annual required contribution	<u>(71,816)</u>
Annual OPEB cost (expense)	480,905
Contributions made	<u>-</u>
Increase in net OPEB obligation	480,905
Net OPEB obligation - beginning of year	<u>2,154,487</u>
Net OPEB obligation - end of year	<u><u>\$ 2,635,392</u></u>

The government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015, 2014 and 2013 are as follows:

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2015	\$ 480,905	0%	\$ 2,635,392
2014	482,051	0%	2,154,487
2013	418,109	0%	1,672,436

*Funded Status and Funding Progress.* As of July 1, 2014, the Plan was 0% funded. The actuarial accrued liability for benefits was \$2,458,980, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,458,980.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress, which is required to be presented as required supplementary information following the notes to the financial statements, is included in the financial statements.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

*Assumptions About Employees and Members:* Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 62 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on the National Center for Health Statistics, including the 2004 U.S. Life Tables for Males and Females. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

*Assumptions About Healthcare Costs:* The 2014 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 3.8 percent over the next ten years.

*Other Assumptions and Methods:* The inflation rate was assumed to be 1.5 percent. Based on the historical and expected returns of the government's investments, the investment rate of return was assumed to be 1.5 percent. The UAAL is amortized over a thirty year period using a 1.5 percent interest rate and a 2.8 percent payroll growth rate.

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

GASB Statement No. 77, Tax Abatement Disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP).

GASB Statement No. 75 - Statement 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

REQUIRED SUPPLEMENTARY INFORMATION



CUSTER COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
General Fund  
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
REVENUES					
Taxes/assessments	\$ 1,280,181	\$ 1,283,988	\$ 1,341,787	\$ -	\$ 1,341,787
Fees and fines	94,425	94,425	94,542	-	94,542
Licenses and permits	3,250	3,250	4,420	-	4,420
Intergovernmental	185,500	233,420	199,104	66,037	265,141
Charges for services	177,363	177,363	154,767	-	154,767
Investment earnings	30,000	30,000	33,743	-	33,743
Miscellaneous	42,100	42,100	36,783	-	36,783
Total revenues	<u>1,812,819</u>	<u>1,864,546</u>	<u>1,865,146</u>	<u>66,037</u>	<u>1,931,183</u>
EXPENDITURES					
Current:					
General government	1,659,422	1,659,772	1,468,980	46,897	1,515,877
Public safety	111,046	158,966	101,912	5,220	107,132
Public works	-	-	-	10,875	10,875
Public health	246,500	246,500	260,536	1,305	261,841
Social and economic services	30,300	30,300	20,565	870	21,435
Culture and recreation	-	-	-	870	870
Housing and community development	8,400	8,400	8,305	-	8,305
Capital outlay	5,000	5,000	8,719	-	8,719
Total expenditures	<u>2,060,668</u>	<u>2,108,938</u>	<u>1,869,017</u>	<u>66,037</u>	<u>1,935,054</u>
Excess (deficiency) of revenues over expenditures	<u>(247,849)</u>	<u>(244,392)</u>	<u>(3,871)</u>	<u>-</u>	<u>(3,871)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	32,164	32,164	18,000	-	18,000
Transfers out	<u>(18,649)</u>	<u>(18,649)</u>	<u>(28,649)</u>	<u>-</u>	<u>(28,649)</u>
Total other financing sources (uses)	<u>13,515</u>	<u>13,515</u>	<u>(10,649)</u>	<u>-</u>	<u>(10,649)</u>
Net change in fund balance	<u>\$ (234,334)</u>	<u>\$ (230,877)</u>	<u>(14,520)</u>	<u>-</u>	<u>(14,520)</u>
Fund balance - beginning			<u>492,366</u>	<u>-</u>	<u>492,366</u>
Fund balance - ending			<u>\$ 477,846</u>	<u>\$ -</u>	<u>\$ 477,846</u>

See notes to required supplementary information.

CUSTER COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Public Safety Fund  
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 964,945	\$ 968,984	\$ 1,002,451
Licenses and permits	500	500	490
Intergovernmental	173,450	173,450	189,105
Charges for services	74,100	74,100	82,934
Investment earnings	10	10	5
Miscellaneous	5,500	5,500	306
Total revenues	<u>1,218,505</u>	<u>1,222,544</u>	<u>1,275,291</u>
EXPENDITURES			
Current:			
Public safety	1,479,354	1,482,090	1,324,986
Public health	2,500	2,500	2,242
Debt service:			
Principal	-	-	733
Interest and other charges	-	-	252
Capital outlay	40,000	40,000	46,387
Total expenditures	<u>1,521,854</u>	<u>1,524,590</u>	<u>1,374,600</u>
Excess (deficiency) of revenues over expenditures	<u>(303,349)</u>	<u>(302,046)</u>	<u>(99,309)</u>
OTHER FINANCING SOURCES			
Capital leases	-	-	10,168
Insurance recoveries	-	-	10,000
Transfers in	100,000	100,000	-
Total other financing sources	<u>100,000</u>	<u>100,000</u>	<u>20,168</u>
Net change in fund balance	<u>\$ (203,349)</u>	<u>\$ (202,046)</u>	<u>(79,141)</u>
Fund balance - beginning			<u>316,047</u>
Fund balance - ending			<u>\$ 236,906</u>

See notes to required supplementary information.



CUSTER COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
East Valley Waterline Fund  
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Intergovernmental	\$ 739,542	\$ 739,542	\$ 898,253
Charges for services	76,744	76,744	-
Miscellaneous	393,914	393,914	-
Total revenues	<u>1,215,400</u>	<u>1,215,400</u>	<u>898,253</u>
EXPENDITURES			
Current:			
Public works	823,307	823,307	906,282
Capital outlay	361,917	361,917	-
Total expenditures	<u>1,185,224</u>	<u>1,185,224</u>	<u>906,282</u>
Net change in fund balance	<u>\$ 30,176</u>	<u>\$ 30,176</u>	(8,029)
Fund balance - beginning			-
Fund balance - ending			<u>\$ (8,029)</u>

CUSTER COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
PILT Fund  
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Intergovernmental	\$ 500,000	\$ 500,000	\$ 779,775
Total revenues	<u>500,000</u>	<u>500,000</u>	<u>779,775</u>
EXPENDITURES:			
Current:			
General government	100	100	15
Social and economic services	1,500	1,500	1,500
Culture and recreation	2,000	2,000	1,000
Total expenditures	<u>3,600</u>	<u>3,600</u>	<u>10,885</u>
Excess (deficiency) of revenues over expenditures	<u>496,400</u>	<u>496,400</u>	<u>768,890</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	10,000	10,000	-
Transfers out	(588,970)	(713,970)	(645,808)
Total other financing sources (uses)	<u>(578,970)</u>	<u>(703,970)</u>	<u>(645,808)</u>
Net change in fund balance	<u>\$ (82,570)</u>	<u>\$ (207,570)</u>	123,082
Fund balance - beginning			<u>1,015,824</u>
Fund balance - ending			<u>\$ 1,138,906</u>

See notes to required supplementary information.



CUSTER COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2015

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Money may not be disbursed, expended or obligated except pursuant to an appropriation for which working capital is or will be available. The final budget is legally enacted by the governing body by the first Thursday after the first Tuesday in September or within 30 calendar days of receiving certified taxable values from the department of revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

Budget to actual differences for the General fund represent state support revenue and expense related to pensions.

CUSTER COUNTY  
SCHEDULE OF CONTRIBUTIONS  
SHERIFFS AND PUBLIC EMPLOYEES RETIREMENT SYSTEMS OF MONTANA  
For the Year Ended June 30, 2015

<u>Sheriffs Retirement System:</u>	<u>2015</u>
Contractually required contributions	\$ 52,188
Contributions in relation to the contractually required contributions	<u>52,188</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered-employee payroll	\$ 515,949
Contributions as a percentage of covered-employee payroll	10.11%
 <u>Public Employees Retirement System:</u>	 <u>2015</u>
Contractually required contributions	\$ 138,869
Contributions in relation to the contractually required contributions	<u>138,869</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered-employee payroll	\$ 1,770,964
Contributions as a percentage of covered-employee payroll	7.84%

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



CUSTER COUNTY  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 SHERIFFS AND PUBLIC EMPLOYEES RETIREMENT SYSTEMS OF MONTANA  
 For the Year Ended June 30, 2015

<u>Sheriffs Retirement System:</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.7297%
Employer's proportionate share of the net pension liability associated with the employer	\$ 303,684
State of Montana's proportionate share of the net pension liability associated with the employer	-
Total	<u>\$ 303,684</u>
Employer's covered-employee payroll	\$ 471,923
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	64.35%
Plan fiduciary net position as a percentage of the total pension liability	87.20%
 <u>Public Employees Retirement System:</u>	 <u>2015</u>
Employer's proportion of the net pension liability	0.1874%
Employer's proportionate share of the net pension liability associated with the employer	\$ 2,335,475
State of Montana's proportionate share of the net pension liability associated with the employer	28,520
Total	<u>\$ 2,363,995</u>
Employer's covered-employee payroll	\$ 2,229,697
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	104.74%
Plan fiduciary net position as a percentage of the total pension liability	79.90%

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

CUSTER COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION  
For the Year Ended June 30, 2015

*Changes of assumptions:* There were no changes in assumptions for SRS and PERS.

*Method and assumptions used in calculations of actuarially determined contributions:* The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014. The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

	SRS	PERS
Acturial cost method	Entry age	Entry age
Amortization method	Level percentage of pay, open	Level percentage of pay, open
Remaining amortization period	30 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Inflation	3.25%	3.25%
Salary increases	4%	4%
Investment rate of return	7.75%, net of pension plan investment expense and including inflation	7.75%, net of pension plan investment expense and including inflation



CUSTER COUNTY  
SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS  
For the Year Ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2015	\$ -	\$ 2,458,980	\$ 2,458,980	-	\$ 2,785,773	0.882692165
6/30/2014	-	2,422,640	2,422,640	-	2,898,128	0.835932612
6/30/2013	-	2,386,837	2,386,837	-	2,819,191	0.846638983

OTHER SUPPLEMENTARY INFORMATION



CUSTER COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2014	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2015
<u>U.S. Department of Transportation:</u>								
Passed through the Montana Department of Transportation:								
State and Community Highway Safety	20.600	N/A	\$ 20,000	\$ (1,799)	\$ 8,796	\$ 5,350	\$ (1,647)	\$ -
State and Community Highway Safety	20.600	N/A	20,000	-	7,313	11,530	-	(4,217)
Total U.S. Department of Transportation				(1,799)	16,109	16,880	(1,647)	(4,217)
<u>U.S. Department of Justice:</u>								
Passed through the Montana Board of Crime Control:								
Crime Victim Assistance	16.575	14-V01-91658	20,259	-	13,919	20,259	-	(6,340)
Crime Victim Assistance	16.575	13-V01-91474	18,417	(4,615)	4,615	-	-	-
Total U.S. Department of Justice				(4,615)	18,534	20,259	-	(6,340)
<u>U.S. Department of Housing and Urban Development:</u>								
Passed through the Montana Department of Commerce								
Community Development Block Grant - States Program	14.228	MT-CDBG-ED11-03	397,500	-	177,903	191,639	(128)	(13,864)
Community Development Block Grant - States Program	14.228	MT-CDBG-11PF-02	450,000	(24,955)	40,924	19,358	-	(3,389)
Total U.S. Department of Housing and Urban Development				(24,955)	218,827	210,997	(128)	(17,253)
<u>U.S. Department of Homeland Security:</u>								
Direct Program:								
Assistance to Firefighters Grant	97.044	EMW-2010-FO-09180	95,936	-	5,905	5,905	-	-
Subtotal				-	5,905	5,905	-	-
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Disaster Grants-Public Assistance	97.036	FEMA-4127-DR-MT	147,017	-	105,000	105,000	-	-
Subtotal				-	105,000	105,000	-	-
Homeland Security Grant Program	97.067	EMW-2013-SS-00064	38,000	-	38,000	38,000	-	-
Homeland Security Grant Program	97.067	EMW-2013-SS-00064	9,930	-	9,920	9,920	-	-
Homeland Security Grant Program	97.067	EMW-2013-SS-00064	149,000	(149,000)	149,000	-	-	-
Subtotal				(149,000)	196,920	47,920	-	-
Emergency Management Performance Grants	97.042	EMW-2013-SS-00143-S01	15,000	-	13,601	2,571	(11,030)	-
Emergency Management Performance Grants	97.042	EMW-2014-EP-00006	49,500	-	7,061	13,672	-	(6,611)
Subtotal				-	20,662	16,243	(11,030)	(6,611)
Total U.S. Department of Homeland Security				(149,000)	328,487	175,068	(11,030)	(6,611)
<u>U.S. Department of Commerce:</u>								
Direct Program:								
Investments for Public Works and Economic Development Facilities	11.300	05-01-05332	367,956	-	-	363,020	-	(363,020)
Total U.S. Department of Commerce				-	-	363,020	-	(363,020)
<u>U.S. Department of Health and Human Services:</u>								
Passed through the Montana Department of Public Health and Human Services:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	15-07-3-01-004-0	47,170	-	32,691	32,691	-	-
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	14-07-3-01-004-0	46,870	-	16,725	16,725	-	-
Subtotal				-	49,416	49,416	-	-

CUSTER COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2014	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2015
Maternal and Child Health Services								
Block Grant to the States	93.994	14-07-5-01-009-0	12,911	(2,582)	2,582	-	-	-
Maternal and Child Health Services								
Block Grant to the States	93.994	15-07-5-01-009-0	10,977	-	8,782	8,782	-	-
Subtotal				(2,582)	11,364	8,782	-	-
Immunization Grants	93.268	14-07-4-31-109-0	5,648	(2,824)	4,236	1,412	-	-
Immunization Grants	93.268	14-07-4-31-157-0	10,600	-	2,650	2,650	-	-
Immunization Grants	93.268	15-07-4-31-109-0	7,046	-	1,762	1,762	-	-
Subtotal				(2,824)	8,648	5,824	-	-
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance	93.539	14-07-4-31-157-0	10,600	-	2,650	2,650	-	-
Subtotal				-	2,650	2,650	-	-
Environmental Public Health Emergency Response								
Environmental Public Health Emergency Response	93.070	15-07-3-01-129-0	28,582	-	19,055	19,055	-	-
Subtotal				-	19,055	19,055	-	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	14-07-5-11-016-0	20,000	-	10,500	8,019	-	2,481
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	15-07-5-11-016-0	20,000	-	11,000	11,000	-	-
Subtotal				-	21,500	19,019	-	2,481
Public Health Emergency Preparedness	93.069	14-07-6-11-013-0	35,372	-	10,665	-	(10,665)	-
Public Health Emergency Preparedness	93.069	15-07-6-11-013-0	31,882	-	24,709	24,709	-	-
Subtotal				-	35,374	24,709	(10,665)	-
Passed through Action for Eastern Montana: Aging Cluster: Special Programs for the Aging-								
Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	2014-001-02	23,810	(3,968)	3,968	-	-	-
Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	2015-001-01	20,165	-	14,832	18,023	-	(3,191)
Title III, Part C-Nutrition Services	93.045	2015-001-01	40,990	-	37,574	40,990	-	(3,416)
Title III, Part C-Nutrition Services	93.045	2014-001-02	43,274	(6,513)	6,513	-	-	-
Aging Cluster Subtotal				(10,481)	62,887	59,013	-	(6,607)
Title III, Part D-Disease Prevention and Health Promotion Services	93.043	2015-001-01	1,526	-	765	884	-	(119)
Title III, Part D-Disease Prevention and Health Promotion Services	93.043	2014-001-02	1,539	(936)	936	-	-	-
Subtotal				(936)	1,701	884	-	(119)
National Family Caregiver Support, Title III, Part E	93.052	2014-001-02	9,294	(1,549)	1,549	-	-	-
National Family Caregiver Support, Title III, Part E	93.052	2015-001-01	6,215	-	5,697	6,215	-	(518)
Subtotal				(1,549)	7,246	6,215	-	(518)
Total U.S. Department of Health and Human Services				(18,372)	219,841	195,567	(10,665)	(4,763)
U.S. Department of the Interior:								
Direct Programs:								
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L14AC00111-0001	50,000	-	20,414	20,414	-	-
Subtotal				-	20,414	20,414	-	-



CUSTER COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2014	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2015
Bankhead Jones Farm Tenant Act	15.999	N/A	5,856	-	5,856	5,856	-	-
Subtotal				-	5,856	5,856	-	-
Total direct programs				-	26,270	26,270	-	-
Total U.S. Department of the Interior				-	26,270	26,270	-	-
<u>U.S. Department of Agriculture:</u>								
Direct Programs:								
Water and Waste Disposal Systems For Rural Communities	10.760	N/A	852,000	(305,773)	791,843	486,070	-	-
Water and Waste Disposal Systems For Rural Communities	10.760	N/A	288,000	(70,974)	78,474	7,500	-	-
Total direct program				(376,747)	870,317	493,570	-	-
Passed through State Department of Natural Resources and Conservation:								
Cooperative Forestry Assistance	10.664	VFA-14-090	3,000	-	3,000	3,000	-	-
Cooperative Forestry Assistance	10.664	VFA-15-090	3,000	-	3,000	3,000	-	-
Total pass-through program				-	6,000	6,000	-	-
Total U.S. Department of Agriculture				(376,747)	876,317	499,570	-	-
Total Federal Awards				\$ (575,488)	\$ 1,704,385	\$ 1,507,631	\$ (23,470)	\$ (402,204)

Notes to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is a summary of cash receipts and federal expenditures related to the County's federal award programs. This schedule is presented in accordance with grant terms and conditions, which are not on the accrual basis of accounting as contemplated by generally accepted accounting principles.

NOTE B - SUBRECIPIENTS

Certain federal funds are provided to the One Health, a subrecipient organization of the County. \$129,455 in expenditures (CFDA Nos. 93.283, 93.994, 93.268, 93.539, 93.070, 93.092, and 93.069) incurred by the Southeastern Montana Health Coalition were reimbursed by the County and included on the schedule as part of non-major program pass-through awards for the year ended June 30, 2015.

NOTE C - LOAN OUTSTANDING

The County had an outstanding loan balance of \$288,000 under CFDA No. 10.760 - Water and Waste Disposal Systems for Rural Communities. This loan program is also included on the schedule as major program direct awards for the year ended June 30, 2015.

CUSTER COUNTY  
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL  
AWARD FINDINGS AND QUESTIONED COSTS

2014-011. All Major Programs

Criteria: We engaged our auditors to assist in the preparation of the government's financial statements and schedule of expenditures of federal awards (SEFA). The government ensures the quality of its financial statements and SEFA by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: We did not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements and SEFA.

Cause: We are a small organization with limited resources.

Effect: It is common within the governmental sector to rely the audit firm to prepare the financial statements and SEFA; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements and SEFA, this weakness in internal control would be classified as material.

Recommendation: The auditors recommended that we continue to read our draft financial statements and SEFA and ensure the quality of the document and the preparer.

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs.

2014-012. All Major Programs

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The auditors recommended that we continue to evaluate our segregation of duties and when possible assign tasks to strengthen controls.

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs.



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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

To the Board of County Commissioners  
Custer County  
Miles City, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Custer County, Montana (the government) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated November 6, 2015. The report included an explanatory paragraph to describe a change in accounting principle. Also, the report on governmental activities and the aggregate remaining fund information was qualified because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit retroactive tests of inventory quantities.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the government'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 the government's internal control. Accordingly, we do not express an opinion on the effectiveness of the government's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2015-001 through 2015-008)

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (Finding 2015-009)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-10.

### The Government's Response to Findings

The government did not respond to the findings and questioned costs identified in our audit as described in the accompanying schedule of findings and responses/questioned costs. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

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 (CONTINUED)

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.

*O'Leary & Associates, PC*

Billings, Montana  
November 6, 2015



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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of County Commissioners  
Custer County  
Miles City, Montana

### Report on Compliance for Each Major Federal Program

We have audited Custer County, Montana's (the government) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the government's major federal programs for the year ended June 30, 2015. The government'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 the government's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the government'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 the government's compliance.

### Basis for Qualified Opinion on the Investment for Public Works and Economic Facilities Grant

As described in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding procurement and special tests and provision, as described in Finding 2015-011, for its Investment for Public Works and Economic Facilities Grant-CFDA No. 11.300. Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to that program.

### Qualified Opinion on the Investment for Public Works and Economic Facilities Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the government, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Investment for Public Works and Economic Facilities Grant-CFDA No. 11.300 for the year ended June 30, 2015.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY OMB  
CIRCULAR A-133 (CONTINUED)

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The government did not respond to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

Report on Internal Control over Compliance

Management of the government 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 of compliance, we considered the government'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 the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-011 through 2015-013 to be material weaknesses.

The government did not respond to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*O'Leary & Associates, PC*

Billings, Montana  
November 6, 2015



CUSTER COUNTY  
SCHEDULE OF FINDINGS AND QUESTION COSTS  
For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported

Noncompliance material to the financial statements noted? ☒ yes ☐ no

FEDERAL AWARDS:

Internal control over major programs:

- Material weaknesses identified? ☒ yes ☐ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs:

- Investments for Public Works and Economic Development Facilities-qualified
- Water and Waste Disposal Systems for Rural Communities-unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ☒ yes ☐ no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
11.300	Investments for Public Works and Economic Development Facilities
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-001. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements and schedule of expenditures of federal awards (SEFA). The government ensures the quality of its financial statements and SEFA by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements and SEFA.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely the audit firm to prepare the financial statements and SEFA; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements and SEFA, this weakness in internal control would be classified as material.

CUSTER COUNTY  
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For the Year Ended June 30, 2015

Recommendation: The government should continue to read its draft financial statements and SEFA and ensure the quality of the document and the preparer.

2015-002. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

2015-003. TREASURER'S OFFICE

Criteria: The Treasurer's office has several duties, including, but not limited to; receipting, disbursing, reconciling and investing cash, billing, collecting and accounting for property taxes and reporting.

Condition: During our audit, we noted the following:

- Cash and investments were not reconciled for June 2015.
- Unknown differences existed on the checking account reconciliations.
- Receipts and deposits to the bank were not reconciled at the end of each month.
- The protested tax fund, the protested taxpayer list and protested taxes receivable were not reconciled at year-end.

Cause: Unknown.

Effect: While none of the items above had a significant impact on the county's 2015 financial statements, the potential exists for significant errors to exist and not be discovered in a timely manner, or at all.

Recommendation: The Treasurer should review and/or add procedures to address the deficiencies discussed above.

2015-004. LANDFILL CHARGE SLIPS

Criteria: To ensure the completeness of solid waste billing, the numerical sequence of the prenumbered charge slips should be accounted for by the solid waste secretary.

Condition: The numerical sequence of the prenumbered charge slips is not accounted for by the solid waste secretary.

Cause: The prenumbered charge slips are used for solid waste charges and cash collections at the landfill. Additionally, the charge slips for cash collections are not forwarded to the solid waste secretary.

Effect: By not accounting for the numerical sequence of the charge slips, all customers may not be billed.

Recommendation: Two separate prenumbered charge slips books should be used, one for charges and one for cash sales. Additionally, the charge slips for cash collections should be forwarded to the solid waste secretary.

2015-005. LANDFILL CASH COLLECTIONS

Criteria: Cash collections made at the landfill by the landfill contractor, Dispose All, LLC, are not deposited intact and on a daily basis.



CUSTER COUNTY  
SCHEDULE OF FINDINGS AND QUESTION COSTS  
For the Year Ended June 30, 2015

Condition: The landfill contractor removes the cash on hand at the landfill and remits a check to the County.

Cause: In response to this continued finding, Dispose All, LLC, has stated that it is impractical for the funds to be turned into the County Treasurer on a daily basis, as the landfill hours are longer than those of the County Treasurer. Additionally, they stated daily deposits would require extra time and expense on Dispose All, LLC's part.

Effect: Holding receipts exposes the government to loss.

Recommendation: To simplify the accounting for landfill cash collections, the County should negotiate an annual flat fee with Dispose All, LLC. By establishing an annual flat fee, risk of loss would be minimized.

2015-006. TAXES RECEIVABLE

Criteria: A reconciliation of taxes receivable, as recorded in the general ledger, to the treasurer's unpaid taxes receivable should be prepared to verify that the recording of transactions is accurate and proper and that any adjustments to or write-off of taxes receivable have been approved.

Condition: Taxes receivable, as recorded in the general ledger, did not balance to the treasurer's unpaid taxes receivable, by fund, by year.

Cause: Unknown.

Effect: Errors may accumulate and not be identified and corrected.

Recommendation: A reconciliation of taxes receivable, as recorded in the general ledger, to the treasurer's unpaid taxes receivable should be performed monthly.

2015-007. TAX ABATEMENTS/CORRECTIONS

Criteria: Reconciling tax abatements/corrections initiated through the local Department of Revenue office ensures all changes are valid and approved by the local Department of Revenue office and County Commissioners.

Condition: Tax abatements/corrections initiated through the local Department of Revenue office were not reconciled to the general ledger by the Clerk and Recorder's office.

Cause: Unknown.

Effect: Exposes the government to risk of loss or theft.

Recommendation: The Clerk and Recorder's office should reconcile the tax abatements/corrections forms to the general ledger on a monthly basis. The reconciliations should be retained for future reference.

2015-008. COUNTY FAIR

Criteria: Strong internal control procedures suggest all disbursements be supported by adequate documentation prior to being approved for payment.

Condition: Fair claims were paid for without complete and adequate documentation (contracts, invoices and receipts) to support each disbursement. Further, the fair secretary does not provide a formal accounting of the use of startup funds at the conclusion of the fair.

Cause: Unknown.

Effect: The risk of errors, irregularities or inappropriate charges occurring and not being detected is increased if supporting documentation is not attached to all disbursements.

Recommendation: The fair board should be required to attach complete and adequate documentation to claims when they are presented for payment. Additionally, we recommend the fair secretary provide a formal accounting of the startup funds to the County Commissioners at the conclusion of the fair.

CUSTER COUNTY  
SCHEDULE OF FINDINGS AND QUESTION COSTS  
For the Year Ended June 30, 2015

Criteria: Since cash is so readily subject to error and mishandling, effective control of checks, currency, and other cash items should begin at the time of receipt and continue through deposit.

Condition: Formal ticket reconciliations were not completed for gate admissions.

Cause: Unknown.

Effect: Not preparing formal ticket reconciliations for all gate admissions exposes the government to risk of loss or theft.

Recommendation: Formal ticket reconciliations should be completed for all events.

2015-009. CAPITAL ASSETS

Criteria: Policy requires each department to submit an annual inventory report to the Clerk and Recorder's office by July 1 of each year. Additionally, transfers or disposals of capital assets are to be reported to the Clerk and Recorder's office.

Condition: County policy is not being followed by department heads.

Cause: Unknown.

Effect: By not following policy, internal control over capital assets is weakened.

Recommendation: Department heads should follow policy.

2015-010. INVESTMENT FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT FACILITIES, CFDA No. 11.300, GRANT No. 05-01-05332

Criteria: The Buy American Act (the Act) requires that all iron, steel, and manufactured goods used in any project funded wholly or partially by federal funding involving a governmental entity, be produced in the United States. The Act requires that "substantially all" of the acquisition be attributable to American-made components. Regulations have interpreted this requirement to mean that at least 50% of the cost must be attributable to American content. Grant terms and conditions require the county to invoke the Buy American Act when using federal funding.

Condition: The County lacked adequate procedures and controls to ensure that it purchased products that were manufactured in the United States in accordance with the Buy American Act. This was evidenced by the county failing to obtain documentation to support whether the materials and manufactured goods purchased under the program were manufactured in the United States in compliance with the Act.

Questioned Costs: None.

Cause: Unknown.

Effect: Non-compliance with program terms and conditions.

Recommendation: The County should develop procedures and controls to ensure that it purchases products that are manufactured in the United States in accordance with the Buy American Act.

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Criteria: Per the OMB Circular A-133 compliance supplement and federal procurement regulations, when a non-federal entity (the County) enters into a covered transaction with an entity at a lower tier (a contractor, subcontractor, individual or supplier), the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from participation in the federal program.

Condition: The County did not verify the eligibility for participation in the federal program for all required parties on the Department of Commerce Economic Development project. Further, the County did not include the required "Governmentwide Debarment and Suspension" clause in its bid publication notice.

Questioned Costs: None

Cause: Unknown



CUSTER COUNTY  
SCHEDULE OF FINDINGS AND QUESTION COSTS  
For the Year Ended June 30, 2015

Effect: Non-compliance with program terms and conditions

Recommendation: The County should develop a process to verify that all required parties are not suspended or debarred or otherwise excluded from participation in the federal program. This verification may be accomplished by (1) checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), (2) collecting a certification from the entity, or (3) adding a clause or condition to the transaction with that entity (2 CFR section 180.300). Additionally, the County should develop a process to ensure that all required language is included in its bid publication notices.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF COMMERCE:

2015-011. INVESTMENT FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT FACILITIES, CFDA No. 11.300, GRANT No. 05-01-05332

Finding 2015-010 applies to these federal award programs.

2015-012. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2015-001 applies to these federal award programs.

2015-013. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2015-002 applies to these federal award programs.

CUSTER COUNTY  
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2014-001. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2014-002. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2014-003. TREASURER'S OFFICE	PARTIALLY IMPLEMENTED
2014-004. LANDFILL CHARGE SLIPS	NOT IMPLEMENTED
2014-005. LANDFILL CASH COLLECTIONS	NOT IMPLEMENTED
2014-006. TAXES RECEIVABLE	NOT IMPLEMENTED
2014-007. TAX ABATEMENTS/CORRECTIONS	NOT IMPLEMENTED
2014-008. COUNTY FAIR	NOT IMPLEMENTED
2014-009. DISTRICT COURT TRUST	IMPLEMENTED
2014-010. CAPITAL ASSETS	NOT IMPLEMENTED