

**CUSTER COUNTY  
MILES CITY, MONTANA  
FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**OLNESS & ASSOCIATES, P. C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**2810 CENTRAL AVENUE, SUITE B  
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CUSTER COUNTY

ORGANIZATION

June 30, 2019

BOARD OF COUNTY COMMISSIONERS

Jason Strouf	Presiding Officer
Keith Holmlund	Commissioner
Kevin Krausz	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
Mark Hilderbrand	Justice of the Peace

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer County, Montana (the government) as of and for the year ended June 30, 2019, 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, the 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, the road fund and the aggregate remaining fund information of the government, as of June 30, 2019, 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, 2019, 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.

### Emphasis of Matter

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. 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 changes in the total other post-employment benefits (OPEB) liability and related ratios 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 November 7, 2019, 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  
November 7, 2019

## 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, 2019. Please read the information here in conjunction with our financial statements and footnotes.

- Net position at the close of fiscal year 2019 was \$9,949,318. Of this amount, \$3,225,011 is restricted and \$6,841,921 was our net investment in capital assets.
- The County's total net position increased by \$110,135 as a result of this year's operations.
- Actual general fund revenues were less than budgeted revenues by \$184,633, while actual expenditures were less than budgeted appropriations by \$445,031.

### 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, deferred outflows, 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, deferred outflows, 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 2019 was \$9,949,318. Of this amount, \$3,225,011 is restricted and \$6,841,921 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 \$777,542 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 \$110,135 as a result of this year's operations. Net position for our governmental activities increased \$300,987 as result of capital asset activity and levying to pay debt principal. Net position for the business-type activities decreased \$190,852, which is attributable to depreciation and landfill closure/postclosure care costs.

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

NET POSITION:	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 4,963,978	\$ 5,162,062	\$ 3,921,167	\$ 3,907,158	\$ 8,885,145	\$ 9,069,220
Capital assets	12,991,751	12,751,376	491,568	588,976	13,483,319	13,340,352
Total assets	17,955,729	17,913,438	4,412,735	4,496,134	22,368,464	22,409,572
Deferred outflows	1,280,443	1,585,715	-	-	1,280,443	1,585,715
Other liabilities	155,252	86,212	67,922	54,977	223,174	141,189
Long-term liabilities	11,037,632	11,806,055	1,165,994	1,071,486	12,203,626	12,877,541
Total liabilities	11,192,884	11,892,267	1,233,916	1,126,463	12,426,800	13,018,730
Deferred inflows	1,272,789	1,137,374	-	-	1,272,789	1,137,374
Net position:						
Net Investment in capital assets	6,350,353	5,837,264	491,568	588,976	6,841,921	6,426,240
Restricted	2,447,469	2,726,005	777,542	741,551	3,225,011	3,467,556
Unrestricted	(2,027,323)	(2,093,757)	1,909,709	2,039,144	(117,614)	(54,613)
	<u>\$ 6,770,499</u>	<u>\$ 6,469,512</u>	<u>\$ 3,178,819</u>	<u>\$ 3,369,671</u>	<u>\$ 9,949,318</u>	<u>\$ 9,839,183</u>

CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET POSITION:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 998,224	\$ 1,893,186	\$ 768,355	\$ 716,928	\$ 1,766,579	\$ 2,610,114
Operating grants and contributions	1,056,700	819,407	-	-	1,056,700	819,407
Capital grants and contributions	112,449	257,108	-	-	112,449	257,108
General revenues:						
Taxes	5,303,453	5,087,537	-	-	5,303,453	5,087,537
Licenses and permits	1,965	2,050	-	-	1,965	2,050
Intergovernmental	1,241,104	1,228,094	-	-	1,241,104	1,228,094
Interest	72,091	61,594	50,148	33,555	122,239	95,149
Miscellaneous	86,647	107,393	9	1,939	86,656	109,332
Gain on disposal of capital assets	39,939	-	-	-	39,939	-
Total revenues	8,912,572	9,456,369	818,512	752,422	9,731,084	10,208,791
Expenses:						
General government	2,527,380	2,480,981	-	-	2,527,380	2,480,981
Public safety	2,277,229	2,266,109	-	-	2,277,229	2,266,109
Public works	1,757,520	1,741,774	-	-	1,757,520	1,741,774
Public health	744,686	502,768	-	-	744,686	502,768
Social and economic services	468,386	390,056	-	-	468,386	390,056
Culture and recreation	559,194	557,312	-	-	559,194	557,312
Housing and community dev.	39,079	78,441	-	-	39,079	78,441
Other current charges	29,652	37,098	-	-	29,652	37,098
Solid Waste	-	-	1,001,364	986,304	1,001,364	986,304
Interest on long-term debt	216,459	225,119	-	-	216,459	225,119
Total expenses	8,619,585	8,279,658	1,001,364	986,304	9,620,949	9,265,962
Change in net position before transfers	292,987	1,176,711	(182,852)	(233,882)	110,135	942,829
Transfers	8,000	8,000	(8,000)	(8,000)	-	-
Change in net position	300,987	1,184,711	(190,852)	(241,882)	110,135	942,829
Net position, beginning	6,469,512	4,804,320	3,369,671	3,611,553	9,839,183	8,415,873
Prior period adjustments	-	480,481	-	-	-	480,481
Net position, ending	\$ 6,770,499	\$ 6,469,512	\$ 3,178,819	\$ 3,369,671	\$ 9,949,318	\$ 9,839,183

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 government, except those accounted for in another fund. At the end of the fiscal year, unassigned fund balance was \$570,980. Overall fund balance decreased \$132,836. Available fund balance was used to fund current year operations.

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. Fund balance increased \$138,591 as a result of conservative spending.

The Custer County Event Center fund accounts for insurance recoveries that have been committed to upgrading or construction of a new event center. Fund balance as of June 30, 2019 was \$634,173



CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services. The public safety fund fund balance decreased \$142,056. Available fund balance was used to fund current year operations.

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 2019, resources from the PILT fund were transferred to fund other fund's budgets. Overall fund balance increased \$168,930.

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 \$4,039.

Net position for the business-type activities decreased \$190,852 which is attributable to depreciation and landfill closure/postclosure care costs.

General Fund Budgetary Highlights:

There were no significant general fund budget amendments. Actual revenues were less than budgeted revenues by \$184,633, while actual expenditures were less than budgeted appropriations by \$445,031.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Custer County's net investment in capital assets, as of June 30, 2019 as \$6,841,921. 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, 2019 was \$409,207. Other liabilities outstanding consist of the net pension liability, the total other post-employment benefits liability, GO bonds, SID bonds and notes payable. 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 fiscal year 2020.

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 buildings and grounds repair. The exhibit hall sustained extensive damage from excessive snow load March 2018. The County is planning to replace this building with a year-round facility for events and conventions. The County is also replacing the old and antiquated arena lights at the grandstands.

High energy and fuel costs continue to be a major concern for the 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; however, the bridge deck must be replaced at an estimated cost over \$2 million. Custer County is currently working with MDT Secondary Bridge System project funding.

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.

CUSTER COUNTY  
STATEMENT OF NET POSITION  
June 30, 2019

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents	\$ 1,898,056	\$ 775,553	\$ 2,673,609
Investments	2,396,358	1,169,708	3,566,066
Receivables:			
Taxes and assessments	329,868	12,090	341,958
Governments	146,990	-	146,990
Solid waste	-	20,280	20,280
Cemetery	2,937	-	2,937
Inventories	189,769	-	189,769
Restricted assets:			
Investments	-	1,943,536	1,943,536
Capital assets:			
Land and construction in progress	211,657	89,836	301,493
Capital assets, net of accumulated depreciation	12,780,094	401,732	13,181,826
Total assets	<u>17,955,729</u>	<u>4,412,735</u>	<u>22,368,464</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension plans	1,240,310	-	1,240,310
Other post-employment benefits	40,133	-	40,133
Total deferred outflows of resources	<u>1,280,443</u>	<u>-</u>	<u>1,280,443</u>
<b>LIABILITIES</b>			
Accounts payable-vendors	155,252	67,922	223,174
Long-term liabilities:			
Due within one year:			
Notes and bonds	369,374	-	369,374
Compensated absences	40,921	-	40,921
Due in more than one year:			
Notes and bonds	6,272,024	-	6,272,024
Compensated absences	368,286	-	368,286
Landfill closure/postclosure care payable	-	1,165,994	1,165,994
Net pension liability	3,431,687	-	3,431,687
Total other post-employment benefits liability	555,340	-	555,340
Total liabilities	<u>11,192,884</u>	<u>1,233,916</u>	<u>12,426,800</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension plans	1,046,366	-	1,046,366
Other post-employment benefits	11,058	-	11,058
Unavailable revenue-deferred special assessments	215,365	-	215,365
Total deferred inflows of resources	<u>1,272,789</u>	<u>-</u>	<u>1,272,789</u>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	6,350,353	491,568	6,841,921
Restricted for:			
Landfill closure/postclosure care	-	777,542	777,542
General government	225,789	-	225,789
Public safety	272,413	-	272,413
Public works	605,724	-	605,724
Public health	44,469	-	44,469
Social and economic	28,931	-	28,931
Culture and recreation	689,856	-	689,856
Housing and community development	4,626	-	4,626
Capital projects	538,925	-	538,925
Debt service	36,736	-	36,736
Unrestricted	(2,027,323)	1,909,709	(117,614)
Total net position (deficit)	<u>\$ 6,770,499</u>	<u>\$ 3,178,819</u>	<u>\$ 9,949,318</u>

CUSTER COUNTY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 2,527,380	\$ 185,818	\$ 55,483	\$ 57,142	\$ (2,228,937)	\$ -	\$ (2,228,937)
Public safety	2,277,229	289,151	331,258	-	(1,656,820)	-	(1,656,820)
Public works	1,757,520	118,051	141,331	-	(1,498,138)	-	(1,498,138)
Public health	744,686	52,425	319,008	-	(373,253)	-	(373,253)
Social and economic services	468,386	63,191	155,192	55,307	(194,696)	-	(194,696)
Culture and recreation	559,194	257,088	2,063	-	(300,043)	-	(300,043)
Housing and community development	39,079	-	52,365	-	13,286	-	13,286
Other current charges	29,652	32,500	-	-	2,848	-	2,848
Interest on long-term debt	216,459	-	-	-	(216,459)	-	(216,459)
Total governmental activities	8,619,585	998,224	1,056,700	112,449	(6,452,212)	-	(6,452,212)
Business-type activities:							
Solid waste	1,001,364	768,355	-	-	-	(233,009)	(233,009)
Total business-type activities	1,001,364	768,355	-	-	-	(233,009)	(233,009)
Total	\$ 9,620,949	\$ 1,766,579	\$ 1,056,700	\$ 112,449	(6,452,212)	(233,009)	(6,685,221)
General revenues:							
Property taxes					5,303,453	-	5,303,453
Licenses and permits					1,965	-	1,965
Intergovernmental					1,241,104	-	1,241,104
Unrestricted investment earnings					72,091	50,148	122,239
Miscellaneous					86,647	9	86,656
Gain on disposal of capital assets					39,939	-	39,939
Transfers					8,000	(8,000)	-
Total general revenues and transfers					6,753,199	42,157	6,795,356
Change in net position					300,987	(190,852)	110,135
Net position - beginning					6,469,512	3,369,671	9,839,183
Net position - ending					\$ 6,770,499	\$ 3,178,819	\$ 9,949,318

CUSTER COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2019

	General	Road	Custer County Event Center	Public Safety	PILT	RID #1A	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 227,107	\$ 138,434	\$ 286,886	\$ 93,031	\$ 671,740	\$ 7,152	\$ 473,701	\$ 1,898,051
Investments	286,731	174,778	362,204	117,455	848,094	9,029	598,067	2,396,358
Receivables:								
Taxes and assessments	24,874	8,230	-	28,117	-	216,270	52,377	329,868
Governments	57,142	-	-	10,352	-	-	79,496	146,990
Cemetery	-	-	-	-	-	-	2,937	2,937
Inventories	-	153,827	-	-	-	-	35,942	189,769
Total assets	<u>\$ 595,854</u>	<u>\$ 475,269</u>	<u>\$ 649,090</u>	<u>\$ 248,955</u>	<u>\$ 1,519,834</u>	<u>\$ 232,451</u>	<u>\$ 1,242,520</u>	<u>\$ 4,963,973</u>
<b>LIABILITIES</b>								
Accounts payable-vendors	\$ -	\$ 23,217	\$ 14,917	\$ 84,132	\$ -	\$ -	\$ 32,986	\$ 155,252
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable revenue-taxes and assessments	24,874	8,230	-	28,117	-	216,270	52,377	329,868
<b>FUND BALANCES (DEFICITS)</b>								
Nonspendable:								
Inventory	-	153,827	-	-	-	-	35,942	189,769
Restricted for:								
General government	-	-	-	-	-	-	184,213	184,213
Public safety	-	-	-	136,706	-	-	107,585	244,291
Public works	-	289,995	-	-	-	-	121,173	411,168
Public health	-	-	-	-	-	-	24,859	24,859
Social and economic services	-	-	-	-	-	-	24,932	24,932
Culture and recreation	-	-	634,173	-	-	-	51,737	685,910
Housing and community development	-	-	-	-	-	-	4,135	4,135
Capital projects	-	-	-	-	-	-	538,925	538,925
Debt service	-	-	-	-	-	16,181	8,583	24,764
Committed for:								
General government	-	-	-	-	1,519,834	-	69,915	1,589,749
Culture and recreation	-	-	-	-	-	-	43,278	43,278
Unassigned	570,980	-	-	-	-	-	(58,120)	512,860
Total fund balances (deficits)	<u>570,980</u>	<u>443,822</u>	<u>634,173</u>	<u>136,706</u>	<u>1,519,834</u>	<u>16,181</u>	<u>1,157,157</u>	<u>4,478,853</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 595,854</u>	<u>\$ 475,269</u>	<u>\$ 649,090</u>	<u>\$ 248,955</u>	<u>\$ 1,519,834</u>	<u>\$ 232,451</u>	<u>\$ 1,242,520</u>	<u>\$ 4,963,973</u>

CUSTER COUNTY  
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET  
 POSITION  
 June 30, 2019

Total fund balances, governmental funds	\$ 4,478,853
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.	12,991,751
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.	114,503
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	1,240,310
Deferred inflows of resources related to pensions	(1,046,366)
Deferred outflows and inflows of resources related to other post-employment benefits are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to other post-employment benefits	40,133
Deferred inflows of resources related to other post-employment benefits	(11,058)
Some liabilities, (such as compensated absences, the total other post-employment benefits liability, notes payable, bonds payable and the net pension liability), are not due and payable in the current period and, therefore, are not included in the funds.	(11,030,948)
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.	(6,679)
Net position of governmental activities	<u>\$ 6,770,499</u>



CUSTER COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2019

	General	Road	Custer County Event Center	Public Safety	PILT	RID #1A	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>								
Taxes/assessments	\$ 1,513,030	\$ 370,501	\$ -	\$ 1,280,319	\$ -	\$ 9,219	\$ 2,151,608	\$ 5,324,677
Fines and forfeitures	120,183	-	-	-	-	-	12,158	132,341
Licenses and permits	950	-	-	1,015	-	-	-	1,965
Intergovernmental	310,096	211,364	-	173,731	897,155	52,365	706,024	2,350,735
Charges for services	181,830	-	-	165,130	-	-	447,259	794,219
Investment earnings	66,043	-	-	4	-	-	6,044	72,091
Miscellaneous	26,647	9,978	-	-	-	-	96,677	133,302
<b>Total revenues</b>	<b>2,218,779</b>	<b>591,843</b>	<b>-</b>	<b>1,620,199</b>	<b>897,155</b>	<b>61,584</b>	<b>3,419,770</b>	<b>8,809,330</b>
<b>EXPENDITURES</b>								
Current:								
General government	1,823,116	-	106,758	-	-	-	577,543	2,507,417
Public safety	82,712	-	-	1,703,372	-	-	355,312	2,141,396
Public works	16,452	857,946	-	-	-	-	665,032	1,539,430
Public health	363,607	-	-	1,079	-	-	378,807	743,493
Social and economic services	26,945	-	-	-	1,000	-	414,170	442,115
Culture and recreation	2,063	-	-	-	-	-	489,750	491,813
Housing and community development	9,048	-	-	-	-	-	30,031	39,079
Other current charges	-	-	-	-	-	-	29,652	29,652
Debt service:								
Principal	-	22,312	-	-	-	58,755	378,587	459,654
Interest and other charges	-	524	-	-	-	6,204	222,791	229,519
Capital outlay	169,791	303,500	-	57,804	-	-	151,627	682,722
<b>Total expenditures</b>	<b>2,493,734</b>	<b>1,184,282</b>	<b>106,758</b>	<b>1,762,255</b>	<b>1,000</b>	<b>64,959</b>	<b>3,693,302</b>	<b>9,306,290</b>
Excess (deficiency) of revenues over expenditures	(274,955)	(592,439)	(106,758)	(142,056)	896,155	(3,375)	(273,532)	(496,960)
<b>OTHER FINANCING SOURCES (USES)</b>								
Long-term debt issued	-	200,000	-	-	-	-	-	200,000
Sale of capital assets	-	6,030	-	-	-	-	4,050	10,080
Insurance recoveries	-	-	6,358	-	-	-	41,650	48,008
Transfers in	259,593	525,000	-	-	169,052	7,414	571,191	1,532,250
Transfers out	(117,474)	-	-	-	(896,277)	-	(519,249)	(1,533,000)
<b>Total other financing sources (uses)</b>	<b>142,119</b>	<b>731,030</b>	<b>6,358</b>	<b>-</b>	<b>(727,225)</b>	<b>7,414</b>	<b>97,642</b>	<b>257,338</b>
<b>Net change in fund balances</b>	<b>(132,836)</b>	<b>138,591</b>	<b>(100,400)</b>	<b>(142,056)</b>	<b>168,930</b>	<b>4,039</b>	<b>(175,890)</b>	<b>(239,622)</b>
Fund balances - beginning	703,816	305,231	734,573	278,762	1,350,904	12,142	1,333,047	4,718,475
Fund balances - ending	\$ 570,980	\$ 443,822	\$ 634,173	\$ 136,706	\$ 1,519,834	\$ 16,181	\$ 1,157,157	\$ 4,478,853

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, 2019

Net change in fund balances - total governmental funds \$ (239,622)

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 (\$682,722) exceeded depreciation (\$527,513) in the current period. 155,209

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. 29,859

Contributed capital assets. 55,307

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. 12,698

Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits is reported as pension expense. 149,117

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 net amount of debt borrowed and principal repaid. 259,654

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 (22,674)  
Other post-employment benefits (77,487)  
Amortization of general obligation bond premium 13,060

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. (34,134)

Change in net position of governmental activities \$ 300,987

CUSTER COUNTY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2019

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 775,553	\$ 2
Investments	1,169,708	3
Receivables:		
Taxes and assessments	12,090	-
Solid waste	20,280	-
Total current assets	<u>1,977,631</u>	<u>5</u>
Non-current assets:		
Restricted assets:		
Investments	1,943,536	-
Capital assets:		
Land and construction in progress	89,836	-
Buildings and improvements	2,056,024	-
Less accumulated depreciation	<u>(1,654,292)</u>	<u>-</u>
Total non-current assets	<u>2,435,104</u>	<u>-</u>
Total assets	<u>4,412,735</u>	<u>5</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable-vendors	67,922	-
Compensated absences	-	668
Total current liabilities	<u>67,922</u>	<u>668</u>
Non-current liabilities:		
Compensated absences	-	6,016
Landfill closure/postclosure care payable	1,165,994	-
Total non-current liabilities	<u>1,165,994</u>	<u>6,016</u>
Total liabilities	<u>1,233,916</u>	<u>6,684</u>
<b>NET POSITION (DEFICIT)</b>		
Net investment in capital assets	491,568	-
Restricted for landfill closure/postclosure care	777,542	-
Unrestricted	1,909,709	(6,679)
Total net position (deficit)	<u>\$ 3,178,819</u>	<u>\$ (6,679)</u>

CUSTER COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2019

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
REVENUES		
Charges for services	\$ 275,923	\$ 121,499
Taxes and assessments	492,432	-
Total operating revenues	768,355	121,499
OPERATING EXPENSES		
Personal services	8,119	123,700
Supplies	1,130	1,524
Purchased services	794,699	39,159
Fixed charges	5,500	-
Closure/postclosure costs	94,508	-
Depreciation	97,408	-
Total operating expenses	1,001,364	164,383
Operating loss	(233,009)	(42,884)
NON-OPERATING REVENUES		
Investment earnings	50,148	-
Miscellaneous revenue	9	-
Total non-operating revenues	50,157	-
Loss before transfers	(182,852)	(42,884)
Transfers in	-	8,750
Transfers out	(8,000)	-
Change in net position	(190,852)	(34,134)
Net position - beginning	3,369,671	27,455
Net position - ending	\$ 3,178,819	\$ (6,679)

CUSTER COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2019

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 763,307	\$ -
Cash received from interfund services	-	121,499
Cash paid to employees	(8,119)	(125,974)
Cash paid to suppliers for goods and services	(788,384)	(40,683)
Net cash used by operating activities	(33,196)	(45,158)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from miscellaneous sources	9	-
Cash received/paid for interfund transfers	(8,000)	8,750
Net cash provided (used) by noncapital financing activities	(7,991)	8,750
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in investments	(16,280)	21,458
Interest received	50,148	-
Net cash provided by investing activities	33,868	21,458
Change in cash and cash equivalents	(7,319)	(14,950)
Cash and cash equivalents - beginning	782,872	14,952
Cash and cash equivalents - ending	\$ 775,553	\$ 2
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (233,009)	\$ (42,884)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	97,408	-
Closure/post closure costs	94,508	-
Increase in taxes/assessments receivable	(2,108)	-
Increase in solid waste receivable	(2,940)	-
Increase in accounts payable	12,945	-
Decrease in compensated absences	-	(2,274)
Net cash used by operating activities	\$ (33,196)	\$ (45,158)



CUSTER COUNTY  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
June 30, 2019

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 4,711,645	\$ 462,796
Investments	5,948,608	-
Taxes and assessments receivables	-	321,591
Total assets	<u>10,660,253</u>	<u>\$ 784,387</u>
LIABILITIES		
Accounts payable	-	\$ 60,227
Due to special districts	-	10,688
Due to state	-	242,911
Due to schools	-	149,097
Due to cities/towns	-	321,464
Total liabilities	<u>-</u>	<u>\$ 784,387</u>
NET POSITION		
Net position held in trust for external participants	<u>\$ 10,660,253</u>	

CUSTER COUNTY  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Year Ended June 30, 2019

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 4,971,677
Investment earnings	114,769
Total additions	<u>5,086,446</u>
DEDUCTIONS	
Distributions to participants	4,748,610
Administrative	5,727
Total deductions	<u>4,754,337</u>
Change in net position	332,109
Net position - beginning	<u>10,328,144</u>
Net position - ending	<u><u>\$ 10,660,253</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 statement:

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The government's significant accounting policies are described below.

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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 Custer County Event Center fund accounts for insurance recoveries that have been committed to upgrading or construction of a new event center.

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 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. 55% of the investment pool belongs to these districts.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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 \$10,318.

#### 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 excess 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 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, 2019.



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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

In addition to assets, the government's statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The government has two items that meet this criterion, pension plans and other post-employment benefits.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The government has three items that meet the criterion for this category: pension plans, other post-employment benefits and long-term special assessments.

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.

Net Position

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

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

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

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

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

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

#### Fund Balance

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

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

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

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

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

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

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

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

#### Use of Estimates

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

### NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Deficit Fund Equity

The Mitigation fund had a deficit fund balance of \$46,942 as of June 30, 2019, which is a carryover from the prior year. Additionally, the Airport (\$977), Transit (\$10,201) and Data Processing (\$6,679) funds had deficit fund balances/net position. The deficits occurred because current year expenditures/expenses exceeded current year revenues. The deficits are expected to be eliminated through a general fund contribution.

### 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	\$ 4,294,414
Business-type activities	3,888,797
Fiduciary funds	11,123,049
	<u>\$ 19,306,260</u>

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Total carrying value of cash, cash equivalents and investments as of June 30, 2019, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 1,500	\$ -	\$ 1,500
Cash in banks:			
Demand deposits	3,809,228	-	3,809,228
Savings deposits	1,477	-	1,477
Time deposits	-	500,000	500,000
Brokerage:			
Money markets	(3,895)	-	(3,895)
U.S. Government securities	-	10,958,210	10,958,210
Short-term investment pool (STIP)	4,039,740	-	4,039,740
	<u>\$ 7,848,050</u>	<u>\$ 11,458,210</u>	<u>\$ 19,306,260</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, 2019, \$4,348,703 of the government's bank balance of \$5,101,180 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>\$ 4,348,703</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, 2019, exceeded the amount required by state statute.

Fair value measurements are as follows at June 30, 2019:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. Treasuries	<u>\$ 10,944,111</u>	<u>\$ 10,944,111</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 Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

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

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Brokers:					
U.S. Government securities	\$ 1,750,000	\$ -	\$ 9,208,210	\$ 10,958,210	\$ 10,944,111
Money Markets	(3,895)	-	-	(3,895)	(3,895)
	<u>\$ 1,746,105</u>	<u>\$ -</u>	<u>\$ 9,208,210</u>	10,954,315	10,940,216
Uncategorized:					
STIP				4,039,740	4,040,306
				<u>\$ 14,994,055</u>	<u>\$ 14,980,522</u>

Following is the condensed schedule of changes in net position for the investment pool for the year ended June 30, 2019:

	Internal	External	Total
Net position - beginning of year	\$ 8,956,734	\$ 10,328,144	\$ 19,284,878
Contributions from participants	4,103,675	4,971,677	9,075,352
Investment earnings	122,239	114,769	237,008
Administrative fees	(4,591)	(5,727)	(10,318)
Distributions to participants	(4,532,050)	(4,748,610)	(9,280,660)
Net position - end of year	<u>\$ 8,646,007</u>	<u>\$ 10,660,253</u>	<u>\$ 19,306,260</u>

Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 114,111	\$ -	\$ -	\$ 114,111
Construction-in-progress	-	97,546	-	97,546
Total capital assets, not being depreciated	<u>114,111</u>	<u>97,546</u>	<u>-</u>	<u>211,657</u>
Capital assets, being depreciated				
Buildings/improvements	10,642,365	-	-	10,642,365
Improvements other than buildings	594,305	122,272	-	716,577
Machinery and equipment	5,037,029	599,230	(227,826)	5,408,433
Infrastructure	1,670,547	-	-	1,670,547
Total capital assets, being depreciated	<u>17,944,246</u>	<u>721,502</u>	<u>(227,826)</u>	<u>18,437,922</u>
Less accumulated depreciation for:				
Buildings/improvements	(1,996,896)	(167,891)	-	(2,164,787)
Improvements other than buildings	(201,743)	(38,905)	-	(240,648)
Machinery and equipment	(3,004,039)	(295,736)	176,666	(3,123,109)
Infrastructure	(104,303)	(24,981)	-	(129,284)
Total accumulated depreciation	<u>(5,306,981)</u>	<u>(527,513)</u>	<u>176,666</u>	<u>(5,657,828)</u>
Total capital assets, being depreciated, net	<u>12,637,265</u>	<u>193,989</u>	<u>(51,160)</u>	<u>12,780,094</u>
Governmental activities capital assets, net	<u>\$ 12,751,376</u>	<u>\$ 291,535</u>	<u>\$ (51,160)</u>	<u>\$ 12,991,751</u>



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 47,813
Public safety	189,071
Public works	197,531
Social and economic	3,809
Culture and recreation	24,085
Housing and community development	65,204
Total depreciation-governmental activities	<u>\$ 527,513</u>

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 1	\$ -	\$ -	\$ 1
Construction-in-progress	89,835	-	-	89,835
Total capital assets, not being depreciated	<u>89,836</u>	<u>-</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	(27,315)	(1,739)	-	(29,054)
Improvements other than buildings	(1,529,569)	(95,669)	-	(1,625,238)
Total accumulated depreciation	<u>(1,556,884)</u>	<u>(97,408)</u>	<u>-</u>	<u>(1,654,292)</u>
Total capital assets, being depreciated, net	<u>499,140</u>	<u>(97,408)</u>	<u>-</u>	<u>401,732</u>
Business-type activities capital assets, net	<u>\$ 588,976</u>	<u>\$ (97,408)</u>	<u>\$ -</u>	<u>\$ 491,568</u>

Depreciation expense was charged as follows:

Business-type activities:	
Solid Waste	<u>\$ 97,408</u>

Interfund Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
Governmental activities:			
General	\$ 259,593	\$ (117,474)	\$ 142,119
Road	525,000	-	525,000
PILT	169,052	(896,277)	(727,225)
RID #1A	7,414	-	7,414
Nonmajor governmental funds	571,191	(519,249)	51,942
Internal service	8,750	-	8,750
	<u>\$ 1,541,000</u>	<u>\$ (1,533,000)</u>	<u>\$ 8,000</u>
Business-type activities:			
Solid Waste	\$ -	\$ (8,000)	\$ (8,000)

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



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Long-Term Debt

Notes from direct borrowings currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2019
Motor grader-2019 (1), (2)	\$ 200,000	6.5 yrs	3.37%	\$ 200,000
Cemetery skidsteer-2017 (1), (2)	25,866	5 yrs	3.37%	9,807
(1) Through the Montana Board of Investments-INTERCAP				\$ 209,807
(2) Governmental activities.				

Notes from direct borrowings include a provision that interest is adjusted each February 1<sup>st</sup>, up to a maximum of 15 percent. The loans are secured by a lien on the equipment.

Annual debt service requirements to maturity for notes from direct borrowings are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 38,120	\$ 6,664	\$ 44,784
2021	29,088	5,556	34,644
2022	30,012	4,552	34,564
2023	30,965	3,533	34,498
2024	31,948	2,481	34,429
2025-2026	49,674	1,680	51,354
	<u>\$ 209,807</u>	<u>\$ 24,466</u>	<u>\$ 234,273</u>

The government issued \$7,500,000 of 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 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, 2019 are \$6,020,000.

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

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 325,000	\$ 214,473	\$ 539,473
2021	330,000	207,973	537,973
2022	335,000	201,373	536,373
2023	345,000	192,998	537,998
2024	355,000	184,718	539,718
2025-2029	1,955,000	741,240	2,696,240
2030-2034	2,375,000	311,313	2,686,313
	<u>\$ 6,020,000</u>	<u>\$ 2,054,088</u>	<u>\$ 8,074,088</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 40 years. Special assessment bonds currently outstanding as of June 30, 2019 are \$215,715.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 6,254	\$ 5,354	\$ 11,608
2021	6,411	5,197	11,608
2022	6,573	5,035	11,608
2023	6,738	4,870	11,608
2024	6,907	4,701	11,608
2025-2029	37,232	20,808	58,040
2030-2034	42,158	15,882	58,040
2035-2039	47,734	10,306	58,040
2040-2044	54,048	3,992	58,040
2045	1,660	22	1,682
	<u>\$ 215,715</u>	<u>\$ 76,167</u>	<u>\$ 291,882</u>

Long-term liability activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 6,340,000	\$ -	\$ (320,000)	\$ 6,020,000	\$ 325,000
Bond premium	208,936	-	(13,060)	195,876	-
Special assessment bonds	274,470	-	(58,755)	215,715	6,254
Total bonds payable	<u>6,823,406</u>	<u>-</u>	<u>(391,815)</u>	<u>6,431,591</u>	<u>331,254</u>
Notes from direct borrowings	90,706	200,000	(80,899)	209,807	38,120
Compensated absences	<u>388,807</u>	<u>20,400</u>	<u>-</u>	<u>409,207</u>	<u>40,921</u>
Governmental activities long-term liabilities	<u>\$ 7,302,919</u>	<u>\$ 220,400</u>	<u>\$ (472,714)</u>	<u>\$ 7,050,605</u>	<u>\$ 410,295</u>

Internal service funds predominantly serve the governmental funds. Accordingly, internal service fund long-term liabilities are included as part of the governmental activities. At year end, \$6,684 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, 2019, 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 \$1,165,994 reported as a landfill closure and postclosure care liability as of June 30, 2019, represents the cumulative amount reported to date based on the use of 55 percent of the estimated capacity of the landfill. The government will recognize the remaining estimated cost of closure and postclosure care of \$967,006 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, 2019. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2019, \$1,943,536 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, 2019:

Balance July 1, 2018	Additions	Adjustment	Balance June 30, 2019
\$ 1,071,486	\$ 94,508	\$ -	\$ 1,165,994

**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. There are no deductibles or maximum coverage limits in the plan. 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.

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, 2019, the County contributed \$171,000 to the City for these services.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$26,000, primarily for construction projects and equipment.

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.

Retirement Plans

Plan Descriptions

The Public Employees Retirement System (PERS) Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 and 3, 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](http://mpera.mt.gov).

The Sheriffs' Retirement System (SRS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the SRS web site at [mpera.mt.gov](http://mpera.mt.gov).



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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 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.

Second retirement applies to plan members re-employed in a PERS position after retirement. Plan members who retire before January 1, 2016 and accumulate less than 2 years' additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years' additional service credit receive a refund of the plan member's contributions from the second employment plus regular interest at .77%.

Plan members who retire before January 1, 2016 and accumulate at least 2 years of additional service credit receive a recalculated retirement benefit based on the laws in effect at second retirement. Plan members who retire on or after January 1, 2016 and accumulate 5 or more years of additional service credit receive the same retirement benefit as prior to their return to service and a second retirement benefit for the second period of service based on the laws in effect at second retirement.

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.

Plan members are eligible for early retirement at age 50 with 5 years of membership service. This benefit calculated using HAC and service credit at early retirement and reduced to the actuarial equivalent commencing at the earliest of age 60 or the attainment of 20 years of service credit.

Second Retirement applies to retirement system members re-employed in a SRS position on or after July 1, 2017. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member a) is not awarded service credit for the period of reemployment; b) is refunded the accumulated contributions associated with the period of reemployment; c) starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and d) does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member: is awarded service credit for the period of reemployment. Starting the first month following termination of service, the member receives the same retirement benefit previously paid to the member and a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the members rehire date. The member does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA on the initial retirement benefit in January immediately following second retirement, and on the second retirement benefit starting in January after receiving that benefit for at least 12 months. A member who returns to covered service is not eligible for a disability benefit.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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 actuary 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 contributed 8.57% of each member's compensation. This was temporarily increased from 7.07% on July 1, 2013. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The additional employer contributions terminate on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. The State's General Fund contributes an additional .37% of earned compensation. 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 10.495% 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 13.115% of each member's compensation. The rate increased from 10.115% to 13.115% on July 1, 2018 .

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

At June 30, 2019, the government recorded a liability of \$2,768,335 (PERS) and \$663,352 (SRS) for its proportionate share of the net pension liability.

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

	Net Pension Liability June 30, 2019	
	PERS	SRS
Employer proportionate share	\$ 2,768,335	\$ 663,352
State of Montana proportionate share associated with employer	925,693	-
Total	<u>\$ 3,694,028</u>	<u>\$ 663,352</u>

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 for PERS and SRS. 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, 2017, through June 30, 2018, relative to the total employer contributions received from all PERS and SRS participating employers. At June 30, 2019, the government's proportion was .1326 and .8824 percent for PERS and SRS, respectively.

For the year ended June 30, 2019, the government recognized \$151,074 (PERS) and \$4,792 (SRS) for its proportionate share of the pension expense. The government also recognized grant revenue of \$61,780 (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 \$212,854 and \$4,792 for PERS and SRS, respectively.



CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

At June 30, 2019, 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 economic experience	\$ 210,513	\$ -	\$ 36,587	\$ 1,478
Changes in actuarial assumptions	235,405	-	377,221	627,280
Difference between projected and actual investment earnings	-	42,992	-	18,569
Changes in the proportion and differences between actual and expected contributions	-	356,047	75,601	-
Employer contributions subsequent to measurement date	210,032	-	94,951	-
	<u>\$ 655,950</u>	<u>\$ 399,039</u>	<u>\$ 584,360</u>	<u>\$ 647,327</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, 2020. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	PERS	SRS
2020	\$ 155,808	\$ (29,084)
2021	77,252	(44,867)
2022	(168,515)	(79,892)
2023	(17,666)	(4,075)

#### Actuarial Assumptions

For each of the retirement plans, the total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PERS	SRS
Investment rate of return, net of investment and administrative expenses	7.65%	7.65%
Salary increases	3.50%	3.50%
Inflation	2.75%	2.75%

Mortality rates for the PERS and SRS retirement plans are based on the RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.

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 2011 through 2016, is outlined in a report dated May 5, 2017, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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. 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, 2018, and are summarized in the following table:

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	2.6%	0.10%
Domestic equity	36.0%	1.64%
Foreign equity	18.0%	1.14%
Fixed income	23.4%	0.23%
Private equity	12.0%	0.93%
Real estate	8.0%	0.32%
	<u>100.0%</u>	

Discount Rate

Public Employees Retirement System

The discount rate used to measure the total pension liability was 7.65%. 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 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Sheriff's Retirement System (SRS)

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2118. 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. A municipal bond rate was not incorporated in the discount rate.

Sensitivity Analysis

The following presents the employer's proportionate share of the PERS and SRS net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Net pension liability-PERS	\$ 4,003,653	\$ 2,768,335	\$ 1,753,941
Net pension liability-SRS	1,207,213	663,352	217,976

Postemployment Benefits Other Than Pensions

General Information about the OPEB Plan

*Plan Descriptions.* The healthcare plan provides for and Section 2-18-704, MCA, 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.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

*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 health insurance premiums are the responsibility of the retiree.

*Employees Covered by Benefit Terms.* As of June 30, 2019, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees or beneficiaries entitled to but not yet receiving benefit payments	-
Active plan members	59
	<u>59</u>

Total OPEB Liability

The total OPEB liability of \$555,340 was measured as of May 17, 2018, with rollforward to the next valuation date. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017.

*Actuarial assumptions and other inputs.* The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal funding
Salary increases	4%
Discount rate	3.87% (based on the 20 year municipal bond index)
Healthcare costs trend rates	8.1% for 2017, decreasing 0.1% per year to an ultimate rate of 3.8% for 2075 and years later
Participation	45% of future retirees are assumed to elect medical coverage
Mortality	For PERS and SRS: RP 2000 Healthy Combined Mortality Table projected by Scale BB to 2020, set back one year for males.

The actuarial assumptions used in the June 20, 2017 valuation were based on the health care premium rates from the respective pension plan valuations, with adjustments for actual changes in medical and prescription drug costs for 2017.

Changes in the Total OPEB Liability

Changes in the total OPEB liability were as follows (in thousands):

Service cost	\$ 68,355
Interest on the total OPEB liability	22,395
Change in assumptions and other inputs	(11,058)
Benefits payments	<u>(34,677)</u>
Net change in total OPEB liability	45,015
Total OPEB liability - beginning of year	<u>510,325</u>
Total OPEB liability - end of year	<u>\$ 555,340</u>

Changes of benefit terms reflect revised health care trend rates and retiree contribution increases based on revised projects and future increases to retirees contributions to match health care cost trend rates.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Changes of assumptions and other inputs reflect a change in status, trend, discount and other inputs.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the employer's total OPEB liability calculated using the discount rate of 3.87%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (2.87%) or 1.00% higher (4.87%) than the current rate.

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB liability	\$ 570,844	\$ 555,340	\$ 536,584

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.1% decreasing to 2.8%) or 1-percentage-point higher (9.1% decreasing to 4.8%) than the current healthcare cost trend rates:

	1% Decrease (7.1% decreasing to 2.8%)	Healthcare Cost Trend Rates (8.1% decreasing to 3.8%)	1% Increase (9.1% decreasing to 4.8%)
Total OPEB liability	\$ 507,476	\$ 555,340	\$ 609,869

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the government recognized OPEB expense of \$77,487. As of June 30, 2019, the government reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	-	11,058
Difference between projected and actual investment earnings	-	-
Changes in the proportion and differences between actual and expected contributions	-	-
Employer contributions subsequent to measurement date	40,133	-
	<u>\$ 40,133</u>	<u>\$ 11,058</u>

Amounts reported as deferred outflows of resources resulting from the government's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources will be recognized in OPEB expense as follows:

Year Ended June 30:	
2020	\$ (1,271)
2021	(1,271)
2022	(1,271)
2023	(1,271)
2024	(1,271)
Thereafter	(4,703)

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

GASB Statement No. 84, Fiduciary Activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87, Leases. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90, Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 91, Conduit Debt Obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.



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, 2019

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
<b>REVENUES</b>					
Taxes/assessments	\$ 1,494,434	\$ 1,494,434	\$ 1,513,030	\$ -	\$ 1,513,030
Fees and fines	81,825	81,825	120,183	-	120,183
Licenses and permits	650	650	950	-	950
Intergovernmental	461,420	461,420	248,316	61,780	310,096
Charges for services	209,793	209,793	181,830	-	181,830
Investment earnings	50,000	50,000	66,043	-	66,043
Miscellaneous	43,510	43,510	26,647	-	26,647
Total revenues	<u>2,341,632</u>	<u>2,341,632</u>	<u>2,156,999</u>	<u>61,780</u>	<u>2,218,779</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,369,856	2,369,906	1,790,181	32,935	1,823,116
Public safety	109,732	109,732	76,682	6,030	82,712
Public works	-	-	-	16,452	16,452
Public health	363,397	363,397	361,272	2,335	363,607
Social and economic services	28,950	28,950	24,882	2,063	26,945
Culture and recreation	-	-	98	1,965	2,063
Housing and community development	5,000	5,000	9,048	-	9,048
Capital outlay	-	-	169,791	-	169,791
Total expenditures	<u>2,876,935</u>	<u>2,876,985</u>	<u>2,431,954</u>	<u>61,780</u>	<u>2,493,734</u>
Excess (deficiency) of revenues over expenditures	<u>(535,303)</u>	<u>(535,353)</u>	<u>(274,955)</u>	<u>-</u>	<u>(274,955)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	328,902	373,482	259,593	-	259,593
Transfers out	(15,000)	(15,000)	(117,474)	-	(117,474)
Total other financing sources (uses)	<u>313,902</u>	<u>358,482</u>	<u>142,119</u>	<u>-</u>	<u>142,119</u>
Net change in fund balance	<u>\$ (221,401)</u>	<u>\$ (176,871)</u>	<u>(132,836)</u>	<u>-</u>	<u>(132,836)</u>
Fund balance - beginning			703,816	-	703,816
Fund balance - ending			<u>\$ 570,980</u>	<u>\$ -</u>	<u>\$ 570,980</u>

CUSTER COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Road Fund  
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 375,449	\$ 375,449	\$ 370,501
Intergovernmental	212,342	212,342	211,364
Miscellaneous	1,500	1,500	9,978
Total revenues	<u>589,291</u>	<u>589,291</u>	<u>591,843</u>
EXPENDITURES			
Current:			
Public works	945,097	945,097	857,946
Debt service:			
Principal	22,312	22,312	22,312
Interest and other charges	526	526	524
Capital outlay	290,000	290,000	303,500
Total expenditures	<u>1,257,935</u>	<u>1,257,935</u>	<u>1,184,282</u>
Excess (deficiency) of revenues over expenditures	<u>(668,644)</u>	<u>(668,644)</u>	<u>(592,439)</u>
OTHER FINANCING SOURCES			
Long-term debt issued	200,000	200,000	200,000
Sale of capital assets	-	-	6,030
Transfers in	555,564	555,564	525,000
Total other financing sources	<u>755,564</u>	<u>755,564</u>	<u>731,030</u>
Net change in fund balance	<u>\$ 86,920</u>	<u>\$ 86,920</u>	138,591
Fund balance - beginning			<u>305,231</u>
Fund balance - ending			<u>\$ 443,822</u>

CUSTER COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Custer County Event Center Fund  
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Miscellaneous	\$ 6,359	\$ 6,359	\$ -
Total revenues	<u>6,359</u>	<u>6,359</u>	<u>-</u>
EXPENDITURES			
Current:			
General government	6,359	6,359	106,759
Capital outlay	734,572	734,572	-
Total expenditures	<u>740,931</u>	<u>740,931</u>	<u>106,759</u>
Excess (deficiency) of revenues over expenditures	<u>(734,572)</u>	<u>(734,572)</u>	<u>(106,759)</u>
OTHER FINANCING SOURCES			
Insurance recoveries	-	-	6,358
Total other financing sources	<u>-</u>	<u>-</u>	<u>6,358</u>
Net change in fund balance	<u>\$ (734,572)</u>	<u>\$ (734,572)</u>	<u>(100,401)</u>
Fund balance - beginning			<u>734,573</u>
Fund balance - ending			<u>\$ 634,172</u>

CUSTER COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Public Safety Fund  
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 1,303,462	\$ 1,303,462	\$ 1,280,319
Licenses and permits	1,000	1,000	1,015
Intergovernmental	162,430	162,430	173,731
Charges for services	229,500	229,500	165,130
Investment earnings	-	-	4
Miscellaneous	600	600	-
Total revenues	<u>1,696,992</u>	<u>1,696,992</u>	<u>1,620,199</u>
EXPENDITURES			
Current:			
Public safety	1,900,412	1,903,112	1,703,372
Public health	5,200	5,200	1,079
Debt service:			
Principal	3,943	3,943	-
Interest and other charges	-	-	-
Capital outlay	40,000	40,000	57,804
Total expenditures	<u>1,949,555</u>	<u>1,952,255</u>	<u>1,762,255</u>
Net change in fund balance	<u>\$ (252,563)</u>	<u>\$ (255,263)</u>	(142,056)
Fund balance - beginning			<u>278,762</u>
Fund balance - ending			<u>\$ 136,706</u>



CUSTER COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
PILT Fund  
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Intergovernmental	\$ 350,000	\$ 350,000	\$ 897,155
Total revenues	<u>350,000</u>	<u>350,000</u>	<u>897,155</u>
EXPENDITURES:			
Current:			
General government	100	100	-
Social and economic services	1,000	1,000	1,000
Total expenditures	<u>1,100</u>	<u>1,100</u>	<u>1,000</u>
Excess (deficiency) of revenues over expenditures	<u>348,900</u>	<u>348,900</u>	<u>896,155</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	84,181	169,052
Transfers out	(1,098,714)	(1,098,714)	(896,277)
Total other financing sources (uses)	<u>(1,098,714)</u>	<u>(1,014,533)</u>	<u>(727,225)</u>
Net change in fund balance	<u>\$ (749,814)</u>	<u>\$ (665,633)</u>	168,930
Fund balance - beginning			<u>1,350,904</u>
Fund balance - ending			<u>\$ 1,519,834</u>

CUSTER COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2019

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 are state support revenue and expense related to pensions.

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

Public Employees Retirement System:	2019	2018	2017	2016	2015
Contractually required contributions	\$ 210,032	\$ 184,756	\$ 176,085	\$ 162,238	\$ 148,291
Contributions in relation to the contractually required contributions	<u>210,032</u>	<u>184,756</u>	<u>176,085</u>	<u>162,238</u>	<u>148,291</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 2,450,782	\$ 2,181,297	\$ 2,100,755	\$ 1,926,564	\$ 1,770,964
Contributions as a percentage of covered payroll	8.57%	8.47%	8.38%	8.42%	8.37%
Sheriffs' Retirement System:	2019	2018	2017	2016	2015
Contractually required contributions	\$ 94,951	\$ 91,476	\$ 68,613	\$ 61,868	\$ 52,337
Contributions in relation to the contractually required contributions	<u>94,951</u>	<u>91,476</u>	<u>68,613</u>	<u>61,868</u>	<u>52,337</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 723,988	\$ 684,668	\$ 678,329	\$ 596,924	\$ 515,949
Contributions as a percentage of covered payroll	13.12%	13.36%	10.12%	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 SHERIFFS' RETIREMENT SYSTEMS OF MONTANA  
For the Year Ended June 30,

Public Employees Retirement System:	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.1326%	0.1696%	0.1608%	0.1518%	0.1874%
Employer's proportionate share of the net pension liability associated with the employer	\$ 2,768,335	\$ 3,302,906	\$ 2,739,637	\$ 2,121,284	\$ 2,335,475
State of Montana's proportionate share of the net pension liability associated with the employer	925,693	41,189	33,475	26,056	28,520
Total	<u>\$ 3,694,028</u>	<u>\$ 3,344,095</u>	<u>\$ 2,773,112</u>	<u>\$ 2,147,340</u>	<u>\$ 2,363,995</u>
Employer's covered payroll	\$ 2,181,297	\$ 2,100,755	\$ 1,926,564	\$ 1,770,964	\$ 2,129,645
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	126.91%	157.22%	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	73.75%	74.71%	78.40%	79.87%
Sheriffs' Retirement System:	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.8824%	0.9066%	0.8456%	0.7582%	0.7297%
Employer's proportionate share of the net pension liability associated with the employer	\$ 663,352	\$ 689,906	\$ 1,485,499	\$ 730,937	\$ 303,684
State of Montana's proportionate share of the net pension liability associated with the employer	-	-	-	-	-
Total	<u>\$ 663,352</u>	<u>\$ 689,906</u>	<u>\$ 1,485,499</u>	<u>\$ 730,937</u>	<u>\$ 303,684</u>
Employer's covered payroll	\$ 684,668	\$ 678,329	\$ 596,924	\$ 515,949	\$ 471,924
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	96.89%	101.71%	248.86%	141.67%	64.35%
Plan fiduciary net position as a percentage of the total pension liability	82.68%	81.30%	63.00%	75.40%	87.24%

*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, 2019

**Public Employees Retirement System**

**Changes of Benefit Terms:**

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

2017:

Working Retiree Limitations - for PERS:

- If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds:

- Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Interest Credited to Member Accounts:

- The interest credited to member accounts increased from 0.25% to 0.77%.

Lump-sum Payouts:

- Lump-sum payouts in all systems are limited to the member's accumulated contributions rate rather than the present value of the member's benefit.

Disabled PERS Defined Contribution (DC) Members:

- PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

**Sheriffs' Retirement System**

**Changes of Benefit Terms:**

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

2017:

1. Increase in SRS Employee and Employer Contributions, effective July 1, 2017:
  - SRS employee contributions increase 1.25% from 9.245% to 10.495%.
  - SRS employer additional contributions increase 3%, from 0.58% to 3.58%, for a total employer contributions rate of 13.115%.
  - SRS employee contributions will return to 9.245% and SRS employer contributions will return to 9.535% when reducing the employee contribution and terminating the additional employer contributions will not cause the amortization period to exceed 25 years.

Second Retirement Benefit - for SRS:

1. Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
2. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:



CUSTER COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION PLAN INFORMATION  
For the Year Ended June 30, 2019

- is not awarded service credit for the period of reemployment;
  - is refunded the accumulated contributions associated with the period of reemployment;
  - starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
  - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
3. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
- Is awarded service credit for the period of reemployment;
  - Starting the first month following termination of service, receives:
    - I. The same retirement benefit previously paid to the member, and
    - II. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
  - Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
    - I. On the initial retirement benefit in January immediately following second retirement, and
    - II. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.
4. A member who returns to covered service is not eligible for a disability benefit.

**Refunds:**

- Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

**Interest credited to member accounts:**

- Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

**Lump-sum payouts:**

- Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

**Changes in actuarial assumptions and other inputs:**

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

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4 year smoothed market
Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.65%, net of pension plan investment expense and including inflation

CUSTER COUNTY  
SCHEDULE OF CHANGES IN THE TOTAL OTHER POST-EMPLOYMENT  
BENEFITS (OPEB) LIABILITY AND RELATED RATIOS  
For the Year Ended June 30,

Schedule of Changes in the Total OPEB Liability

	2019	2018
Total OPEB liability - beginning of year	\$ 510,324	\$ 427,785
Service cost	68,355	65,829
Interest cost	22,396	19,498
Differences in experience	-	26,869
Change in assumptions	(11,058)	-
Benefit payments	(34,677)	(29,657)
Total OPEB liability - end of year	<u>\$ 555,340</u>	<u>\$ 510,324</u>
Covered payroll	\$ 2,707,102	\$ 2,677,994
Total OPEB liability as a percentage of covered payroll	20.51%	19.06%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period.

3.87%                      3.87%

Differences in experience measure the expected versus actual claims experience.

The government implemented GASB Statement No. 75 in fiscal year 2016. However, roll forward information was not available for fiscal year 2017. As a result, prior years information is not presented.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become 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, 2019, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated November 7, 2019. The report included an explanatory paragraph to describe a change 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 have not been identified. However, as described in the accompanying schedule of findings, we did identify 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 as items 2019-001 through 2019-005 to be material weaknesses.

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 as items 2019-006 through 2019-008 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2019-007 and 2019-008.

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'Hess & Associates, PC*

Billings, Montana  
November 7, 2019

CUSTER COUNTY  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2019

2019-001. 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.

2019-002. 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.

2019-003. LANDFILL SCALE TICKETS

Criteria: To ensure the completeness of solid waste billing and cash collections, the numerical sequence of the numbered scale tickets should be accounted for by the solid waste secretary.

Condition: The numbered scale ticket report for no charges, charges and cash collections is remitted to the solid waste secretary on a weekly basis. However, procedures are not in place to verify the numerical sequence of the numbered scale tickets on the weekly reports.

Cause: The solid waste secretary was not aware that the numerical sequence of the numbered scale tickets should be accounted for.

Effect: By not accounting for the numerical sequence of the scale tickets on the weekly reports, customers may not be billed and cash collected cannot be reconciled to the amount remitted to the County.

Recommendation: The numerical sequence of the numbered scale tickets on the weekly report should be accounted for. A spreadsheet should be developed to summarize cash and charge sales. The total of the cash sales should be agreed to the A101 and the charge sales should be agreed to QuickBooks. The reconciliation should be completed weekly.

2019-004. LANDFILL CASH COLLECTIONS

Criteria: Cash collected at the landfill by the landfill contractor, Dispose All, LLC, is not remitted to the County.

Condition: The landfill contractor remits a check to the County instead of the actual cash collected.

Cause: Unknown.

Effect: The County is not receiving and depositing the cash collected at the landfill.



CUSTER COUNTY  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2019

Recommendation: Cash collected by the landfill contractor should be remitted to the county treasurer intact.

2019-005. COUNTY 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 grounds admission charges

Cause: Unknown.

Effect: Not preparing formal ticket reconciliations for grounds admission charges exposes the government to risk of loss or theft.

Recommendation: Formal ticket reconciliations should be completed for grounds admission charges.

2019-006. 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 controls over capital assets is weakened.

Recommendation: Department heads should follow policy.

2019-007. SHERIFF OFFICE WAGES

Criteria: Section 7, Chapter 4, Section 25 of the Montana Code Annotated (MCA) defines how salaries for the sheriff, undersheriff and deputies should be calculated.

Condition: Salaries for the sheriff, undersheriff and deputies were not calculated in accordance with Section 7, Chapter 4, Section 25 of the Montana Code Annotated (MCA). Further, the correct number of years of service was not always used to calculate longevity.

Cause: The spreadsheet from the Montana Association of Counties (MACO) was not used to calculate salaries for sheriff, undersheriff and deputies.

Effect: The sheriff, undersheriff, and deputies were underpaid.

Recommendation: The spreadsheet from the Montana Association of Counties (MACO) should be used to calculate salaries for sheriff, undersheriff and deputies. Additionally, the correct number of years of service should be used to calculate longevity.

2019-008. PAYMENTS TO EMPLOYEES NOT CLASSIFIED AS PAYROLL

Criteria: All employee compensation should be processed through the payroll system and subject to all applicable payroll taxes.

Condition: A housing allowance and vacation and sick leave payouts for a number of employees were paid through claims.

Cause: Unknown

Effect: The employer and employee payroll tax amounts are understated.

Recommendation: All employee compensation should be processed through the payroll system and subject to all applicable payroll taxes.

CUSTER COUNTY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2019

2018-001. SEGREGATION OF DUTIES

Status: This finding is unresolved and is repeated as finding 2019-001 for the year ended June 30, 2019.

2018-002. FINANCIAL STATEMENT PREPARATION

Status: This finding is unresolved and is repeated as finding 2019-002 for the year ended June 30, 2019.

2018-003. LANDFILL SCALE TICKETS

Status: This finding is unresolved and is repeated as finding 2019-003 for the year ended June 30, 2019.

2018-004. LANDFILL CASH COLLECTIONS

Status: This finding is unresolved and is repeated as finding 2019-004 for the year ended June 30, 2019.

2018-005. TAX ABATEMENTS/CORRECTIONS

Status: This finding is resolved.

2018-006. COUNTY FAIR

Status: This finding is partially resolved and is updated in finding 2019-005 for the year ended June 30, 2019.

2018-007. CAPITAL ASSETS

Status: This finding is unresolved and is repeated as finding 2019-006 for the year ended June 30, 2019.