

CUSTER COUNTY
MILES CITY, MONTANA
FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CUSTER COUNTY

ORGANIZATION

June 30, 2016

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

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA
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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, 2016, 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, road fund 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, road fund and the aggregate remaining fund information of the government, as of June 30, 2016, 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 (excluding the road fund) for the government, as of June 30, 2016, 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. 72, Fair Value Measurement and Application. 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. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. 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. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. 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. 79, Certain External Investment Pools and Pool Participants. 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, 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'Leary & Associates, PC

Billings, Montana
December 21, 2016

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, 2016. Please read the information here in conjunction with our financial statements and footnotes.

- Net position at the close of fiscal year June 30, 2016 was \$7,928,999. Of this amount, \$2,701,365 is restricted and \$5,506,184 was our net investment in capital assets.
- The County's total net position increased by \$1,251,805 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 \$30,922, while actual expenditures were less than budgeted appropriations by \$219,437.

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, 2016 was \$7,928,999. Of this amount, \$2,701,365 is restricted and \$5,506,184 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 \$677,738 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. Governmental activities restricted net position is also subject to external restrictions on how it can be used.

The County's total net position increased \$1,251,805 as a result of this year's operations. Net position for our governmental activities increased \$1,335,152 as result of capital asset activity and levying to pay debt principal. Net position for the business-type activities decreased \$83,347 which can be attributable to increased operating costs. A prior period adjustment \$1,881,637 was recorded in the governmental activities as result of implementing GASB Statement No. 75.

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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,364,005	\$ 5,087,938	\$ 3,873,071	\$ 3,768,570	\$ 8,237,076	\$ 8,856,508
Capital assets	12,414,319	10,968,525	784,204	881,319	13,198,523	11,849,844
Total assets	16,778,324	16,056,463	4,657,275	4,649,889	21,435,599	20,706,352
Deferred outflows	521,102	205,844	-	-	521,102	205,844
Total deferred outflows	521,102	205,844	-	-	521,102	205,844
Other liabilities	226,671	581,350	64,008	50,842	290,679	632,192
Long-term liabilities	11,762,737	13,701,359	810,047	732,480	12,572,784	14,433,839
Total liabilities	11,989,408	14,282,709	874,055	783,322	12,863,463	15,066,031
Deferred inflows	1,164,239	1,050,608	-	-	1,164,239	1,050,608
Total deferred inflows	1,164,239	1,050,608	-	-	1,164,239	1,050,608
Net position:						
Net Investment in capital assets	4,721,980	4,368,778	784,204	881,319	5,506,184	5,250,097
Restricted	2,023,627	1,638,980	677,738	643,946	2,701,365	2,282,926
Unrestricted	(2,599,828)	(5,078,768)	2,321,278	2,341,302	(278,550)	(2,737,466)
	<u>\$ 4,145,779</u>	<u>\$ 928,990</u>	<u>\$ 3,783,220</u>	<u>\$ 3,866,567</u>	<u>\$ 7,928,999</u>	<u>\$ 4,795,557</u>

CUSTER COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET POSITION:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,078,467	\$ 853,250	\$ 796,380	\$ 727,595	\$ 1,874,847	\$ 1,580,845
Operating grants and contributions	1,403,244	2,442,583	-	-	1,403,244	2,442,583
Capital grants and contributions	541,708	-	-	-	541,708	-
General revenues:						
Taxes	4,668,046	4,238,836	-	-	4,668,046	4,238,836
Licenses and permits	2,370	4,910	-	-	2,370	4,910
Intergovernmental	1,247,749	1,122,997	-	-	1,247,749	1,122,997
Interest	37,493	35,432	28,484	19,684	65,977	55,116
Miscellaneous	74,374	98,385	-	-	74,374	98,385
Gain on disposal of capital assets	-	210	-	-	-	210
Total revenues	9,053,451	8,796,603	824,864	747,279	9,878,315	9,543,882
Expenses:						
General government	2,401,137	2,175,408	-	-	2,401,137	2,175,408
Public safety	2,054,096	1,978,480	-	-	2,054,096	1,978,480
Public works	1,472,224	3,144,575	-	-	1,472,224	3,144,575
Public health	647,487	730,934	-	-	647,487	730,934
Social and economic services	314,576	313,258	-	-	314,576	313,258
Culture and recreation	536,404	413,696	-	-	536,404	413,696
Housing and community dev.	24,488	24,873	-	-	24,488	24,873
Other current charges	37,572	142,581	-	-	37,572	142,581
Solid Waste	-	-	900,211	878,379	900,211	878,379
Interest on long-term debt	238,315	292,896	-	-	238,315	292,896
Total expenses	7,726,299	9,216,701	900,211	878,379	8,626,510	10,095,080
Change in net position before transfers	1,327,152	(420,098)	(75,347)	(131,100)	1,251,805	(551,198)
Transfers	8,000	8,000	(8,000)	(8,000)	-	-
Change in net position	1,335,152	(412,098)	(83,347)	(139,100)	1,251,805	(551,198)
Net position, beginning	928,990	4,904,081	3,866,567	3,650,531	4,795,557	8,554,612
Prior period adjustments	1,881,637	(3,562,993)	-	355,136	1,881,637	(3,207,857)
Net position, ending	\$ 4,145,779	\$ 928,990	\$ 3,783,220	\$ 3,866,567	\$ 7,928,999	\$ 4,795,557

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 an 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, unassigned fund balance was \$464,598. Overall fund balance decreased \$13,248.

The road fund accounts for resources accumulated from property taxes and state entitlement and payments made for the maintenance,

CUSTER COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

repair and construction of county-owned roads. Fund balance increased \$18,068 as a result of conservative spending.

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 increased \$205,023 as a result of unanticipated revenue from prisoner boarding.

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 2016, resources from the PILT fund were transferred to fund other fund's budgets. Overall fund balance increased \$270,477. The increase occurred because additional PILT revenues were received in excess of the budgeted revenues.

The RID #1A fund accounts for the accumulation of resources for and payment of principal, interest, and related costs of the government's RID #1A special assessment debt. Fund balance increased \$4,600.

Net position for the solid waste fund decreased \$83,347. The decrease is 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 \$30,922, while actual expenditures were less than budgeted appropriations by \$219,437.

CAPITAL ASSET AND DEBT ADMINISTRATION

Custer County's net investment in capital assets, as of June 30, 2016 as \$5,506,184. 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, 2016 was \$339,568. 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 FY 2016-17.

- The uncertainty of PILT money is a constant concern.
- Lack of funds and other road and bridge problems continue to plague the Road department
- Progress continues on Fairground's buildings and grounds repair.
- High energy and fuel costs continue to be a major concern for road, fairgrounds, sheriff and maintenance departments.
- The Tussler 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 may need to be addressed.
- A more energy efficient windows have been recommended for the courthouse building.
- 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 coal and 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.
- Vehicle replacement for Sheriff Office.

CUSTER COUNTY
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 839,374	\$ 522,976	\$ 1,362,350
Investments	2,957,807	1,842,874	4,800,681
Receivables:			
Taxes and assessments	292,081	13,020	305,101
Governments	154,078	-	154,078
Solid waste	-	6,416	6,416
Cemetery	4,427	-	4,427
Inventories	116,238	-	116,238
Restricted assets:			
Cash and equivalents	-	18,504	18,504
Investments	-	1,469,281	1,469,281
Capital assets:			
Land and construction in progress	130,676	89,836	220,512
Capital assets, net of accumulated depreciation	12,283,643	694,368	12,978,011
Total assets	<u>16,778,324</u>	<u>4,657,275</u>	<u>21,435,599</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension plans	521,102	-	521,102
Total deferred outflows of resources	<u>521,102</u>	<u>-</u>	<u>521,102</u>
LIABILITIES			
Accounts payable-vendors	156,000	64,008	220,008
Due to other governments	18,306	-	18,306
Unearned revenues	52,365	-	52,365
Long-term liabilities:			
Due within one year:			
Notes, bonds and capital leases	380,918	-	380,918
Compensated absences	33,957	-	33,957
Due in more than one year:			
Notes, bonds and capital leases	7,311,421	-	7,311,421
Compensated absences	305,611	-	305,611
Landfill closure/postclosure care payable	-	810,047	810,047
Net pension liability	2,852,221	-	2,852,221
Other post-employment benefits	878,609	-	878,609
Total liabilities	<u>11,989,408</u>	<u>874,055</u>	<u>12,863,463</u>
DEFERRED INFLOWS OF RESOURCES			
Pension plans	937,772	-	937,772
Unavailable revenue-deferred special assessments	226,467	-	226,467
Total deferred inflows of resources	<u>1,164,239</u>	<u>-</u>	<u>1,164,239</u>
NET POSITION (DEFICITS)			
Net investment in capital assets	4,721,980	784,204	5,506,184
Restricted for:			
Landfill closure/postclosure care	-	677,738	677,738
General government	215,519	-	215,519
Public safety	554,472	-	554,472
Public works	487,625	-	487,625
Public health	87,496	-	87,496
Social and economic	74,978	-	74,978
Culture and recreation	46,022	-	46,022
Housing and community development	10,043	-	10,043
Capital projects	518,350	-	518,350
Debt service	29,122	-	29,122
Unrestricted	<u>(2,599,828)</u>	<u>2,321,278</u>	<u>(278,550)</u>
Total net position (deficits)	<u>\$ 4,145,779</u>	<u>\$ 3,783,220</u>	<u>\$ 7,928,999</u>

CUSTER COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,401,137	\$ 185,472	\$ 478,470	\$ -	\$ (1,737,195)	\$ -	\$ (1,737,195)
Public safety	2,054,096	354,587	291,496	20,200	(1,387,813)	-	(1,387,813)
Public works	1,472,224	113,368	234,404	197,586	(926,866)	-	(926,866)
Public health	647,487	41,018	264,759	-	(341,710)	-	(341,710)
Social and economic services	314,576	41,544	133,064	-	(139,968)	-	(139,968)
Culture and recreation	536,404	312,478	1,051	323,922	101,047	-	101,047
Housing and community development	24,488	-	-	-	(24,488)	-	(24,488)
Other current charges	37,572	30,000	-	-	(7,572)	-	(7,572)
Interest on long-term debt	238,315	-	-	-	(238,315)	-	(238,315)
Total governmental activities	7,726,299	1,078,467	1,403,244	541,708	(4,702,880)	-	(4,702,880)
Business-type activities:							
Solid waste	900,211	796,380	-	-	-	(103,831)	(103,831)
Total business-type activities	900,211	796,380	-	-	-	(103,831)	(103,831)
Total	\$ 8,626,510	\$ 1,874,847	\$ 1,403,244	\$ 541,708	(4,702,880)	(103,831)	(4,806,711)
General revenues:							
Property taxes					4,668,046	-	4,668,046
Licenses and permits					2,370	-	2,370
Intergovernmental					1,247,749	-	1,247,749
Unrestricted investment earnings					37,493	28,484	65,977
Miscellaneous					74,374	-	74,374
Transfers					8,000	(8,000)	-
Total general revenues and transfers					6,038,032	20,484	6,058,516
Change in net position					1,335,152	(83,347)	1,251,805
Net position - beginning					928,990	3,866,567	4,795,557
Prior period adjustments					1,881,637	-	1,881,637
Net position - ending					\$ 4,145,779	\$ 3,783,220	\$ 7,928,999

CUSTER COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General	Road	Public Safety	PILT	RID #1A	Total Nonmajor Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 99,252	\$ 33,135	\$ 86,666	\$ 311,547	\$ 15,450	\$ 285,650	\$ 831,700
Investments	349,746	116,760	305,397	1,097,836	54,441	1,006,586	2,930,766
Receivables:							
Taxes and assessments	14,410	5,385	18,544	-	226,731	27,011	292,081
Governments	15,600	-	84,879	-	-	53,599	154,078
Cemetery	-	-	-	-	-	4,427	4,427
Inventories	-	64,746	-	-	-	51,492	116,238
Total assets	\$ 479,008	\$ 220,026	\$ 495,486	\$ 1,409,383	\$ 296,622	\$ 1,428,765	\$ 4,329,290
LIABILITIES							
Accounts payable-vendors	\$ -	\$ -	\$ 35,013	\$ -	\$ -	\$ 120,987	\$ 156,000
Due to other governments	-	-	-	-	-	18,306	18,306
Unearned revenue	-	-	-	-	52,365	-	52,365
Total liabilities	-	-	35,013	-	52,365	139,293	226,671
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue-taxes and assessments	14,410	5,385	18,544	-	226,731	27,011	292,081
Total deferred inflows of resources	14,410	5,385	18,544	-	226,731	27,011	292,081
FUND BALANCES (DEFICITS)							
Nonspendable:							
Inventory	-	64,746	-	-	-	51,492	116,238
Restricted for:							
General government	-	-	-	-	-	194,136	194,136
Public safety	-	-	441,929	-	-	93,763	535,692
Public works	-	149,895	-	-	-	246,566	396,461
Public health	-	-	-	-	-	47,881	47,881
Social and economic services	-	-	-	-	-	72,938	72,938
Culture and recreation	-	-	-	-	-	43,970	43,970
Housing and community development	-	-	-	-	-	9,744	9,744
Capital projects	-	-	-	-	-	518,350	518,350
Debt service	-	-	-	-	17,526	5,077	22,603
Committed for:							
General government	-	-	-	1,409,383	-	27,624	1,437,007
Culture and recreation	-	-	-	-	-	41,984	41,984
Unassigned	464,598	-	-	-	-	(91,064)	373,534
Total fund balances (deficits)	464,598	214,641	441,929	1,409,383	17,526	1,262,461	3,810,538
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 479,008	\$ 220,026	\$ 495,486	\$ 1,409,383	\$ 296,622	\$ 1,428,765	\$ 4,329,290

CUSTER COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016

Total fund balances, governmental funds	\$ 3,810,538
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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.	12,414,319
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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.	65,614
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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	521,102
Deferred inflows of resources related to pensions	(937,772)

Some liabilities, (such as compensated absences, other post-employment benefits, notes payable, bonds payable, the net pension liability and capital leases), are not due and payable in the current period and, therefore, are not included in the funds.	(11,757,771)
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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.

29,749

Net position of governmental activities	<u><u>\$ 4,145,779</u></u>
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CUSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General	Road	Public Safety	PILT	RID #1A	Total Nonmajor Funds	Total Governmental Funds
REVENUES							
Taxes/assessments	\$ 1,389,119	\$ 359,562	\$ 1,274,103	\$ -	\$ 9,029	\$ 1,750,773	\$ 4,782,586
Fines and forfeitures	100,443	-	-	-	-	8,412	108,855
Licenses and permits	1,250	-	1,120	-	-	-	2,370
Intergovernmental	215,507	299,541	178,054	920,333	-	1,310,066	2,923,501
Charges for services	173,491	100	235,226	-	-	484,404	893,221
Investment earnings	35,109	-	3	-	-	2,381	37,493
Miscellaneous	31,834	1,050	7,960	-	-	97,912	138,756
Total revenues	1,946,753	660,253	1,696,466	920,333	9,029	3,653,948	8,886,782
EXPENDITURES							
Current:							
General government	1,499,729	-	-	-	-	876,292	2,376,021
Public safety	79,635	-	1,460,654	-	-	367,429	1,907,718
Public works	15,233	745,603	-	-	-	597,384	1,358,220
Public health	238,490	-	2,448	-	-	407,399	648,337
Social and economic services	28,291	-	-	1,499	-	268,529	298,319
Culture and recreation	1,051	-	-	1,000	-	477,382	479,433
Housing and community development	8,334	-	-	-	-	16,154	24,488
Other current charges	-	-	-	-	-	37,572	37,572
Debt service:							
Principal	-	54,028	2,656	-	4,398	336,977	398,059
Interest and other charges	-	2,334	1,285	-	6,504	241,250	251,373
Capital outlay	99,577	242,720	24,400	-	-	1,297,775	1,664,472
Total expenditures	1,970,340	1,044,685	1,491,443	2,499	10,902	4,924,143	9,444,012
Excess (deficiency) of revenues over expenditures	(23,587)	(384,432)	205,023	917,834	(1,873)	(1,270,195)	(557,230)
OTHER FINANCING SOURCES (USES)							
Transfers in	28,339	402,500	-	-	6,473	555,645	992,957
Transfers out	(18,000)	-	-	(647,357)	-	(319,600)	(984,957)
Total other financing sources (uses)	10,339	402,500	-	(647,357)	6,473	236,045	8,000
Net change in fund balances	(13,248)	18,068	205,023	270,477	4,600	(1,034,150)	(549,230)
Fund balances - beginning	477,846	196,573	236,906	1,138,906	12,926	2,296,611	4,359,768
Fund balances - ending	\$ 464,598	\$ 214,641	\$ 441,929	\$ 1,409,383	\$ 17,526	\$ 1,262,461	\$ 3,810,538

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, 2016

Net change in fund balances - total governmental funds	\$ (549,230)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlay for capital assets as expenditures. 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 (\$1,664,472) exceeded depreciation (\$411,143) in the current period.	1,253,329
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.	(54,035)
Contributed capital assets.	246,500
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.	(80,181)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits is reported as pension expense.	215,032
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 of debt principal repayments.	398,059
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	(15,857)
Other post-employment benefits	(124,854)
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.	33,331
Change in net position of governmental activities	<u>\$ 1,335,152</u>

CUSTER COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2016

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 522,976	\$ 7,674
Investments	1,842,874	27,041
Receivables:		
Taxes and assessments	13,020	-
Solid waste	6,416	-
Total current assets	<u>2,385,286</u>	<u>34,715</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	18,504	-
Investments	1,469,281	-
	<u>1,487,785</u>	<u>-</u>
Capital assets:		
Land and construction in progress	89,836	-
Buildings and improvements	2,056,024	-
Less accumulated depreciation	(1,361,656)	-
	<u>784,204</u>	<u>-</u>
Total non-current assets	<u>2,271,989</u>	<u>-</u>
Total assets	<u>4,657,275</u>	<u>34,715</u>
LIABILITIES		
Current liabilities:		
Accounts payable-vendors	64,008	-
Compensated absences	-	497
Total current liabilities	<u>64,008</u>	<u>497</u>
Non-current liabilities:		
Compensated absences	-	4,469
Landfill closure/postclosure care payable	810,047	-
Total non-current liabilities	<u>810,047</u>	<u>4,469</u>
Total liabilities	<u>874,055</u>	<u>4,966</u>
NET POSITION		
Net investment in capital assets	784,204	-
Restricted for landfill closure/postclosure care	677,738	-
Unrestricted	2,321,278	29,749
Total net position	<u>\$ 3,783,220</u>	<u>\$ 29,749</u>

CUSTER COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2016

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
REVENUES		
Charges for services	\$ 293,856	\$ 144,757
Taxes and assessments	502,524	-
Total operating revenues	796,380	144,757
OPERATING EXPENSES		
Personal services	11,778	100,989
Supplies	5,112	5,074
Purchased services	703,141	4,863
Fixed charges	4,000	500
Closure/postclosure costs	77,567	-
Depreciation	97,613	-
Total operating expenses	899,211	111,426
Operating income (loss)	(102,831)	33,331
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	28,484	-
Grants and contributions to others	(1,000)	-
Total non-operating revenues (expenses)	27,484	-
Income (loss) before transfers	(75,347)	33,331
Transfers out	(8,000)	-
Change in net position	(83,347)	33,331
Net position - beginning	3,866,567	(3,582)
Net position - ending	\$ 3,783,220	\$ 29,749

CUSTER COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2016

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 800,540	\$ -
Cash received from interfund services	-	144,757
Cash paid to employees	(11,778)	(100,630)
Cash paid to suppliers for goods and services	(699,087)	(10,437)
Net cash provided by operating activities	89,675	33,690
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash paid for grants and contributions to others	(1,000)	-
Cash used for interfund transfer	(8,000)	-
Net cash used by noncapital financing activities	(9,000)	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchase of capital assets	(498)	-
Net cash used by capital financing activities	(498)	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in investments	(251,289)	(26,304)
Interest received	28,484	-
Net cash used by investing activities	(222,805)	(26,304)
Change in cash and cash equivalents	(142,628)	7,386
Cash and cash equivalents - beginning (enterprise fund includes restricted cash and cash equivalents of \$17,630)	684,108	288
Cash and cash equivalents - ending (enterprise fund includes restricted cash and cash equivalents of \$18,504)	\$ 541,480	\$ 7,674
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (102,831)	\$ 33,331
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	97,613	-
Closure/post closure costs	77,567	-
Decrease in taxes/assessments receivable	1,736	-
Decrease in solid waste receivable	2,424	-
Increase in accounts payable	13,166	-
Increase in compensated absences	-	359
Net cash provided by operating activities	\$ 89,675	\$ 33,690

See notes to basic financial statements.

CUSTER COUNTY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 2,607,623	\$ 373,193
Investments	9,188,807	-
Taxes and assessments receivables	-	199,600
	<u>11,796,430</u>	<u>572,793</u>
Total assets	<u>11,796,430</u>	<u>\$ 572,793</u>
LIABILITIES		
Accounts payable	-	\$ 56,823
Due to special districts	-	22,187
Due to state	-	189,909
Due to schools	-	87,863
Due to cities/towns	-	216,011
	<u>-</u>	<u>572,793</u>
Total liabilities	<u>-</u>	<u>\$ 572,793</u>
NET POSITION		
Net position held in trust	<u>\$ 11,796,430</u>	

CUSTER COUNTY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2016

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 10,840,941
Investment earnings	<u>108,165</u>
Total additions	<u>10,949,106</u>
DEDUCTIONS	
Distributions to participants	10,909,203
Administrative	<u>5,409</u>
Total deductions	<u>10,914,612</u>
Change in net position	34,494
Net position - beginning	<u>11,761,936</u>
Net position - ending	<u><u>\$ 11,796,430</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 the following GASB statements:

GASB Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. This Statement requires governments to report a liability on the face of the financial statements for the OPEB that they provide.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. 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. 79, Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants.

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

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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

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 government reports the following major governmental funds:

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 road fund accounts for resources accumulated from property taxes and state entitlement and payments made for the maintenance, repair and construction of county-owned roads.

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 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 RID #1A fund accounts for the accumulation of resources for and payment of principal, interest, and related costs of the government's RID #1A special assessment debt.

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

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

investment pool is managed by the County Treasurer and overseen by the Board of County Commissioners. The investment pool is not registered with the SEC. 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. 60% 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 NCUA and the State Short Term Investment Pool (STIP). STIP is an investment program managed and administered under the direction of the Montana Board of Investments (MBOI) as authorized by the Unified Investment Program. The STIP portfolio is reported at fair value versus amortized cost.

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. The pool does not include any involuntary participants.

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. The government had no nonrecurring fair value measurements. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. 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 \$8,710.

Receivables

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

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased.

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 of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

determined as of 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, 2016.

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

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 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 long-term portion of the assessment receivable is also offset in the statement of net position as deferred inflows of resources. 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.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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."

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

The Fire FEMA (\$434), Mitigation (\$55,386) and Flood Protection (\$35,244) funds had deficit fund balances as of June 30, 2016. The deficits for Fire FEMA and Mitigation are carryovers from the prior year. The deficit in the Flood Protection fund occurred because current year expenditures exceeded current year revenues. The deficits are expected to be eliminated through general fund contributions.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

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

Governmental activities	\$ 3,797,181
Business-type activities	3,853,635
Fiduciary funds	<u>12,169,623</u>
	<u>\$ 19,820,439</u>

Total carrying value of cash, cash equivalents and investments as of June 30, 2016, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 1,500	\$ -	\$ 1,500
Cash in banks:			
Demand deposits	4,325,735	-	4,325,735
Savings deposits	5,241	-	5,241
Time deposits	-	1,250,000	1,250,000
Brokerage:			
Money markets	29,194	-	29,194
U.S. Government securities	-	14,208,769	14,208,769
	<u>\$ 4,361,670</u>	<u>\$ 15,458,769</u>	<u>\$ 19,820,439</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, 2016, \$5,194,443 of the government's bank balance of \$6,700,684 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>\$ 5,194,443</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, 2016, exceeded the amount required by state statute.

Fair value measurements are as follows at June 30, 2016:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. Treasuries	<u>\$ 14,220,158</u>	<u>\$ 14,220,158</u>	<u>\$ -</u>	<u>\$ -</u>

Debt securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. The government had no investments categorized as Level 2 or 3 inputs.

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). The STIP portfolio is reported on at fair value versus amortized cost. The government has no investment policy that would further limit its investment choices. The Short-Term Investment

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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.

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Brokers:					
U.S. Government securities	\$ 2,000,000	\$ -	\$ 12,208,769	\$ 14,208,769	\$ 14,220,158
Money Markets	29,194	-	-	29,194	29,194
	<u>\$ 2,029,194</u>	<u>\$ -</u>	<u>\$ 12,208,769</u>	<u>\$ 14,237,963</u>	<u>\$ 14,249,352</u>

Following is the condensed schedule of changes in net position for the investment pool for the year ended June 30, 2016:

	Internal	External	Total
Net position - beginning of year	\$ 8,482,056	\$ 11,761,936	\$ 20,243,992
Contributions from participants	6,654,851	10,840,941	17,495,792
Investment earnings	66,028	108,165	174,193
Administrative fees	(3,301)	(5,409)	(8,710)
Distributions to participants	(7,175,625)	(10,909,203)	(18,084,828)
Net position - end of year	<u>\$ 8,024,009</u>	<u>\$ 11,796,430</u>	<u>\$ 19,820,439</u>

Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 114,111	\$ -	\$ -	\$ 114,111
Construction-in-progress	6,452,854	812,959	(7,249,248)	16,565
Total capital assets, not being depreciated	<u>6,566,965</u>	<u>812,959</u>	<u>(7,249,248)</u>	<u>130,676</u>
Capital assets, being depreciated				
Buildings/improvements	3,378,451	7,521,230	(268,293)	10,631,388
Improvements other than buildings	333,226	91,022	-	424,248
Machinery and equipment	4,220,095	416,254	(62,902)	4,573,447
Infrastructure	774,221	337,755	-	1,111,976
Total capital assets, being depreciated	<u>8,705,993</u>	<u>8,366,261</u>	<u>(331,195)</u>	<u>16,741,059</u>
Less accumulated depreciation for:				
Buildings/improvements	(1,771,187)	(100,650)	210,656	(1,661,181)
Improvements other than buildings	(110,441)	(24,578)	-	(135,019)
Machinery and equipment	(2,371,792)	(273,892)	47,504	(2,598,180)
Infrastructure	(51,013)	(12,023)	-	(63,036)
Total accumulated depreciation	<u>(4,304,433)</u>	<u>(411,143)</u>	<u>258,160</u>	<u>(4,457,416)</u>
Total capital assets, being depreciated, net	<u>4,401,560</u>	<u>7,955,118</u>	<u>(73,035)</u>	<u>12,283,643</u>
Governmental activities capital assets, net	<u>\$ 10,968,525</u>	<u>\$ 8,768,077</u>	<u>\$ (7,322,283)</u>	<u>\$ 12,414,319</u>

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

Governmental activities:		
General government	\$	38,563
Public safety		122,125
Public works		172,393
Social and economic		3,888
Culture and recreation		16,920
Housing and community development		57,254
Total depreciation-governmental activities	\$	<u>411,143</u>

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 1	\$ -	\$ -	\$ 1
Construction-in-progress	89,337	498	-	89,835
Total capital assets, not being depreciated	<u>89,338</u>	<u>498</u>	<u>-</u>	<u>89,836</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	(22,096)	(1,739)	-	(23,835)
Improvements other than buildings	(1,241,947)	(95,874)	-	(1,337,821)
Total accumulated depreciation	<u>(1,264,043)</u>	<u>(97,613)</u>	<u>-</u>	<u>(1,361,656)</u>
Total capital assets, being depreciated, net	<u>791,981</u>	<u>(97,613)</u>	<u>-</u>	<u>694,368</u>
Business-type activities capital assets, net	<u>\$ 881,319</u>	<u>\$ (97,115)</u>	<u>\$ -</u>	<u>\$ 784,204</u>

Depreciation expense was charged as follows:

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

Interfund Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
Governmental activities:			
General	\$ 28,339	\$ (18,000)	\$ 10,339
Road	402,500	-	402,500
PILT	-	(647,357)	(647,357)
RID #1A	6,473	-	6,473
Nonmajor governmental funds	<u>555,645</u>	<u>(319,600)</u>	<u>236,045</u>
	<u>\$ 992,957</u>	<u>\$ (984,957)</u>	<u>\$ 8,000</u>
Business-type activities:			
Solid Waste	<u>\$ -</u>	<u>\$ (8,000)</u>	<u>\$ (8,000)</u>

Transfers consist of funding capital improvements, grant matching and closing inactive funds.

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	\$ 93,420
Less: accumulated depreciation	(18,684)
	<u>\$ 74,736</u>

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2016, are as follows:

	Year ending June 30,	Governmental Activities
	2017	\$ 3,941
	2018	13,161
Total minimum lease payments		17,102
Less: amount representing interest		(1,540)
Present value of minimum lease payments		<u>\$ 15,562</u>

Long-Term Debt

Notes payable currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2016
Fair skidsteer-2015 (1)	\$ 23,000	4 yr	1.55%	\$ 12,566
Rock crusher for road-2008 (1)	50,000	10 yr	1.55%	11,997
Harris Creek bridge-2011 (1)	180,000	10 yr	1.55%	84,953
Motor grader-2014 (1)	110,000	5 yr	1.55%	66,531
Motor grader-2011 (1)	120,000	7 yr	1.55%	27,076
				<u>\$ 203,123</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
2017	\$ 68,308	\$ 1,929	\$ 70,237
2018	60,332	1,213	61,545
2019	45,612	647	46,259
2020	19,431	240	19,671
2021	9,440	47	9,487
	<u>\$ 203,123</u>	<u>\$ 4,076</u>	<u>\$ 207,199</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 bear interest rates of 2 to 4.25 percent and are payable in installments of principal and interest 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, 2016 are \$6,955,000.

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
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	330,000	207,973	537,973
2022-2026	1,775,000	919,115	2,694,115
2027-2031	2,105,000	584,598	2,689,598
2032-2036	1,485,000	127,924	1,612,924
	<u>\$ 6,955,000</u>	<u>\$ 2,735,201</u>	<u>\$ 9,690,201</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 and interest over the next 40 years. Special assessment bonds currently outstanding as of June 30, 2016 are \$283,602.

Special assessment bond debt service requirements to maturity are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 4,509	\$ 7,099	\$ 11,608
2018	4,623	6,985	11,608
2019	4,740	6,868	11,608
2020	4,860	6,748	11,608
2021	4,983	6,625	11,608
2022-2026	26,868	31,172	58,040
2027-2031	30,443	27,597	58,040
2032-2036	34,491	23,549	58,040
2037-2041	39,078	18,962	58,040
2042-2046	44,277	13,763	58,040
2047-2051	50,164	7,876	58,040
2052-2056	34,566	1,575	36,141
	<u>\$ 283,602</u>	<u>\$ 158,819</u>	<u>\$ 442,421</u>

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 7,255,000	\$ -	\$ (300,000)	\$ 6,955,000	\$ 305,000
Bond premium	248,110	-	(13,058)	235,052	-
Special assessment bonds	288,000	-	(4,398)	283,602	4,509
Total bonds payable	7,791,110	-	(317,456)	7,473,654	309,509
Capital leases	35,807	-	(20,245)	15,562	3,101
Notes payable	276,539	-	(73,416)	203,123	68,308
Compensated absences	323,352	16,216	-	339,568	33,957
Governmental activities long-term liabilities	<u>\$ 8,426,808</u>	<u>\$ 16,216</u>	<u>\$ (411,117)</u>	<u>\$ 8,031,907</u>	<u>\$ 414,875</u>

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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, \$4,966 of the internal service fund compensated absences is included in the above 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, 2016, 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 \$810,047 reported as a landfill closure and postclosure care liability as of June 30, 2016, 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 \$759,203 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, 2016. 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, 2016, \$1,487,785 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, 2016:

Balance July 1, 2015	Additions	Adjustment	Balance June 30, 2016
\$ 732,480	\$ 77,567	\$ -	\$ 810,047

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 correcting the beginning balance of the other post-employment benefit liability under GASB Statement No. 75.

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, 2016, the County contributed \$166,000 to the City for these services.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Contingencies

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 Description

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, MCA. The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans. 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.

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.

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, 1.785% of the member's highest average compensation (HAC) multiplied by years of service credit or 2) if 25 years of membership service or more, 2% of HAC multiplied by years of service credit.

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, 1.5% of the member's HAC multiplied by years of service credit, 2) if between 10 and 30 years of membership service, 1.785% of HAC multiplied by years of service credit, or 3) if 30 years of membership service or more, 2% of HAC multiplied by years of service credit.

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. Plan members hired on or after July 1, 2011 are eligible for early retirement at age 55 with 5 years of membership service. Benefits are actuarially reduced.

For members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 1). 3% for members hired prior to July 1, 2007, 2). 1.5% for members hired between July 1, 2007 and June 30, 2013 or, 3). Members hired on or after July 1, 2013: a). 1.5% for each year PERS is funded at or above 90%; b). 1.5% is reduced by .1% for each 2% PERS is funded below 90%; and c). 0% whenever the amortization period for PERS is 40 years or more.

Sheriff's Retirement System

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.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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.

Member and Employer Contributions

Public Employees Retirement System

All members contribute 7.9% of their compensation. 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. 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. The State's General Fund contributes an additional .37% of earned compensation. 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

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, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2016, the government recorded a liability of \$2,121,284 (PERS) and \$730,937 (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:

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

	Net Pension Liability June 30, 2016	
	PERS	SRS
Employer proportionate share	\$ 2,121,284	\$ 730,937
State of Montana proportionate share associated with employer	26,056	-
Total	<u>\$ 2,147,340</u>	<u>\$ 730,937</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The 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, 2014, through June 30, 2015, relative to the total employer contributions received from all PERS and SRS participating employers. At June 30, 2016, the government's proportion was .1518 and .7582 percent for PERS and SRS, respectively.

For the year ended June 30, 2016, the government recognized (\$49,621) (PERS) and \$59,268 (SRS) for its proportionate share of the pension expense. The government also recognized grant revenue of \$52,528 (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 \$2,907 and \$59,268 for PERS and SRS, respectively.

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

	PERS		SRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 12,834	\$ -	\$ 1,232
Changes in assumptions	-	-	272,071	268,322
Net difference between projected and actual earnings on pension plan investments	-	179,589	-	50,060
Changes in the employer's proportion and differences between employer's contributions and the employer's proportionate contributions	-	425,735	24,352	-
Employer contributions subsequent to measurement date	162,811	-	61,868	-
	<u>\$ 162,811</u>	<u>\$ 618,158</u>	<u>\$ 358,291</u>	<u>\$ 319,614</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, 2017. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	PERS	SRS
2017	\$ (221,996)	\$ (15,834)
2018	(221,996)	(15,834)
2019	(220,873)	(15,834)
2020	46,708	18,936
2021	-	5,374

Actuarial Assumptions

For each of the retirement plans, the total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

	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 projected to 2015 with 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 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, 2015, 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%	4.55%	36.0%	4.55%
Foreign equity	18.0%	6.10%	18.0%	6.10%
Fixed income	24.0%	1.25%	24.0%	1.25%
Private equity	12.0%	8.00%	12.0%	8.00%
Real estate	8.0%	4.25%	8.0%	4.25%
	<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 governments. 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 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Sheriff's Retirement System (SRS)

The discount rate used to measure the TPL was 6.86%, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%. 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 after 2057. Therefore, the portion of future projected benefit payments after 2057 are discounted at the municipal bond index rate.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Sensitivity Analysis

The following presents the employer's PERS 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	\$ 3,270,561	\$ 2,121,284	\$ 1,150,746

The following presents the employer's SRS proportionate share net pension liability calculated using the discount rate of 6.86%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (5.86%) or 1.00% higher (7.86%) than the current rate.

	1% Decrease (5.86%)	Current Discount Rate (6.86%)	1% Increase (7.86%)
Net pension liability-SRS	\$ 1,173,835	\$ 730,937	\$ 367,867

Postemployment Benefits Other Than Pensions

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

Benefits provided: The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in 2-18-704, MCA. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums.

Employees covered by benefit terms: As of June 30, 2016, the following employees were covered by the benefit:

Inactive employees or beneficiaries receiving benefit payments	1
Active employees	59
	<u>60</u>

Total OPEB liability: The government's total OPEB liability, as of June 30, 2016, was \$878,609 and was determined by using the alternative measurement method as of that date.

Actuarial assumptions and other input: The total OPEB liability, as of June 30, 2016, was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

• Average age of retirement based on historical data	62
• Discount rate (average anticipated rate)	3.80%
• Average salary increase (Consumer Price Index)	2.70%

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

Year	% Change
2015	6.20
2016	5.10
2017	5.30
2018	6.20
2019	6.30
2020	6.10
2021	6.30
2022	6.30
2023	6.30
2024	6.10
2025 and thereafter	5.90

- The discount rate was based on the 20 year general obligation (GO) bond index.
- Life expectancy of employees was based on the United States Life Tables, 2011 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 64, No. 11, September 22, 2015.
- The turnover rates were determined from the periodic experience studies of the Montana public retirement systems for the covered groups as documented in the GASB Statement No. 68 actuarial valuations .

The following is a schedule of changes for the total OPEB liability:

Total OPEB liability - beginning	\$ 2,635,392
Changes for the year:	
Service cost	124,854
Prior period adjustment	<u>(1,881,637)</u>
Total OPEB liability - ending	<u>\$ 878,609</u>

Sensitivity of the total OPEB liability to changes in the discount rate: The following summarizes the total OPEB liability reported and how that liability would change if the discount rate used to calculate the OPEB liability were to decrease or increase 1 percent:

	1% Decrease (2.80%)	Discount Rate (3.80%)	1% Increase (4.80%)
Total OPEB liability	\$ 983,097	\$ 878,609	\$ 788,561

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

	1% Decrease	Healthcare Cost Trends*	1% Increase
Total OPEB liability	\$ 762,875	\$ 878,609	\$ 1,017,214

* See the assumption footnotes above to determine the healthcare cost trends used to calculate the OPEB liability

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB: For the year ended June 30, 2016, the government recognized OPEB expense of \$124,854. The government does not have deferred inflows of resources related to the OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since the government records costs as they come due, there are no deferred outflows of resources for contributions to the OPEB plan.

CUSTER COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 77, Tax Abatement Disclosures. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants. The requirements of paragraphs 18, 19, 23–26, and 40 are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or 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, 2016

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
REVENUES					
Taxes/assessments	\$ 1,365,847	\$ 1,366,022	\$ 1,389,119	\$ -	\$ 1,389,119
Fees and fines	97,925	97,925	100,443	-	100,443
Licenses and permits	4,000	4,000	1,250	-	1,250
Intergovernmental	180,950	180,950	162,979	52,528	215,507
Charges for services	165,159	168,506	173,491	-	173,491
Investment earnings	32,000	32,000	35,109	-	35,109
Miscellaneous	13,900	13,900	31,834	-	31,834
Total revenues	1,859,781	1,863,303	1,894,225	52,528	1,946,753
EXPENDITURES					
Current:					
General government	1,731,872	1,742,188	1,472,415	27,314	1,499,729
Public safety	122,836	122,911	73,857	5,778	79,635
Public works	-	-	-	15,233	15,233
Public health	226,500	226,500	236,389	2,101	238,490
Social and economic services	24,250	24,250	27,240	1,051	28,291
Culture and recreation	-	-	-	1,051	1,051
Housing and community development	8,400	8,400	8,334	-	8,334
Capital outlay	13,000	13,000	99,577	-	99,577
Total expenditures	2,126,858	2,137,249	1,917,812	52,528	1,970,340
Excess (deficiency) of revenues over expenditures	(267,077)	(273,946)	(23,587)	-	(23,587)
OTHER FINANCING SOURCES (USES)					
Transfers in	18,000	19,800	28,339	-	28,339
Transfers out	(18,000)	(18,000)	(18,000)	-	(18,000)
Total other financing sources (uses)	-	1,800	10,339	-	10,339
Net change in fund balance	\$ (267,077)	\$ (272,146)	(13,248)	-	(13,248)
Fund balance - beginning			477,846	-	477,846
Fund balance - ending			\$ 464,598	\$ -	\$ 464,598

CUSTER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Road Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 352,637	\$ 352,637	\$ 359,562
Intergovernmental	861,469	861,469	299,541
Charges for services	100	100	100
Miscellaneous	5,000	5,000	1,050
Total revenues	1,219,206	1,219,206	660,253
EXPENDITURES			
Current:			
Public works	1,188,077	1,188,077	745,603
Debt service:			
Principal	45,003	45,003	54,028
Interest and other charges	1,742	1,742	2,334
Capital outlay	250,000	250,000	242,720
Total expenditures	1,484,822	1,484,822	1,044,685
Excess (deficiency) of revenues over expenditures	(265,616)	(265,616)	(384,432)
OTHER FINANCING SOURCES			
Long-term debt issued	180,000	180,000	-
Transfers in	402,500	402,500	402,500
Total other financing sources	582,500	582,500	402,500
Net change in fund balance	\$ 316,884	\$ 316,884	18,068
Fund balance - beginning			196,573
Fund balance - ending			\$ 214,641

CUSTER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Public Safety Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 1,265,523	\$ 1,265,523	\$ 1,274,103
Licenses and permits	500	500	1,120
Intergovernmental	192,700	192,700	178,054
Charges for services	80,500	80,500	235,226
Investment earnings	10	10	3
Miscellaneous	600	600	7,960
Total revenues	<u>1,539,833</u>	<u>1,539,833</u>	<u>1,696,466</u>
EXPENDITURES			
Current:			
Public safety	1,681,313	1,713,531	1,460,654
Public health	2,500	2,500	2,448
Debt service:			
Principal	2,657	2,657	2,656
Interest and other charges	1,285	1,285	1,285
Capital outlay	40,000	40,000	24,400
Total expenditures	<u>1,727,755</u>	<u>1,759,973</u>	<u>1,491,443</u>
Net change in fund balance	<u>\$ (187,922)</u>	<u>\$ (220,140)</u>	205,023
Fund balance - beginning			<u>236,906</u>
Fund balance - ending			<u>\$ 441,929</u>

CUSTER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PILT Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Intergovernmental	\$ 500,000	\$ 500,000	\$ 920,333
Total revenues	<u>500,000</u>	<u>500,000</u>	<u>920,333</u>
EXPENDITURES:			
Current:			
General government	100	100	-
Social and economic services	1,500	1,500	1,499
Culture and recreation	1,000	1,000	1,000
Total expenditures	<u>2,600</u>	<u>2,600</u>	<u>2,499</u>
Excess (deficiency) of revenues over expenditures	<u>497,400</u>	<u>497,400</u>	<u>917,834</u>
OTHER FINANCING USES			
Transfers out	<u>(700,000)</u>	<u>(700,000)</u>	<u>(647,357)</u>
Total other financing uses	<u>(700,000)</u>	<u>(700,000)</u>	<u>(647,357)</u>
Net change in fund balance	<u>\$ (202,600)</u>	<u>\$ (202,600)</u>	270,477
Fund balance - beginning			<u>1,138,906</u>
Fund balance - ending			<u>\$ 1,409,383</u>

CUSTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

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
PUBLIC EMPLOYEES AND SHERIFF'S RETIREMENT SYSTEMS OF MONTANA
For the Year Ended June 30, 2016

Public Employees Retirement System:	2016	2015
Contractually required contributions	\$ 162,811	\$ 148,291
Contributions in relation to the contractually required contributions	162,811	148,291
Contribution deficiency (excess)	\$ -	\$ -
Pensionable payroll	\$ 1,926,564	\$ 1,770,964
Contributions as a percentage of pensionable payroll	8.45%	8.37%
 Sheriff's Retirement System:	 2016	 2015
Contractually required contributions	\$ 61,868	\$ 52,337
Contributions in relation to the contractually required contributions	61,868	52,337
Contribution deficiency (excess)	\$ -	\$ -
Pensionable payroll	\$ 596,924	\$ 515,949
Contributions as a percentage of pensionable payroll	10.36%	10.14%

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
PUBLIC EMPLOYEES AND SHERIFF'S RETIREMENT SYSTEMS OF MONTANA
For the Year Ended June 30, 2016

Public Employees Retirement System:	2016	2015
Employer's proportion of the net pension liability	0.1518%	0.1874%
Employer's proportionate share of the net pension liability associated with the employer	\$ 2,121,284	\$ 2,335,475
State of Montana's proportionate share of the net pension liability associated with the employer	26,056	28,520
Total	<u>\$ 2,147,340</u>	<u>\$ 2,363,995</u>
Pensionable payroll	\$ 1,770,964	\$ 2,121,774
Employer's proportionate share of the net pension liability as a percentage of its pensionable payroll	119.78%	110.07%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.90%
 Sheriff's Retirement System:	 2016	 2015
Employer's proportion of the net pension liability	0.7582%	0.7297%
Employer's proportionate share of the net pension liability associated with the employer	\$ 730,937	\$ 303,684
State of Montana's proportionate share of the net pension liability associated with the employer	-	-
Total	<u>\$ 730,937</u>	<u>\$ 303,684</u>
Pensionable payroll	\$ 515,949	\$ 471,924
Employer's proportionate share of the net pension liability as a percentage of its pensionable payroll	141.67%	64.35%
Plan fiduciary net position as a percentage of the total pension liability	75.40%	87.20%

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, 2016

Public Employees Retirement System

Changes of Benefit Terms:

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

2013 Legislative Changes:

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

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

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

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

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454 Guaranteed Annual Benefit Adjustment (GABA) - for PERS. After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

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

2015 Legislative Changes:

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

Second Retirement Benefit - for PERS:

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

CUSTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION
For the Year Ended June 30, 2016

- Refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - No service credit for second employment;
 - Start same benefit amount the month following termination; and,
 - GABA starts again in the January immediately following second retirement.
4. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
- Member receives same retirement benefit as prior to return to service;
 - Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and,
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

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

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

Changes in actuarial assumptions and other inputs:

None

Sheriff's Retirement System

Changes of Benefit Terms:

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

2013 Legislative Changes:

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

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

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

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

2015 Legislative Changes:

None

CUSTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION
For the Year Ended June 30, 2016

Changes in actuarial assumptions and other inputs:

Method and assumptions used in calculations of actuarially determined contributions:

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

- SRS discount rate used to measure the TPL - 6.86 percent, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%.

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

- Admin expense as % of payroll - 0.17%
- SRS discount rate used to measure the TPL - 7.75 percent, which is the assumed long-term expected rate of return on System's investments.

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

- SRS discount rate used to measure the TPL - 6.68 percent, which is a blend of the assumed long-term expected rate of return of 7.82% on System's investments and a municipal bond index rate of 4.27%.

	PERS	SRS
Actuarial 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	3.00%	3.00%
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 CHANGES IN THE TOTAL OTHER POST-EMPLOYMENT BENEFITS
LIABILITY AND RELATED RATIOS
For the Year Ended June 30, 2016

TOTAL OTHER POST-EMPLOYMENT BENEFITS LIABILITY (OPEB):

	<u>2016</u>
Service cost	<u>\$ 124,854</u>
Net change in total OPEB liability	<u>124,854</u>
Total OPEB Liability - beginning	2,635,392
Restatement	<u>(1,881,637)</u>
Total OPEB Liability - ending	<u><u>\$ 878,609</u></u>
Covered-employee payroll	<u><u>\$ 2,366,368</u></u>
Total OPEB liability as a percentage of covered -employee payroll	<u><u>37.13%</u></u>

The above schedule is presented by combining the required schedules from GASB Statement No. 75 paragraphs 170a and 170b. The GASB requires that 10 years of information related to the OPEB liability be presented, but due to this being the first year of implementation only one year of data is available.

OLNESS & ASSOCIATES, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated December 21, 2016. The report included explanatory paragraphs to describe changes in accounting principles. Also, the report on governmental activities, the road fund 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, 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 to be material weaknesses (Findings 2016-001 through 2016-6).

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 deficiencies described in the accompanying schedule of findings to be significant deficiencies (Findings 2016-007 through 2016-009).

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule as item 2016-009.

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)

The Government's Response to Findings

The government did not respond to the findings identified in our audit as described in the accompanying schedule of findings. 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.

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
December 21, 2016

CUSTER COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2016

2016-001. SEGREGATION OF DUTIES

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

2016-002. AUDITOR PREPARED FINANCIAL STATEMENTS

Criteria: As part of its internal control structure, it is the government's responsibility to prepare its financial statements in accordance with generally accepted accounting principles (GAAP).

Condition: The government does not have the expertise to prepare or evaluate the selection and application of accounting principles and resulting disclosures and presentations within the auditor prepared financial statements.

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

Effect: It is common for a small organization to rely on the audit firm to prepare the financial statements; 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, this weakness in internal control would be classified as material.

Recommendation: While it may not be cost effective to do so, we recommend the government consider hiring a qualified person to evaluate the auditor prepared financial statements.

2016-003. 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.

2016-004. 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.

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.

CUSTER COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2016

2016-005. 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.

2016-006. 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.

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.

2016-007. PROTESTED TAXES

Criteria: General ledger protested taxes receivables, subsidiary ledgers and the protested taxes fund (No. 7130) should all agree at the end of each month.

Condition: As of June 30, 2016, the general ledger protested taxes receivables, subsidiary ledgers and the protested taxes fund (No. 7130) were not in agreement.

Cause: Unknown.

Effect: By not reconciling general ledger protested taxes receivables, subsidiary ledgers and the protested taxes fund (No. 7130), errors may accumulate and not be identified.

Recommendation: The Treasurer should develop detail procedures to formally reconcile the protested taxes fund, protested taxes subsidiary ledger and the protested taxes receivable accounts in the general ledger. These procedures

CUSTER COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2016

should be performed at the end of each month and filed for future reference.

2016-008. 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.

2016-009. MAXIMUM MILL LEVY

Criteria: Section 15-10-420, MCA authorizes the maximum number of mills a County may levy.

Condition: For fiscal year 2016, the County over levied for the aggregate mills by 7.98 and the Road fund mills by 1.66.

Cause: Unknown.

Effect: The County over levied under 15-10-420, MCA.

Recommendation: The County should recalculate the maximum number of mills authorized under 15-10-420, MCA, for fiscal year 2016 and 2017. This will assist in correcting the maximum number of mills authorized under 15-10-420, MCA.

CUSTER COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

2015-001. FINANCIAL STATEMENT PREPARATION

Status: This finding is unresolved and is repeated as finding 2016-002 for the year ended June 30, 2016.

2015-002. SEGREGATION OF DUTIES

Status: This finding is unresolved and is repeated as finding 2016-001 for the year ended June 30, 2016.

2015-003. TREASURER'S OFFICE

Status: This finding is resolved.

2015-004. LANDFILL CHARGE SLIPS

Status: This finding is unresolved and is repeated as finding 2016-003 for the year ended June 30, 2016.

2015-005. LANDFILL CASH COLLECTIONS

Status: This finding is unresolved and is repeated as finding 2016-004 for the year ended June 30, 2016.

2015-006. TAXES RECEIVABLE

Status: This finding is resolved.

2015-007. TAX ABATEMENTS/CORRECTIONS

Status: This finding is unresolved and is repeated as finding 2016-005 for the year ended June 30, 2016.

2015-008. COUNTY FAIR

Status: This finding is unresolved and is repeated as finding 2016-006 for the year ended June 30, 2016.

2015-009. CAPITAL ASSETS

Status: This finding is unresolved and is repeated as finding 2016-008 for the year ended June 30, 2016.

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

Status: This finding is resolved.