

SWEET GRASS COUNTY
BIG TIMBER, MONTANA 59011

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SWEET GRASS COUNTY
BIG TIMBER, MONTANA 59011

ORGANIZATION

BOARD OF COUNTY COMMISSIONERS

Bill Wallace	Chair
Susan Mosness	Commissioner
Bob Faw	Commissioner

ELECTED OFFICIALS

Vera Pederson	Clerk and Recorder
Jane Stene	County Treasurer
Jessie Connolly	Justice of Peace
Deanna Novotny	District Court Clerk
Pat Dringman	County Attorney
Dan Tronrud	Sheriff/Coroner
Susan Metcalf	County School Superintendent
Elaine Allestad	Public Administrator

Sweet Grass County
FY 2016
Management Discussion and Analysis

As management of Sweet Grass County (the County), we offer readers of Sweet Grass County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded its liabilities at the close of the most recent fiscal year, June 30, 2016, by \$10,613,450 (*total net position*). Of this amount, -\$1,786,175 represents a deficit unrestricted net position. The deficit is a result of implementation of GASB-68 and the recording of our share of the State of Montana pension liability for Public Employment Retirement System (PERS) and Sheriff Retirement System (SRS). This deficit should in no way reflect the ability of the County to meet its ongoing obligation to its citizens and creditors.
- At the close of the current fiscal year, Sweet Grass County's governmental funds reported combined fund balances of \$8,367,636, an increase of \$541,196 in comparison with prior year. Approximately 22% of this amount is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed, assigned* and *unassigned* components of *fund balance*) for the general fund was \$1,859,689, or approximately 84.5% of the total general fund expenditures.
- Sweet Grass County's total outstanding long-term debt increased by \$1,142,320 during the fiscal year. A State of Montana Intercap loan for a loader and gravel crusher was purchased for a total of \$289,397. The county refinanced the bond debt that was for the Pioneer Medical Center for \$852,924.
- Pioneer Medical Center (PMC) is a combined long-term care facility, medical clinic, assisted living facility, and critical access hospital and ambulance service. The PMC is accounted for on the County books as a business-type activity.
- PMC assets for FY16 exceeded its liabilities by \$1,161,392 (*total net position*). Of this amount -\$1,900,107 represents unrestricted net position. The unusual deficit is a result of implementation of GASB-68 and the recording of our share of the State of Montana pension liability for Public Employment Retirement System (PERS). It should in no way reflect the ability of the PMC to pay its obligations to its creditors.
- The PMC is currently operating with a county-wide 25 mill tax levy, originally voted on in the spring of 2009 and effective from FY10 – FY14. In the spring of 2014 voters approved another 5-year 25-mill levy that will be effective from FY14 - FY19 (June 30, 2019).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Sweet Grass County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Sweet Grass County's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of Sweet Grass County assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Sweet Grass County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Sweet Grass County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Sweet Grass County include general government, public safety, public works, and culture and recreation. The business-type activity of Sweet Grass County is a medical facility housing a nursing home, medical clinic, ambulance service, and assisted living facility.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Sweet Grass County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with Montana Code Annotated and finance-related legal requirements. All the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Sweet Grass County maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and five special revenue funds. Data from the remaining special revenue and capital improvement funds are combined into a single aggregate presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section in this report.

Proprietary Funds. Sweet Grass County maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses an enterprise fund to account for the activities of the Pioneer Medical Center.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are not* available to support Sweet Grass County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Sweet Grass County maintains two different types of fiduciary funds. The *Private-purpose trust fund* is used to report resources held in trust to purchase equipment for reserve law enforcement officers. The *Agency fund* reports resources held by Sweet Grass County in a custodial capacity for other governments.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also contains presents *Required Supplementary Information* (RSI).

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the RSI.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Sweet Grass County, assets and deferred outflows of resources exceeded liabilities by \$10,613,450 at June 30, 2016 as compared to \$10,564,901 at June 30, 2015; an increase of \$48,549.

Sweet Grass County's Net Position

Net Position	Governmental Activities			Business-type Activities		
	FY15	FY16	Change Inc(Dec)	FY15	FY16	Change Inc(Dec)
Current & other assets	\$ 8,004,350	\$ 8,524,326	\$ 519,976	\$ 3,096,038	\$ 2,066,487	\$ (1,029,551)
Restricted Assets				\$ 260,928	\$ 4,978	\$ (255,950)
Capital assets	\$ 5,712,714	\$ 6,147,927	\$ 435,213	\$ 3,237,058	\$ 3,132,245	\$ (104,813)
Total assets	\$ 13,717,064	\$ 14,672,253	\$ 955,189	\$ 6,594,024	\$ 5,203,710	\$ (1,390,314)
DEFERRED OUTFLOW OF RESOURCES	\$ 151,971	\$ 323,083	\$ 171,112	\$ 156,317	\$ 155,051	\$ (1,266)
Current Liabilities	\$ 164,102	\$ 313,309	\$ 149,207	\$ 679,633	\$ 1,017,131	\$ 337,498
Long Term Liabilities	\$ 2,454,744	\$ 3,649,845	\$ 1,195,101	\$ 4,101,669	\$ 2,908,115	\$ (1,193,554)
Total Liabilities	\$ 2,618,846	\$ 3,963,154	\$ 1,344,308	\$ 4,781,302	\$ 3,925,246	\$ (856,056)
Deferred Inflows of Resources	\$ 685,284	\$ 418,731	\$ (266,553)	\$ 500,993	\$ 272,123	\$ (228,870)
Net Position:						
Net investment in capital assets	\$ 5,661,239	\$ 5,837,948	\$ 176,709	\$ 1,869,045	\$ 3,056,522	\$ 1,187,477
Restricted	\$ 5,990,487	\$ 6,561,677	\$ 571,190	\$ 239,316	\$ 93,939	\$ (145,377)
Unrestricted (deficit)	\$ (1,086,825)	\$ (1,786,175)	\$ (699,350)	\$ (640,315)	\$ (1,989,069)	\$ (1,348,754)
Total Net Position	\$ 10,564,901	\$ 10,613,450	\$ 48,549	\$ 1,468,046	\$ 1,161,392	\$ (306,654)

By far, the largest portion of Sweet Grass County's net position (55%) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. Sweet Grass County uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Sweet Grass County's net position (61%) represents resources that are subject to external restrictions on how they may be used. Of this amount, -\$1,786,175 represents a deficit unrestricted net position. The unusual deficit is a result of implementation of GASB-68 and the recording of our share of the State of Montana pension liability for Public Employment Retirement System (PERS) and Sheriff Retirement System (SRS). It should in no way reflect the ability of the County to pay its obligations to its citizens or its creditors.

The PMC has all of its net position invested in net capital assets (land, buildings and machinery less accumulated depreciation and related debt balances). The remaining balance -\$1,989,069 represents unrestricted net position. The unusual deficit is a result of implementation of GASB-

68 and the recording of our share of the State of Montana pension liability for Public Employment Retirement System (PERS). It should in no way reflect the ability of the PMC to pay its obligations to its creditors.

At the end of the current fiscal year, Sweet Grass County is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

Sweet Grass County’s overall change in net position decreased by \$258,112 from fiscal year 2015. The reason for this overall increase is discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities increased from \$10,564,901 in FY15 to \$10,613,450, an increase of \$48,549.

Sweet Grass County’s Change in Net Position

Changes in Net Position	Governmental Activities			Business-type Activities		
	FY15	FY16	Change Inc(Dec)	FY15	FY16	Change Inc(Dec)
Revenues						
<i>Program revenues (by major source)</i>						
Charges for services	\$ 446,980	\$ 481,343	\$ (34,363)	\$8,839,141	\$ 8,739,748	\$ (99,393)
Operating grants & contributions	\$ 1,148,375	\$ 549,640	\$ 598,735	\$ 86,049	\$ 93,790	\$ 7,741
Capital grants and contributions	\$ -	\$ -	\$ -			\$ -
<i>General revenues (by major source)</i>			\$ -			\$ -
Property taxes for general purposes	\$ 3,095,173	\$ 3,321,271	\$ (226,098)	\$ 432,624	\$ 472,217	\$ 39,593
Local option tax	\$ 183,967	\$ 191,126	\$ (7,159)			\$ -
Licenses and permits	\$ 1,516	\$ 2,822	\$ (1,306)			\$ -
Federal/State Shared Revenues	\$ 1,202,908	\$ 1,329,393				\$ -
Miscellaneous	\$ 247,171	\$ 245,985	\$ 1,186	\$ -	\$ -	\$ -
Gain/Loss on Sale of Assets	\$ 2,389	\$ 40,777	\$ (38,388)		\$ 14,500	\$ 14,500
Interest/investment earnings	\$ 30,035	\$ 37,583	\$ (7,548)	\$ 2,554	\$ 8,596	\$ 6,042
Total revenues	\$ 6,358,514	\$ 6,199,940	\$ 285,059	\$9,360,368	\$ 9,328,851	\$ (31,517)
Program expenses						
General government	\$ 1,464,640	\$ 1,664,243	\$ (199,603)			
Public safety	\$ 1,396,804	\$ 1,548,344	\$ (151,540)			
Public works	\$ 2,192,684	\$ 1,726,541	\$ 466,143			
Public health	\$ 157,541	\$ 204,088	\$ (46,547)			
Social and economic services	\$ 93,497	\$ 92,128	\$ 1,369			
Culture and recreation	\$ 154,574	\$ 123,487	\$ 31,087			
Housing and community development	\$ 48,425	\$ 67,413	\$ (18,988)			
Miscellaneous	\$ (28,790)	\$ 13,064	\$ (41,854)			
Debt service - interest	\$ 1,676	\$ 10,568	\$ (8,892)			
Special Item - PMC debt restructure		\$ 852,924.00		\$9,289,251	\$ 9,511,973	\$ 222,722
Total expenses	\$ 5,481,051	\$ 6,302,800	\$ 31,175	\$9,289,251	\$ 9,511,973	\$ 222,722
Transfer from PMC to County		\$ (151,409.00)			\$ 151,409	
Increase (decrease) in net position	\$ 877,463.00	\$ 48,549.00	\$ (828,914)	\$ 71,117	\$ (334,531.00)	\$ (405,648)

Business-type Activities. For Sweet Grass County’s business-type activity (Pioneer Medical Center), the results for the current fiscal year were revenues decreasing by -\$31,517 and a decrease in net position of -\$405,648.

Financial Analysis of Governmental Funds

As noted earlier, Sweet Grass County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements of the State of Montana.

Governmental Funds. The focus of the County's *governmental funds* is to provide information on near term inflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent a portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the County itself, or a group or individual that has been delegated authority to assign resources for use for particular purpose by the Sweet Grass County Board of Commission.

At June 30, 2016, Sweet Grass County's governmental funds reported combined funds balances of \$8,367,636, an increase of \$541,196 in comparison with the adjusted fund balance from FY15. Approximately 22% of this amount (1,859,689) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *non-spendable or restricted* to indicate that it is 1) not in spendable form (\$266,934), or 2) restricted for a particular purpose (\$6,241,013).

The general fund is the chief operating fund of Sweet Grass County. At the end of FY16, unassigned fund balance of the general fund was \$1,859,689, while total fund balance increased to \$8,367,636. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 84% of total general fund expenditures, while total fund balance represents approximately 73% of the same amount.

The fund balance of Sweet Grass County's general fund decreased by \$541,196 during FY16.

Proprietary Funds. Sweet Grass County's proprietary fund provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of Pioneer Medical Center (PMC) at the end of the current fiscal year was -\$1,989,069. The total decrease in net position from FY15 was -\$1,348,754.

General Fund Budgetary Highlights

Original budget compared to final budget. At the end of the year several resolutions were passed to increase budgets. The airport (fund 2170) received a donation for \$37,382 to help install a new AWOS system. PMC facility (fund 2235) was established in FY 16. This fund received a transfer of taxes for the PMC to cover the first debt payment. That resolution was for \$103,811. Several weed grants were received and resolutions approved for them. Urban Spurge (fund 2841) received a \$25,000 grant and Deer & Bridger Creek (fund 284) received a \$35,000 grant.

Final budget compared to actual results. There were several differences in budget to actual revenues that stand out.

1. Justice court fines and forfeitures came in at \$9,700 more than anticipated. This has been directly attributed to an increase in the interstate speed limit. When the speed limit was lower there may have been more latitude given for going a few miles over the limit. With the higher speed limit there is no longer any latitude given and as such it has increased the number of tickets and fines.
2. When the revenue budget is set for interest we have traditionally erred on the low side for interest revenue to be earned. This year we budgeted for \$15,005 and actually received \$37,583, a difference of \$22,578.
3. Miscellaneous revenue budgets cannot be accurately budgeted because many of them are for donations. Also, the fair board has been promoting the fairgrounds usage and as such the revenue from the rental of buildings increased by \$4,000 over what was expected.
4. Actual expenditures did not exceed budgeted amounts.

Capital Asset and Debt Administration

Capital assets. Sweet Grass County's investment in capital assets (net of accumulated depreciation) is \$5,255,183. This investment in capital assets includes land, buildings, improvements other than buildings, and machinery and equipment. The following are key highlights to capital assets for FY 2016:

There are several construction-in-progress projects. They will not be depreciated until they are completed and, therefore, are accounted for separately from depreciable fixed assets

- A Western Federal Lands Highway project (\$7,600,000) is a joint project with Park and Sweet Grass County. It includes significant road repairs and bridge replacements over seven miles on the Main Boulder Road. This is a long term project due to the preliminary work that must be completed before the actual work can take place. The grant is split in half for each county and each county is responsible for 50% of the match. The match per county is \$521,960. In FY14 we paid \$28,500; in FY15 we paid \$19,000 towards the total match. The remainder of the match (\$474,460) was paid in FY16. It is anticipated that the project will begin in FY18.
- The senior citizen building (a.k.a Hospitality House) is undergoing an extended remodel. In FY15 \$16,350 was spent. In FY16 \$12,187 was spent. Renovations are expected to continue with \$17,000 budgeted in FY 17.
- A new Zuercher dispatch system is being purchased and installed. Costs for FY 16 were \$228,272. The system is expected to be fully installed and operational in FY 17.

New purchases and building remodels include:

1. Remodel of weed building was completed. \$19,437
2. TA-3051ci copier purchased for courthouse upstairs. \$7,670
3. TA-3051ci copier purchased for courthouse downstairs when lease on previous copier ended. \$7,460
4. Cannon printer purchased for clerk and recorder records room. \$7,446

5. 2009 Dodge Ram pickup road department. \$20,000
6. 2008 Chevy 2500HD pickup road department. \$13,275
7. V600H Linear Crusher for road department. \$364,734
8. Booking room camera system sheriff department. \$9,495
9. 2001 Sterling Plow Tandem Dump Truck road department. \$21,614
10. AWOS system airport. \$36,030
11. Dell PowerEdge T430 Tower Server annex. \$8,467
12. 2 - 2016 Dodge Ram pickups 1500 sheriff department with equipment. \$73,797

Disposed of:

2000 Dodge pickup road department, insurance \$7,500, pickup remains sold for \$1,000.

2005 weed spray truck sold to Prairie County \$16,500

Cemetery backhoe (no value)

Long-term debt. As of June 30, 2016 the County had total outstanding debt of \$1,067,881; compensated absences \$190,127; Other Post-Employment Benefits (OPEB) \$609,361; Pension liability \$2,008,754.

New debt in FY 16 was the purchase of a loader and crusher for road department for \$289,397. The county refunded the PMC bonds and refinanced them through local banks for \$852,923.

The PMC total outstanding debt was \$75,722. Compensated Absence Liability \$0.00 due to all PMC employees being terminated with the county June 30, 2016. These employees are now employed with the new non-profit PMC entity. Other Post-Employment Benefits (OPEB) is \$850,974; pension liability \$2,119,529.

The following statistics are from the most recent data cited:

The latest unemployment rate as of October 2016 for Sweet Grass County is 2.9% compared to a state-wide average of 4.3%.

The major employers in the county are Stillwater Mine, local government, and the high school and grade school districts.

The economy is primarily agriculture, tourism, and mining.

The average earnings per year in Sweet Grass County are \$41,265 according to the Montana Department of Labor and Industry.

Average wages statewide in Montana is \$39,880 according to the Montana Department of Labor and Industry.

Inflationary trends in the County compare favorably to national indices.

All these factors were considered in the preparation of Sweet Grass County's budget for the 2016 fiscal year.

The FY 2016 budget reflects 2016 mills and the inflationary increases allowed by statute.

Contacting the County's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions concerning this report or need additional financial information, contact the Finance Office at Sweet Grass County 406-932-3012, the County Commissioners at 406-932-5152 or the County Clerk and Recorder at 406-932-5152.



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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Sweet Grass County
Big Timber, Montana 59011

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 the Sweet Grass County (County) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP); 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 GAAP and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information (RSI)

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis (pages 3-10), and the schedule of funding for other post-employment benefits other than pensions (page 45), and schedule of proportionate share of net pension liability (page 46), and Schedule of Contributions to Montana Retirement Systems (page 47), and budgetary comparison information (pages 48-52) 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 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 inquires 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 January 25, 2017 on our consideration of the Sweet Grass County 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 Sweet Grass County internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
January 25, 2017

STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 7,466,547	\$ 70,225	\$ 7,536,772
Taxes receivable	69,659	13,886	83,545
Accounts receivable - net	-	735,959	735,959
Due from other governments	272,217	472,220	744,437
Employee advance receivable	635	-	635
Inventories	266,934	114,053	380,987
Prepaid expenses	-	41,481	41,481
Prepaid advance on disposal of operations	448,335	582,285	1,030,620
Other receivables	-	26,378	26,378
Total current assets	<u>8,524,327</u>	<u>2,056,487</u>	<u>10,580,814</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	4,978	4,978
Capital assets:			
Land	61,056	101,667	162,723
Construction in progress	831,688	72,385	904,073
Net depreciable assets	<u>5,255,183</u>	<u>2,958,193</u>	<u>8,213,376</u>
Total noncurrent assets	<u>6,147,927</u>	<u>3,137,223</u>	<u>9,285,150</u>
Total assets	<u>14,672,254</u>	<u>5,193,710</u>	<u>19,865,964</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Employer pension plan activities	<u>323,083</u>	<u>155,051</u>	<u>478,134</u>
Total deferred outflows of resources	<u>323,083</u>	<u>155,051</u>	<u>478,134</u>
Total assets and deferred outflows of resources	<u>14,995,337</u>	<u>5,348,761</u>	<u>20,344,098</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	-	423,487	423,487
Deposits payable	-	6,000	6,000
Salaries payable	87,028	-	87,028
Current portions long-term obligations	87,954	-	87,954
Current portions compensated absences	63,375	-	63,375
Current portion long-term capital obligations	76,646	75,723	152,369
Prepaid advance on disposal of operations	-	493,324	493,324
Total current liabilities	<u>315,003</u>	<u>998,534</u>	<u>1,313,537</u>
Noncurrent liabilities:			
Long-term obligations	3,288,099	2,970,503	6,258,602
Compensated absences	126,752	-	126,752
Long-term capital obligations	<u>233,297</u>	<u>-</u>	<u>233,297</u>
Total noncurrent liabilities	<u>3,648,148</u>	<u>2,970,503</u>	<u>6,618,651</u>
Total liabilities	<u>3,963,151</u>	<u>3,969,037</u>	<u>7,932,188</u>
DEFERRED INFLOWS OF RESOURCES:			
Employer pension plan	<u>418,731</u>	<u>272,123</u>	<u>690,854</u>
Total deferred inflows of resources	<u>418,731</u>	<u>272,123</u>	<u>690,854</u>
NET POSITION:			
Net investment in capital assets	5,837,984	3,056,522	8,894,506
Restricted	6,561,677	93,939	6,655,616
Unrestricted (Deficit)	<u>(1,786,206)</u>	<u>(2,042,860)</u>	<u>(3,829,066)</u>
Total net position	<u>10,613,455</u>	<u>1,107,601</u>	<u>11,721,056</u>
Total liabilities, deferred inflows and net position	<u>\$ 14,995,337</u>	<u>\$ 5,348,761</u>	<u>\$ 20,344,098</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
GOVERNMENT OPERATIONS:						
General government	\$ 1,664,243	\$ 164,895	\$ 15,623	\$ (1,483,725)		\$ (1,483,725)
Public safety	1,548,344	262,972	152,323	(1,133,049)		(1,133,049)
Public works	1,726,539	42,323	369,811	(1,314,405)		(1,314,405)
Public health	204,088	9,689	11,129	(183,270)		(183,270)
Social and economic services	92,128	1,464	582	(90,082)		(90,082)
Culture and recreation	123,487	-	172	(123,315)		(123,315)
Housing and community development	67,413	-	-	(67,413)		(67,413)
Miscellaneous	13,064	-	-	(13,064)		(13,064)
Debt service:						
Interest and other charges	10,567	-	-	(10,567)		(10,567)
Total Governmental Activities	5,449,873	481,343	549,640	(4,418,890)		(4,418,890)
BUSINESS-TYPE ACTIVITIES:						
Hosp Nurse Home	9,566,264	8,739,749	93,790		(732,725)	(732,725)
Total Primary Government	\$ 15,016,137	\$ 9,221,092	\$ 643,430	\$ (4,418,890)	\$ (732,725)	\$ (5,151,615)
GENERAL REVENUES:						
Taxes/Assessments				3,321,271	472,217	3,793,488
Local Option Taxes				191,126	-	191,126
Licenses and Permits				2,822	-	2,822
Federal/State Shared Revenues				1,329,393	-	1,329,393
Miscellaneous				245,985	-	245,985
Investment and Royalty Earnings				37,581	8,596	46,177
Gain loss on Sale of Assets				40,777	15,000	55,777
Special item - PMC debt restructure				(852,924)	-	(852,924)
Internal Balances				151,409	(151,409)	-
Total General Revenues				4,467,440	344,404	4,811,844
Change in Net Position				48,550	(388,321)	(339,771)
NET POSITION:						
Beginning of the Year				10,564,905	1,468,046	12,032,951
Prior Period Adjustments				-	27,876	27,876
End of the Year				\$ 10,613,455	\$ 1,107,601	\$ 11,721,056

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	MAJOR				Other Governmental Funds	Total Governmental Funds
	General	Road	Law Enforcement	Hard Rock		
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 1,821,420	\$ 747,128	\$ 376,724	\$ 1,662,377	\$ 2,858,898	\$ 7,466,547
Taxes receivable	15,933	10,810	13,455	-	29,461	69,659
Interfund receivable	48,226	-	-	-	-	48,226
Due from other governments	20,493	-	98,173	-	153,551	272,217
Employee advance receivable	635	-	-	-	-	635
Inventories	-	266,934	-	-	-	266,934
Prepaid advance on disposal of operations	-	-	-	-	448,335	448,335
Total assets	1,906,707	1,024,872	488,352	1,662,377	3,490,245	8,572,553
DEFERRED OUTFLOWS OF RESOURCES:						
Total deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	1,906,707	1,024,872	488,352	1,662,377	3,490,245	8,572,553
LIABILITIES:						
Current liabilities:						
Interfund payable	-	-	-	-	48,226	48,226
Salaries payable	31,085	7,322	21,070	-	27,551	87,028
Total liabilities	31,085	7,322	21,070	-	75,777	135,254
DEFERRED INFLOWS OF RESOURCES:						
Unavailable property taxes receivable	15,933	10,810	13,455	-	29,461	69,659
Total deferred inflows of resources	15,933	10,810	13,455	-	29,461	69,659
FUND BALANCE (DEFICITS):						
Nonspendable	-	266,934	-	-	-	266,934
Restricted	-	739,806	453,827	1,662,377	3,385,007	6,241,017
Unassigned	1,859,689	-	-	-	-	1,859,689
Total fund balance	1,859,689	1,006,740	453,827	1,662,377	3,385,007	8,367,640
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,906,707	\$ 1,024,872	\$ 488,352	\$ 1,662,377	\$ 3,490,245	\$ 8,572,553

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 8,367,640
Governmental Capital Assets	6,147,927
Employer pension plan activities	323,083
Long-term Liabilities	
Long-Term Obligations	(3,376,053)
Compensated Absences	(190,127)
Long-Term Capital Obligations	(309,943)
Employer pension plan	(418,731)
Unavailable property taxes receivable	69,659
Net Position of Governmental Activities	\$ 10,613,455

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2016

	MAJOR				Other Governmental Funds	Total Governmental Funds
	General	Road	Law Enforcement	Hard Rock		
REVENUES:						
Taxes/assessments	\$ 874,207	\$ 533,030	\$ 672,957	\$ -	\$ 1,465,656	\$ 3,545,850
Licenses and permits	472	1,275	-	-	1,075	2,822
Intergovernmental revenues	694,376	208,080	61,590	299,777	576,854	1,840,677
Charges for services	143,279	-	214,641	-	75,338	433,258
Fines and forfeitures	42,455	-	-	-	5,630	48,085
Miscellaneous	52,693	374	1,350	-	191,568	245,985
Investment and royalty earnings	14,685	-	1,476	7,707	13,714	37,582
Total revenues	1,822,167	742,759	952,014	307,484	2,329,835	6,154,259
EXPENDITURES:						
Current:						
General government	1,305,817	-	-	-	243,341	1,549,158
Public safety	63,177	-	822,639	-	547,930	1,433,746
Public works	82,264	492,319	-	-	774,417	1,349,000
Public health	31,134	-	-	-	172,954	204,088
Social and economic services	3,250	-	-	-	87,573	90,823
Culture and recreation	-	-	-	-	99,443	99,443
Housing and community development	-	-	-	-	67,413	67,413
Miscellaneous	13,064	-	-	-	-	13,064
Debt service:						
Principal	4,644	9,573	13,598	-	98,096	125,911
Interest and other charges	334	621	474	-	9,138	10,567
Capital outlay	68,103	189,734	1,495	-	922,932	1,182,264
Total expenditures	1,571,787	692,247	838,206	-	3,023,237	6,125,477
Excess (deficiency) of revenues over expenditures	250,380	50,512	113,808	307,484	(693,402)	28,782
OTHER FINANCING SOURCES/USES:						
Sale of capital assets	-	-	-	-	23,250	23,250
Loan proceeds	-	176,160	-	-	113,237	289,397
Insurance proceeds	-	7,500	10,027	-	-	17,527
Fund transfers in	-	-	-	-	958,056	958,056
Fund transfers (out)	(308,072)	(157,000)	(34,847)	-	(306,728)	(806,647)
Total other financial sources/uses	(308,072)	26,660	(24,820)	-	787,815	481,583
Net changes in fund balances	(57,692)	77,172	88,988	307,484	94,413	510,365
FUND BALANCE:						
Beginning of the year	1,917,381	898,736	364,839	1,354,893	3,290,594	7,826,443
Change in inventory	-	30,832	-	-	-	30,832
End of the year	1,859,689	1,006,740	453,827	1,662,377	3,385,007	8,367,640

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

Net Changes in Fund Balance	\$	510,365
Revenues on the Statement of Activities not included in governmental funds statement:		
Increase (decrease) in taxes receivable		(33,453)
State Pension Aid		38,355
Revenues reported in the governmental funds statement not included in the Statement of Activities		
Bond/Note Proceeds	289,397	
Loan proceeds from PMC restructuring	<u>852,924</u>	(1,142,321)
Expenses on the Statement of Activities not included in the governmental funds statement:		
Depreciation Expense	(747,051)	
Actuarial Pension Expense	75,370	
(Increase) decrease in pension liability		
(Increase) decrease in compensated absence liability	<u>8,278</u>	(663,403)
Expenditures reported in the governmental funds statement not included in the Statement of Activities		
Capital outlays	1,182,264	
Change in inventory	30,832	
Principal payments on bonds	<u>125,911</u>	<u>1,339,007</u>
Change in net position reported on the Statement of Activities	\$	<u><u>48,550</u></u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2016

	<u>MAJOR</u>
	<u>Hosp Nurse Home</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 70,225
Taxes receivable	13,886
Accounts receivable - net	735,959
Due from other governments	472,220
Inventories	114,053
Prepaid expenses	41,481
Prepaid advance on disposal of operations	582,285
Other receivables	<u>26,378</u>
Total current assets	<u>2,056,487</u>
Noncurrent assets:	
Restricted cash and cash equivalents	4,978
Capital assets:	
Land	101,667
Construction in progress	72,385
Net depreciable assets	<u>2,958,193</u>
Total noncurrent assets	<u>3,137,223</u>
Total assets	<u>5,193,710</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Employer pension plan activities	<u>155,051</u>
Total deferred outflows of resources	<u>155,051</u>
Total assets and deferred outflows of resources	<u>5,348,761</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	423,487
Deposits payable	6,000
Current portion long-term capital obligations	75,723
Prepaid advance on disposal of operations	<u>493,324</u>
Total current liabilities	<u>998,534</u>
Noncurrent liabilities:	
Long-term obligations	<u>2,970,503</u>
Total noncurrent liabilities	<u>2,970,503</u>
Total liabilities	<u>3,969,037</u>
DEFERRED INFLOWS OF RESOURCES:	
Employer pension plan	<u>272,123</u>
Total deferred inflows of resources	<u>272,123</u>
NET POSITION:	
Net investment in capital assets	3,056,522
Restricted for patient trust	4,978
Restricted for advance	88,961
Unrestricted (Deficit)	<u>(2,042,860)</u>
Total net position	<u>1,107,601</u>
Total liabilities, deferred inflows and net position	<u>\$ 5,348,761</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2016

	<u>MAJOR</u>
	<u>Hosp Nurse</u>
	<u>Home</u>
OPERATING REVENUES:	
Charges for services	8,330,216
Miscellaneous	<u>409,533</u>
Total operating revenues	<u>8,739,749</u>
OPERATING EXPENSES:	
Personal services	3,671,881
Supplies	473,837
Purchased services	2,514,198
Fixed charges	174,156
Loss/bad debt expense	2,316,227
Depreciation	<u>361,094</u>
Total operating expense	<u>9,511,393</u>
Operating income (loss)	<u>(771,644)</u>
NONOPERATING REVENUES (EXPENSES)	
Taxes/assessment revenue	472,217
Intergovernmental revenue	93,790
Interest revenue	8,596
Debt service interest expense	(54,871)
Gain/loss on sale of capital assets (loss negative)	15,000
Transfer to governmental funds	<u>(151,409)</u>
Total nonoperating revenue (expenses)	<u>383,323</u>
Change in net position	(388,321)
NET POSITION:	
Beginning of the Year	1,468,046
Prior period adjustments	<u>27,876</u>
End of the Year	<u>\$ 1,107,601</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

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

	Business-type Activities - Enterprise Funds
	<u>MAJOR</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,464,691
Payments to employees	(4,205,319)
Payments to suppliers	<u>(2,803,282)</u>
Net cash provided (used) by operating activities	<u>(543,910)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating subsidies and transfers between funds	(240,370)
Subsidies from other governments	3,002
Subsidies from taxes assessments	<u>472,217</u>
Net cash provided (used) by noncapital financing activities	<u>234,849</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(256,281)
Principal paid on capital debt	(1,277,290)
Interest paid on capital debt	<u>(54,871)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,588,442)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>8,596</u>
Net cash provided (used) by investing activities	<u>8,596</u>
Net increase (decrease) in cash and cash equivalents	(1,888,907)
BALANCE:	
Beginning of the year	<u>1,964,110</u>
End of the year	<u>\$ 75,203</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (771,644)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	361,094
GASB 68 pension expense	6,342
Changes in assets and liabilities:	
Accounts receivable	38,275
Inventories	(5,519)
Prepaid expense	(20,895)
Special assessments receivable	4,894
Accounts payable	385,323
Customer deposits	(2,000)
Compensated absences	(274,815)
Accrued payables	<u>(264,965)</u>
Net cash provided (used) by operating activities	<u>\$ (543,910)</u>
Supplemental schedule of noncash activities	
GASB 68 state contribution	<u>\$ 52,484</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	Investment Trust	
	Funds	Agency Funds
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 2,730,579	\$ 1,852,728
Taxes receivable	-	117,201
Total Assets	<u>2,730,579</u>	<u>1,969,929</u>
LIABILITIES:		
Current liabilities:		
Warrants payable	-	827,432
Due to others	-	1,142,497
Total Liabilities	-	<u>1,969,929</u>
NET POSITION:		
Held in trust for pooled investments	<u>2,730,579</u>	
Total Net Position	<u>\$ 2,730,579</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the year ended June 30, 2016

	Investment Trust
	Funds
ADDITIONS:	
Contributions to investment trust	\$ 1,053,732
Investment and royalty earnings	15,857
Total Additions	<u>1,069,589</u>
DEDUCTIONS:	
Expenses of investment funds	<u>1,314,392</u>
Total Deductions	<u>1,314,392</u>
Change in net position	(244,803)
NET POSITION:	
Beginning of the year	<u>2,975,382</u>
End of the year	<u>\$ 2,730,579</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of the Sweet Grass County (County) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The County applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2016 the County adopted the following:

- GASB Statement No. 72 – Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The County has implemented this statement in fiscal year 2016.
- GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement provides guidance on non-employer entity pension plans. This statement appears to be applicable to the State of Montana and has no effect on the County.
- GASB Statement No. 77 – Tax Abatement Disclosures. This Statement requires governments that enter into tax abatement agreements to disclose the agreements. This statement is applicable for periods beginning after December 15, 2015. The County has implemented this statement in fiscal year 2016, and had no tax abatements during this timeframe.
- GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement is applicable for periods beginning after December 15, 2015. The County has implemented this statement in fiscal year 2016 and determined it has no effect on its financial reporting.
- GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement is applicable for periods beginning after December 15, 2015. This change is required of the State of Montana. Beginning in FY 2016, the State will report STIP investments on a Net Asset Value (NAV) basis in its financial statements. The County has determined this to be a note disclosure change and trivial net asset value adjustment at year-end for any STIP investments held at year-end by the County.
- GASB Statement No. 80 – Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The County has reviewed this Statement and they have no not-for profit corporations and determined it does not apply.
- GASB Statement No. 81 – Irrevocable Split-Interest Agreements. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. In FY 2016, the County reviewed this Statement and determined they have no irrevocable split-interest agreements.

The following are a listing of GASB statements which have been issued and the County assessment of effects to the financial statements.

- GASB Statement No. 82 – Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. The County will implement this statement upon the State of Montana implementing.

The County provides a full range of governmental services to the citizens of the County. These services include but are not limited to construction, reconstruction, maintenance and repair of roads, parks and recreation, public safety, criminal justice, and other government services. The Board of County Commissioners is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

The Sweet Grass County was incorporated under the laws of the State of Montana and as required by GAAP, the financial statements of the reporting entity include those of the Sweet Grass County (the primary government) and any component units. The criteria for including organizations as component units within the County's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the County's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the County. Based on those criteria the County has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING
1. b. 1. GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds (primary government). Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

The statement of activities reports the direct expenses or segments of a given function offset by program revenues directly connected with the functional program. Direct expenses are those that are specifically associated with a function or segment. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Operating and Capital grants that are restricted to a particular functional or segment.

Property taxes, investment earnings, state entitlement payments, and other revenue sources not properly included with program revenue are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business-type segment is self-supporting or drawing from general revenues.

1. b. 2. FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Since the resources in the fiduciary funds cannot be used for County operations, they are not included in the government-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period, anything collected after June 30 is generally not material. Unavailable income is recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds, and proceeds from long-term debt or capital leases are reported as other financing sources.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available. All other revenue items are considered to be measurable and available only when cash is received by the County.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Proprietary, trust, and agency fund financial statements use the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes and assessments are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Hospital Nursing Home fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Resources received for capital acquisition or construction are reported as separate items.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The County reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the County and accounts for all revenues and expenditures of the County not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. In the governmental fund financial statements, the general fund also includes the activities of the PILT and Federal Mineral Royalty funds since the restrictions on those funds are similar to the general fund.
- Road Fund – This fund is used to account for the construction, maintenance, or improvement of public highways in the county. County levies for the road fund that are assessed and collected must be deposited into this fund.
- Law Enforcement – This fund is used to account for providing the public safety of citizens. County levies must be used to support county law enforcement services and to maintain county detention centers and must be deposited into this fund.
- Hard Rock – This fund is used to account for state remittance of metalliferous mine license taxes. Funds can only be spent when an impact plan for a large-scale mineral development approved pursuant to MCA 90-6-307 identifies a jurisdictional revenue disparity.

The County reports the following major enterprise funds:

- Pioneer Medical Center (PMC) – This fund is used to account for financing the activities of the critical access hospital with 25 acute care/swing beds, a 25 bed nursing home, rural health clinic, hospice, ambulance service, public health and assisted living facility.

1. b. 3. OTHER FUND TYPES

Investment Trust Funds – To report the external portion of investment pools reported by the sponsoring government. This accounting reflects the County's trust relationship with the other investing parties.

Agency Funds – Account for assets that the County holds on behalf of others as their agent and for warrants written but not redeemed that are reported in the County's payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the County trustee to pay a particular sum of money to a payee (person or entity) from funds in the County treasury which are or may become available. This fund primarily consists of revenues collected by the County on behalf of other governments.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank or credit union which is FDIC or NCUA insured; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

For purposes of the Statement of Cash flows, the County considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted cash accounts of the Enterprise Fund are restricted for customer deposits.

1. c. 2. TAXES

Property tax levies are set in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the County. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by State statute as a fixed percentage of market value.

Property taxes are collected by the County Treasurer who credits to the County funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The County receives its share of the sale proceeds of any such auction.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 3. INVENTORIES

Materials and supplies inventory are valued at first-in/first-out (FIFO) method and are subsequently charged to expenses when consumed rather than when purchased. At year-end the changes in inventory is reported as a change in reserve for inventories in the governmental funds.

1. c. 4. CAPITAL ASSETS

The County's property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, lighting, and similar items) with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The County considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	10 - 75 years
Improvements other than buildings	10 - 75 years
Machinery and Equipment	3 - 30 years
Infrastructure	20 - 50 years

1.c. 5. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

In addition to liabilities, the statement of financial position reports 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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension Liability– Deferred outflow/inflow

The County recognizes a net pension liability for each qualified pension plan in which it participates. Changes in the net pension liability during the fiscal year are recorded as pension expense, or as deferred inflows of resources, or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience, are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense.

Property Taxes– Deferred inflows

The County reports deferred inflows under the modified accrual basis of accounting in the governmental funds for property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In the governmental fund balance sheet, they are reported as unavailable from property taxes receivable.

Revolving Loans – Deferred inflows

The County reports deferred inflows under the modified accrual basis of accounting in the governmental funds for revolving loans given to small businesses for development and expansion. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In the governmental fund balance sheet, they are reported as unavailable from loan repayment.

1. c. 6. VACATION AND SICK LEAVE

County employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. County employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. County employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$63,375 and it is generally paid out of the general fund. The enterprise fund liability has been paid out at year end as part of the split of the Hospital Nursing Home from the County.

1. c. 7. NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Non-spendable – Includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund or funds that have negative fund balances.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

As of June 30, 2016, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Nonspendable</u>	<u>Restricted</u>
General government	\$ 0	\$ 178,393
Public safety	0	873,971
Public works	266,934	3,025,849
Public health	0	568,950
Social and economic services	0	50,439
Culture and recreation	0	90,654
Housing and community development	0	261,841
Future Capital Costs	0	1,190,589
Debt Service	0	331
Total	<u>\$ 266,934</u>	<u>\$ 6,241,017</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available, the County considers restricted funds to have been spent first.

1. d. OTHER

1. d. 1. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2016, the summary of cash, cash equivalents for governmental and business-type activities, and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Fiduciary</u> <u>Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 7,466,547	\$ 70,225	\$ 4,583,307	\$ 12,120,079
Restricted Assets	0	4,978	0	4,978
Total	<u>\$ 7,466,547</u>	<u>\$ 75,203</u>	<u>\$ 4,583,307</u>	<u>\$ 12,125,057</u>

The carrying amount of cash on hand, deposits and investments at June 30, 2016, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 2,894
Demand Accounts	2,009,327
Time Deposits	8,536,517
STIP	1,576,319
Total	<u>\$ 12,125,057</u>

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of June 30, 2016, the County’s bank balance was exposed to custodial credit risk as follows:

<u>Deposits</u>	<u>Fair Value</u> <u>June 30, 2016</u>
Covered depository insurance	<u>3,132,033</u>
Collateral held by the pledging bank’s trust department but not in the Entity’s name.	7,083,740
Uninsured and uncollateralized	<u>2,120,920</u>
Total bank balance	<u>\$ 12,336,693</u>

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Interest Rate Risk: The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. The County's investment policy is to hold investments to maturity with the contractual understanding that these investments are low risk, locked in to a guaranteed rate of return, are therefore not impacted significantly by changes in short term interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates all of the County's investment portfolio is made up of securities whose maturities are less than 10 years.

2. a. SHORT TERM INVESTMENT POOL (STIP)

Short-Term Investment Pool (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. STIP invests the operating funds of the State of Montana, participating local government entity funds, and the liquidity requirements of the various pension and trust funds managed by MBOI.

STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company and therefore is not required to abide by the SEC's rule 2a7 of the Investment Company Act of 1940. For financial reporting purposes, the STIP portfolio will be reported on a Net Asset Value basis versus amortized cost starting in fiscal year 2016.

The shareholder's STIP ownership is represented by shares. Shareholders having funds to invest and owning shares are required to give one business day's notice to buy or sell shares. Share prices are fixed at \$1.00 per share for transactional purposes. The STIP investment portfolio consists of securities with maximum maturity of 2 years or less. The portfolio is reported at net asset value for financial reporting purposes.

Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved and part of an "Approved List." STIP may invest only in the following securities and investment vehicles: (1) U.S. Treasury or U.S. dollar denominated securities fully guaranteed by the U.S. Government; (2) U.S. Government Agency securities denominated in U.S. dollars; (3) Publicly traded U.S. dollar denominated corporate bonds, notes, and medium term notes (MTNs); (4) U.S. dollar denominated Commercial Paper (CP); (5) U.S. dollar denominated Bankers' Acceptance (BA); (6) U.S. dollar denominated Certificates of Deposits (CD); (7) U.S. dollar denominated Asset-Backed Securities (ABS) collateralized by credit cards, automobile loans and leases, student loans, and equipment leases; (8) U.S. dollar denominated Asset-Backed Commercial Paper (ABCP); (9) Repurchase or Reverse Repurchase Agreements with an approved primary dealer or the custodial bank, and under the terms of a written master repurchase agreement; (10) Investments required to implement the bond credit enhancement authorized by Resolution 219; (11) SEC registered 2a-7 Institutional Money Market Funds that are considered "U.S. Treasury" or "U.S. Government" money market mutual funds according to the SEC regulations; and (12) Short term investment vehicles available through the custodial bank.

Because of the pooled funds concept, cash held in STIP cannot be categorized as to custodial risk. For additional information contact the Montana Board of Investments, P.O. Box 200126, Helena, MT 59620-0126 – Telephone (406)-444-0001

2. b. RESTRICTED ASSETS

The following restricted cash was held by the County Treasurer as of June 30, 2016:

<u>Fund Name</u>	<u>PMC</u>
Restricted for Patient trust accounts	<u>\$ 4,978</u>

2. c. EXTERNAL INVESTMENT POOL

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

The County has one pooled investment trust fund which is invested in STIP, CD's and demand accounts. The pooled funds are carried at fair value. Non-pooled investments are also carried at fair value. The fair value of non-pooled investments is determined annually and is based on current market prices.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2016 to support the value of shares in the pool. Income from pooled investments is allocated to the individual funds or external participants based on the fund or participant's month end cash balance in relation to total pooled investments.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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

Statement of Net Position:		
Equity of Internal pool participants	\$	7,382,675
Equity of External pool participants		<u>2,730,579</u>
Total net position	\$	<u>10,113,254</u>
Statement of Changes in Net Position		
	<u>Internal</u>	<u>External</u>
Investment earnings	\$ 42,872	\$ 15,857
Participant Investment in Pool	3,050,352	1,053,732
Distribution to Participants	<u>(3,009,275)</u>	<u>(1,314,392)</u>
Change in Net Position	83,949	(244,803)
Net Position – Beginning	<u>7,298,726</u>	<u>2,975,382</u>
Net Position – Ending	<u>\$ 7,382,675</u>	<u>\$ 2,730,579</u>

NOTE 3. TAXES RECEIVABLE

The County is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2015, upon which the levy for the 2016 fiscal year was based, was \$18,927,609 for the County and \$15,211,863 for the Road. The tax rates assessed for the year ended June 30, 2016 to finance County operations and applicable taxes receivable follows:

<u>County General Levies</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>	<u>County General Levies</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	35.78	\$ 15,933	Alcohol Rehab	0.19	53
Bridge	23.54	8,294	MAF SKG	0.00	16
Weed	8.29	2,917	<u>Voted Mills</u>		
Fair	1.62	775	Permissive levy	13.37	4,651
Airport	2.94	1,171	PMC*	25.00	13,886
District Court	5.23	2,083	<u>County Rural (Road)</u>		
Cemetery	1.72	925	Road*	34.84	10,810
Planning	4.17	1,676	Library	2.54	964
Emergency Disaster	0.00	24	Fire	7.94	2,729
Mental health	0.28	105	<u>Special Assessments</u>		
Senior Citizens	1.65	348	Sheep	N/A	257
Extension service	4.40	1,485	Cattle	<u>N/A</u>	<u>895</u>
Law enforcement*	35.33	13,455	Total	<u>208.83</u>	<u>83,545</u>
Website/Tech	0.00	93	* Denotes Major Funds		

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable represent the outstanding balances of amounts billed for services the County has provided for Hospital Nursing Home. An allowance for doubtful accounts has been established.

<u>Accounts Receivable</u>	<u>Allowance for Uncollectable</u>	<u>Allowance for Uncollectible- Medicare</u>	<u>Allowance for Uncollectible - Insurance</u>	<u>Due To Medicare</u>	<u>Net Accounts Receivable</u>	
					\$ 735,959	Accounts Receivable
					<u>472,220</u>	Due From Other Gov.
PMC*	<u>\$ 1,733,780</u>	<u>\$ (221,750)</u>	<u>\$ (161,993)</u>	<u>\$ (131,858)</u>	<u>\$ (10,000)</u>	<u>\$ 1,208,179</u>

* Denotes Major Funds

NOTE 5. DUE FROM OTHER GOVERNMENTS

Due from other governments represent amounts due to the County for costs incurred but not reimbursed by third party grantors. The amounts reported and the organization due from are noted below:

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended June 30, 2016

	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
General*	\$ 9,250	City of Big Timber	City shared revenues
General*	3,000	City of Big Timber	City shared revenues
General*	2,500	City of Big Timber	City shared revenues
General*	5,743	State of Montana	EMPG grant
Planning	8,630	City of Big Timber	City shared revenues
Law enforcement*	92,118	City of Big Timber	City shared revenues
Law enforcement*	6,055	City of Big Timber	City shared revenues
Alcohol Rehab	2,100	City of Big Timber	City shared revenues
MDA 2015-067 Urban Project	11,319	State of Montana	MDA 2015-067 grant
Deer and Bridger Creek	5,671	State of Montana	Deer and Bridger Creek grant
Weed RAC	28,754	Forest service	RAC Grant revenue
Law Enforcement RAC grant	2,551	Forest service	Law enforcement RAC grant
Law Enforcement BVP grant	2,390	State of Montana	Bullet proof vest grant
Disaster	69,102	FEMA	FEMA disaster grants
Disaster	23,034	State of Montana	State FEMA disaster match
Total	<u>\$ 272,217</u>		

* Denotes Major Funds

NOTE 6. INTERFUND RECEIVABLE/PAYABLE

Inter-fund receivables and payables represent loan resources from one fund to another fund experiencing a temporary cash shortage. Each fund is a separate fiscal entity and therefore presents Inter-fund borrowing on fund level financial statements. Liabilities arising from Inter-fund borrowing do not constitute general long-term debt. The amounts reported and the purpose of the Inter-fund borrowing are noted below:

<u>Inter-fund Receivable</u>	<u>Amount</u>	<u>Inter-fund Payable</u>	<u>Purpose of the Transfer</u>
PILT*	\$ 11,289	MDA 2015-067 Urban Project	Cover negative cash
PILT*	5,671	Deer and Bridger Creek	Cover negative cash
PILT*	28,754	Weed RAC	Cover negative cash
PILT*	2,512	Law enforcement RAC grant	Cover negative cash
Total	<u>\$ 48,226</u>		

* Denotes Major Funds

NOTE 7. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

7. a. At June 30, 2016, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>Non-depreciable:</u>					
Land	\$ 61,056	\$ 0	\$ 0	\$ 0	\$ 61,056
Construction in progress	238,850	957,572	0	(364,734)	831,688
Total Non-depreciable	<u>\$ 299,906</u>	<u>\$ 957,572</u>	<u>\$ 0</u>	<u>\$ (364,734)</u>	<u>\$ 892,744</u>
<u>Depreciable:</u>					
Buildings	\$ 4,392,588	\$ 19,437	\$ 0	\$ 0	\$ 4,412,025
Machinery and equipment	5,068,189	205,255	(48,812)	364,734	5,589,366
Infrastructure	2,256,121	0	0	0	2,256,121
Total Depreciable	<u>\$ 11,716,898</u>	<u>\$ 224,692</u>	<u>\$ (48,812)</u>	<u>\$ 364,734</u>	<u>\$ 12,257,512</u>
<u>Accumulated Depreciation:</u>					
Buildings	\$ (2,507,458)	\$ (241,165)	\$ 0	\$ 0	\$ (2,748,623)
Machinery and equipment	(3,063,864)	(400,332)	48,812	0	(3,415,384)
Infrastructure	(732,768)	(105,554)	0	0	(838,322)
Total Depreciation	<u>\$ (6,304,090)</u>	<u>\$ (747,051)</u>	<u>\$ 48,812</u>	<u>\$ 0</u>	<u>\$ (7,002,329)</u>
Net Depreciable Assets	<u>5,412,808</u>	<u>(522,359)</u>	<u>0</u>	<u>364,734</u>	<u>5,255,183</u>
Net General Capital Assets	<u>\$ 5,712,714</u>	<u>\$ 435,213</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,147,927</u>

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

7. b. General capital asset depreciation expense was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
General government	\$ 142,050
Public safety	157,475
Public works	417,017
Social and economic services	1,888
Culture and recreation	<u>28,621</u>
Total Depreciation Expense	<u>\$ 747,051</u>

7. c. At June 30, 2016, the schedule of changes in business-type activities capital assets follows:

<u>Business-type Activities:</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>Non-depreciable:</u>				
Land	\$ 101,667	\$ 0	\$ 0	\$ 101,667
Construction in progress	<u>28,491</u>	<u>43,894</u>	<u>0</u>	<u>72,385</u>
Total Non-depreciable	<u>\$ 130,158</u>	<u>\$ 43,894</u>	<u>\$ 0</u>	<u>\$ 174,052</u>
<u>Depreciable:</u>				
Buildings	\$ 6,948,895	\$ 85,976	\$ 0	\$ 7,034,871
Improvements other than buildings	23,439	0	0	23,439
Machinery and equipment	<u>2,073,884</u>	<u>126,411</u>	<u>(8,600)</u>	<u>2,191,695</u>
Total Depreciable	<u>\$ 9,046,218</u>	<u>\$ 212,387</u>	<u>\$ (8,600)</u>	<u>\$ 9,250,005</u>
<u>Accumulated Depreciation:</u>				
Buildings	\$ (4,370,164)	\$ (187,227)	\$ 0	\$ (4,557,391)
Improvements other than buildings	(3,825)	(1,894)	0	(5,719)
Machinery and equipment	<u>(1,565,329)</u>	<u>(171,973)</u>	<u>8,600</u>	<u>(1,728,702)</u>
Total Depreciation	<u>\$ (5,939,318)</u>	<u>\$ (361,094)</u>	<u>\$ 8,600</u>	<u>\$ (6,291,812)</u>
Net Depreciable Assets	<u>3,106,900</u>	<u>(148,707)</u>	<u>0</u>	<u>2,958,193</u>
Net Business-type Capital Assets	<u>\$ 3,237,058</u>	<u>\$ (104,813)</u>	<u>\$ 0</u>	<u>\$ 3,132,245</u>

NOTE 8. CHANGES IN LONG-TERM DEBT

8. a. At June 30, 2016, the schedule of changes in general long-term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
Capital Lease	\$ 5,160	\$ 0	\$ (4,644)	\$ 516	\$ 516
Bonds Payable	0	852,924	(94,986)	757,938	87,954
Intercap Loans	<u>46,311</u>	<u>289,397</u>	<u>(26,281)</u>	<u>309,427</u>	<u>76,130</u>
Total Bonds and Notes Payable	<u>\$ 51,471</u>	<u>\$ 1,142,321</u>	<u>\$ (125,911)</u>	<u>\$ 1,067,881</u>	<u>\$ 164,600</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 198,405	\$ 0	\$ (8,278)	\$ 190,127	\$ 63,375
Accrued Pension	1,684,814	323,940	0	2,008,754	0
Other Post-Employment Benefits (OPEB)	<u>609,361</u>	<u>0</u>	<u>0</u>	<u>609,361</u>	<u>0</u>
Total Other Liabilities	<u>\$ 2,492,580</u>	<u>\$ 323,940</u>	<u>\$ (8,278)</u>	<u>\$ 2,808,242</u>	<u>\$ 63,375</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 2,544,051</u>	<u>\$ 1,466,261</u>	<u>\$ (134,189)</u>	<u>\$ 3,876,123</u>	<u>\$ 227,975</u>

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

8. b. BONDS PAYABLE

The County assumed debt obligations from the PMC as part of the split of the PMC from the County, see note 8f. below. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u>	<u>Length of</u>	<u>Maturity</u>	<u>Amount</u>	<u>Outstanding</u>
		<u>Rate</u>	<u>Loan</u>	<u>Date</u>	<u>Issued</u>	<u>June 30,</u>
Limited tax levy series 2016A	3/30/16	4.15%	1.5 years	7/1/2017	\$ 270,638	\$ 175,652
Tax-supported series 2016B	3/30/16	4.15%	5.5 years	1/1/2021	582,286	582,286
					<u>\$ 852,924</u>	<u>\$ 757,938</u>

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:		
	Principal	Interest
2017	\$ 87,954	\$ 15,857
2018	181,701	25,921
2019	189,319	18,303
2020	197,257	10,364
2021	<u>101,707</u>	<u>2,105</u>
Totals	<u>\$ 757,938</u>	<u>\$ 72,550</u>

8. c. INTERCAP LOAN

The County entered into Intercap loans in prior years. The loans were issued for the terms and payment schedule indicated below.

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u>	<u>Length of</u>	<u>Maturity</u>	<u>Amount</u>	<u>Outstanding</u>
		<u>Rate*</u>	<u>Loan</u>	<u>Date</u>	<u>Issued</u>	<u>June 30,</u>
Airport master plan	3/5/2013	1.63%	5 years	2/1/2018	\$ 8,333	\$ 3,325
Patrol cars	2/15/2013	1.0-4.75%	5 years	2/15/2018	68,000	27,708
Loader	7/10/2015	1.25-1.63%	5 years	8/15/2020	113,237	102,234
Asphalt Crusher	4/1/2016	1.55-1.63%	5 years	8/15/2020	<u>176,160</u>	<u>176,160</u>
					<u>\$ 365,730</u>	<u>\$ 309,427</u>

Debt service requirements to maturity for principal and interest for all Intercap long term obligations are as follows:

For the year ended 6/30:		
	Principal	Interest
2017	\$ 76,130	\$ 4,167
2018	76,770	3,618
2019	62,083	2,426
2020	62,980	1,463
2021	<u>31,464</u>	<u>488</u>
Totals	<u>\$ 309,427</u>	<u>\$ 12,162</u>

*Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

8. d. CAPITAL LEASES

A lease purchase agreement was entered into between Terrels Office Machine and Sweet Grass County. This lease-purchase agreement provided a method of financing a courthouse and annex copy machines for the County. The amount due on this lease purchase is reflected as a liability on the financial statements of the County in the Statement of Net Position. The amount shown in the Statement of Net Position for capitalized machinery and equipment is 7,295. The principal amount paid as of June 30, 2016 was \$4,644. The principal balance as of June 30, 2016 was \$516.

For the year ended 6/30:	
2017	\$ 516

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

8. e. At June 30, 2016, the schedule of changes in Business-Type long-term debt follows:

<u>Business-Type Activities</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
Revenue Bonds	\$ 1,235,101	\$ 0	\$ (1,235,101)	\$ 0	\$ 0
Contracted Debt	<u>132,912</u>	<u>0</u>	<u>(57,189)</u>	<u>75,723</u>	<u>75,723</u>
Total Bonds and Notes Payable	<u>\$ 1,368,013</u>	<u>\$ 0</u>	<u>\$ (1,292,290)</u>	<u>\$ 75,723</u>	<u>\$ 75,723</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 274,815	\$ 0	\$ (274,815)	\$ 0	\$ 0
Accrued Pension	1,938,067	181,462	0	2,119,529	0
Other Post-Employment Benefits (OPEB)	<u>850,974</u>	<u>0</u>	<u>0</u>	<u>850,974</u>	<u>0</u>
Total Other Liabilities	<u>\$ 3,063,856</u>	<u>\$ 181,462</u>	<u>\$ (274,815)</u>	<u>\$ 2,970,503</u>	<u>\$ 0</u>
Total Business-Type Activities - Long-Term Debt:	<u>\$ 4,431,869</u>	<u>\$ 181,462</u>	<u>\$ (1,567,105)</u>	<u>\$ 3,046,226</u>	<u>\$ 75,723</u>

8. f. REVENUE BONDS

Revenue Bonds constitute special obligations of the County solely secured by a lien on and pledge of the net revenues of the PMC. These bonds were restructured as governmental debt and transfers to Governmental activities as part of the PMC restructuring. See note 8b. above. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length</u> <u>of Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2016</u>
2001 Assisted living facility revenue bond #1	5/1/2001	6.15%	20 years	7/1/2020	\$ 935,000	\$ 0
2001 Assisted living facility revenue bond #2	5/1/2001	4.75%	30 years	5/14/1931	500,000	0
1996 Pioneer Medical Center – revenue bond	7/2/1996	4.89%	25 years	5/31/2021	<u>1,550,000</u>	<u>0</u>
					<u>\$ 2,985,000</u>	<u>\$ 0</u>

The revenue bonds were paid off as a restructuring to governmental bonds. See governmental bonds above, note 9.b.

8. g. OTHER DEBT

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length</u> <u>of Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2016</u>
Triangle Telephone Loan	10/15/2012	1.25%	8.8 years	1/1/2018	\$ 551,000	\$ 75,723

Debt service requirements to maturity for principal and interest for this long-term obligation is as follows:

For the year ended 6/30:	
2017	Principal \$ 75,723

NOTE 9. PRIOR PERIOD ADJUSTMENTS

<u>Governmental Funds</u>	<u>Amount</u>	<u>Reason</u>
Road*	<u>\$ 30,832</u>	Change in inventory
<u>Enterprise Fund</u>		
PMC*	<u>\$ 27,876</u>	Correction of prior year activity

* Denotes Major Funds

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 10. DEFERRED INFLOWS OF RESOURCES

10. a. PROPERTY TAXES

	<u>Amount</u>	<u>Reason</u>
General*	\$ 15,933	Taxes receivable
Road*	10,810	Taxes receivable
Bridge	8,294	Taxes receivable
Weed	2,917	Taxes receivable
Sheep	257	Assessments
Cattle	895	Assessments
Fair	775	Taxes receivable
Airport	1,171	Taxes receivable
District Court	2,083	Taxes receivable
Library	964	Taxes receivable
Cemetery	925	Taxes receivable
Planning	1,676	Taxes receivable
Emergency Disaster	24	Taxes receivable
Mental health	105	Taxes receivable
Senior Citizens	348	Taxes receivable
Extension service	1,485	Taxes receivable
Law enforcement*	13,455	Taxes receivable
Fire	2,729	Taxes receivable
Permissive levy	4,651	Taxes receivable
Website/Tech	93	Taxes receivable
Alcohol Rehab	53	Taxes receivable
MAF SKG	16	Taxes receivable
Total	<u>\$ 69,659</u>	

* Denotes Major Funds

NOTE 11. INTERFUND OPERATING TRANSFERS IN/OUT

<u>Fund transfer - In</u>	<u>Amount</u>	<u>Fund transfer - Out</u>	<u>Purpose of Transfer</u>
CIP Courthouse	\$ 105,000	General*	Capital projects
CIP Annex	5,000	General*	Capital projects
CIP Technology	5,000	General*	Capital projects
CIP Road	50,000	Road*	Capital projects
CIP Bridge	10,000	Bridge	Capital projects
CIP Airport	26,647	Airport	Capital projects
CIP Cemetery	10,000	Cemetery	Capital projects
CIP SR Citizen	5,000	Citizen fund	Capital projects
CIP law enforcement	33,800	Law enforcement*	Capital projects
Posse	1,047	Law enforcement*	Budgetary transfer for operations
CIP Fire	60,000	Fire fund	Capital projects
Airport Improvement	1,647	FAA	Budgetary transfer for operations
CIP Airport	1,434	FAA	Capital projects
Emergency disaster mills	256	PILT*	Budgetary transfer to close fund
CIP WFHL	192,816	PILT*	Capital projects
CIP WFHL	107,000	Road*	Capital projects
CIP WFHL	117,000	Bridge	Capital projects
CIP Pony truss	25,000	MM Tax plan	Capital projects
CIP Pony truss	50,000	Bridge	Capital projects
Total	<u>\$ 806,647</u>		

* Denotes Major Funds

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

NOTE 12. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The County provides the same health care plan to all of its members. The County had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that none of plan participants would elect to continue coverage after retirement.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established.

Benefits Provided – The County provides healthcare benefits for retirees and their dependents. Retirees are required to pay 100% of the health insurance premium to retain the healthcare benefits. The County covers 89% of the premiums for active employees.

Employees covered by benefit terms. At June 30, 2015, the following employees were covered by the benefit terms:

Active employees 93

Total OPEB Liability

The County's total OPEB liability of \$1,460,335 was measured as of June 30, 2015, and was determined by an Alternative Measurement Method as of that date. Assumptions and other inputs. The total OPEB liability in the June 30, 2015 valuation was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	1.49%
Salary increases	2%
Discount rate (adjusted for inflation rate)	1%
Health care cost rate trend	
Year	% Increase
2016	5.20%
2017	4.90%
2018	4.70%
2019	4.90%
2020	5.30%
2021 and after	5.70%
Retiree's share of benefit related costs	100%

Changes in the Total OPEB Liability

Balance at June 30, 2015	<u>\$ 1,460,335</u>
Changes for the year:	
Service cost	180,864
Interest	18,586
Changes of benefit terms	0
Changes in assumptions or other inputs	0
Benefit payments	<u>(199,450)</u>
Net Changes	<u>0</u>
Balance at June 30, 2016	<u>\$ 1,460,335</u>

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.00%) or 1-percentage-point higher (2.00%) than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	<u>(0.00%)</u>	<u>(1.00%)</u>	<u>(2.00%)</u>
Total OPEB Liability	\$ 1,630,842	\$ 1,460,335	\$ 1,276,040

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.7% decreasing to 3.7%) or 1-percentage-point higher (6.7% decreasing to 5.7%) than the current healthcare cost trend rates:

	<u>1% Decrease</u> (4.7% decreasing to 3.7%)	<u>Discount Rate</u> (5.7% decreasing to 4.7%)	<u>1% Increase</u> (6.7% decreasing to 5.7%)
Total OPEB Liability	\$ 1,171,197	\$ 1,460,335	\$ 1,833,069

The County did not have deferred outflows or inflows of resources associated with the OPEB liability.

NOTE 13. RISK MANAGEMENT

The County is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks

Sweet Grass County elected to participate in the Montana Association of Counties Workers' Compensation Trust (The Trust) to provide workers' compensation coverage. The County pays annual premiums to The Trust for its workers' compensation coverage and for its portion of the debt service for the bonds sold by The Trust to provide aggregate excess coverage, provide resources for previously unfunded liabilities, and establish initial insurance reserves. The Trust is governed by an elected board of nine county commissioners which has the authority to determine management and set operational policies. The Trust has obtained reinsurance through commercial companies for claims in excess of \$1,000,000 per occurrence. Financial statements for The Trust are available from the Montana Association of Counties, Helena, Montana.

The County also elected to participate in the Montana Association of Counties Joint Powers Insurance Authority Trust (The Authority) to provide liability and general insurance coverage. Coverage is provided in the amount of \$500,000 for property, liability, errors and omissions, and crime coverage. The Authority has obtained reinsurance through commercial companies for claims in excess of the above areas for various amounts. Claims administration services are handled by a private insurance firm and general administration is handled by the Montana Association of Counties. Financial statements are available from the Montana Association of Counties, Helena, Montana.

Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for employee medical insurance. The County has no coverage for potential losses from environmental damages. Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 14. EMPLOYEE RETIREMENT SYSTEM

The County participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all employees, except elected officials. The Sheriffs Retirement System (SRS) covers officers. The Public Employee Retirement System (PERS) covers all other employees. The plans are established under State law and administered by the State of Montana.

Both plans issue publicly available annual reports, stand-alone financial statements, actuarial valuations, experience studies and plan audited financial statements. Those reports may be obtained from the following:

Public Employees Retirement System
P.O. Box 200131
100 N. Park Avenue Suite 200
Helena, MT 59620-0131
Phone: 406-444-3154
www.mpera.mt.gov

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

14. a. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF RETIREMENT SYSTEMS

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred.

Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

14. b. PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

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

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

14. b. 1. SUMMARY OF BENEFITS

Eligibility for benefit (Service retirement):

Hired prior to July 1, 2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or any age, 30 years of membership service.

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

Early retirement, actuarially reduced:

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

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

Vesting: 5 years of membership service

Member's highest average compensation (HAC):

Hired prior to July 1, 2011: highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011: highest average compensation during any consecutive 60 months;

Compensation Cap:

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

Monthly benefit formula:

Members hired prior to July 1, 2011: Less than 25 years of membership service 1.785% of HAC per year of service credit; 25 years of membership service or more 2% of HAC per year of service credit.

Members hired on or after July 1, 2011: Less than 10 years of membership service 1.5% of HAC per year of service credit; 10 years or more, but less than 30 years of membership service 1.785% of HAC per year of service credit; 30 years or more of membership service 2% of HAC per year of service credit.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

Guaranteed Annual Benefit Adjustment (GABA):

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

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

14. b. 2. OVERVIEW OF CONTRIBUTIONS

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

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERSDBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees’ compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions:
 - a. Special Funding
 - i. The State contributes 0.1% of members’ compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members’ compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Fiscal Year	Member		State & Universities Employer	Local Government		School Districts	
	Hired <07/01/11	Hired >07/01/11		Employer	State	Employer	State
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

14. b. 3. ACTUARIAL ASSUMPTIONS

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

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

General Wage Growth*	4.00%
*includes Inflation at	3.00%
Merit Increases	0% to 6%
Investment Return (net of admin expenses)	7.75%
Admin Expense as % of Payroll	0.27%

Postretirement Benefit Increases

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013:

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

14. b. 4. DISCOUNT RATE

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

14. b. 5. TARGET ALLOCATIONS

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

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

14. c. SHERIFFS’ RETIREMENT SYSTEM (SRS)

The Sheriffs’ Retirement System (SRS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

14. c. 1. SUMMARY OF BENEFITS

Member's highest average compensation (HAC)

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

Compensation Cap

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

Eligibility for benefit

20 years of membership service, regardless of age.

Early Retirement

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

Vesting

5 years of membership service

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

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

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

14. c. 2. OVERVIEW OF CONTRIBUTIONS

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

Fiscal Year	Member	Employer
2010-2016	9.245%	10.115%
2008-2009	9.245%	9.825%
1998-2007	9.245%	9.535%

14. c. 3. ACTUARIAL ASSUMPTIONS

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

- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Admin expense as % of Payroll at 0.17%
- Merit Increases 0.00% to 7.30%
- Investment Return 7.75%
- Postretirement Benefit Increases
 - For members hired **prior to July 1, 2007** 3.00%
 - For members hired **on or after July 1, 2007** 1.50%
 - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

14. c. 4. DISCOUNT RATE

The discount rate used to measure the Total Pension Liability was 6.68%, which is a blend of the assumed long-term expected rate of return of 7.75% on System’s investments and a municipal bond index rate of 3.80%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. Based on those assumptions, the System’s fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after 2057. Therefore, the portion of future projected benefit payments after 2057 are discounted at the municipal bond index rate.

14. c. 5. TARGET ALLOCATIONS

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.45%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

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

14. d. SENSITIVITY ANALYSIS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate shown in the table below, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75%)
PERS			
Employer’s proportion of Net Pension Liability	\$ <u>5,655,969</u>	\$ <u>3,668,458</u>	\$ <u>1,990,052</u>
	1.0% Decrease (5.86%)	Current Discount Rate (6.86%)	1.0% Increase (7.86%)
SRS			
Employer’s proportion of Net Pension Liability	\$ <u>738,449</u>	\$ <u>459,825</u>	\$ <u>231,422</u>

14. e. NET PENSION LIABILITY

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the PERS and SRS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS and SRS have special funding situations in which the State of Montana is legally responsible for making contributions directly to PERS and SRS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana’s proportionate share of the collective Net Pension Liability that is associated with the employer.

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

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

PERS	<u>Net Pension Liability</u>		<u>Percent of</u>	<u>Percent of</u>	<u>Change in</u>
	<u>as of 6/30/16</u>	<u>as of 6/30/15</u>	<u>Collective NPL</u>	<u>Collective NPL</u>	<u>Percent of</u>
			<u>as of 6/30/16</u>	<u>as of 6/30/15</u>	<u>Collective NPL</u>
Employer Proportionate Share	\$ 3,668,458	\$ 3,415,201	0.262432%	0.274091%	-0.011659%
State of Montana Proportionate Share associated with Employer	45,061	41,705	0.003224%	0.003347%	-0.000123%
Total	<u>\$ 3,713,519</u>	<u>\$ 3,456,906</u>	<u>0.265656%</u>	<u>0.277438%</u>	<u>-0.011782%</u>

SRS	<u>Net Pension Liability</u>		<u>Percent of</u>	<u>Percent of</u>	<u>Change in</u>
	<u>as of 6/30/16</u>	<u>as of 6/30/15</u>	<u>Collective NPL</u>	<u>Collective NPL</u>	<u>Percent of</u>
			<u>as of 6/30/16</u>	<u>as of 6/30/15</u>	<u>Collective NPL</u>
Employer Proportionate Share	\$ 459,825	\$ 207,681	0.477003%	0.499028%	-0.022025%

At June 30, 2016, the employer recorded a liability of \$3,668,458 and \$459,825 for PERS and SRS, respectively, for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2015. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS and SRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS and SRS participating employers. At June 30, 2016, the employer's proportion was 0.262432 percent and 0.477003 percent for PERS and SRS, respectively.

Changes in actuarial assumptions and methods: Any changes can be obtained from PERS or SRS as in the first part of this note.

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

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

14. f. PENSION EXPENSE

PERS	Pension Expense
	as of 6/30/16
Employer's Proportionate Share	\$ 193,644
State of Montana Proportionate Share associated with the Employer	2,800
Total	<u>\$ 196,444</u>
SRS	Pension Expense
	as of 6/30/16
Employer's Proportionate Share	\$ 30,335

At June 30, 2016, the employer recognized a Pension Expense of \$193,644 and \$30,335 for its proportionate share of the PERS and SRS Pension Expense, respectively. The employer also recognized grant revenue of \$2,800 and \$0 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer for PERS and SRS, respectively.

14. g. DEFERRED INFLOWS AND OUTFLOWS

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

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	SRS Deferred Outflows of Resources	SRS Deferred Inflows of Resources
Differences between actual and expected experience	\$ 0	\$ 22,194	\$ 0	\$ 775
Changes in assumptions	0	0	171,158	168,799
Difference between projected and actual earnings on pension plan investments	0	310,574	0	31,493
Changes in proportion differences between employer contributions and proportionate share of contributions	0	138,219	0	18,799
#Contributions paid subsequent to the measurement date - FY 2016 Contributions	\$ 268,360	\$ 0	\$ 38,617	\$ 0
Total	\$ 268,360	\$ 470,988	\$ 209,774	\$ 219,866

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year ended June 30:	PERS Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	SRS Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$ (183,953)	\$ (16,784)
2018	\$ (183,953)	\$ (16,784)
2019	\$ (183,857)	\$ (16,784)
2020	\$ 80,774	\$ 5,088
2021	\$ 0	\$ (3,443)
Thereafter	\$ 0	\$ 0

14. h. PENSION AMOUNTS TOTAL FOR EMPLOYER – EMPLOYER'S PROPORTION OF PERS AND SRS PENSION AMOUNTS

	The employer's proportionate share associated with PERS	The employer's proportionate share associated with SRS	The employer's Total Pension Amounts
Total Pension Liability	\$ 16,983,603	\$ 1,869,209	\$ 18,852,812
Fiduciary Net Position	\$ 13,315,145	\$ 1,409,384	\$ 14,724,529
Net Pension Liability	\$ 3,668,458	\$ 459,825	\$ 4,128,283
Deferred Outflows of Resources	\$ 268,360	\$ 209,774	\$ 478,134
Deferred Inflows of Resources	\$ 470,988	\$ 219,866	\$ 690,854
Pension Expense	\$ 196,444	\$ 30,335	\$ 226,779

NOTE 15. INTERLOCAL AGREEMENTS

Sweet Grass County provides various services to the City of Big Timber under agreement. Below is a listing of the services provided and the fees assessed by the County:

SWEET GRASS COUNTY

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended June 30, 2016

<u>Service</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Law enforcement	\$ 163,235	\$ 184,235	\$ 189,762
Law enforcement training	\$ 9,000	\$ 9,000	\$ 9,000
City court	\$ 18,180	\$ 18,500	\$ 19,235
Court compliance	\$ 6,000	\$ 6,000	\$ 6,000
Sanitarian	\$ 5,000	\$ 5,000	\$ 5,000
Planning	\$ 15,760	\$ 17,260	\$ 17,778
Addictive disorders	\$ 4,200	\$ 4,200	\$ 4,200
Attorney	\$ 0	\$ 17,056	\$ 17,354

NOTE 16. RELATED PARTY TRANSACTIONS

Sweet Grass County has a lease agreement to lease three 2013 Ford Supercrew 4x4 Trucks from the Sheriff Dan Tronrud, Undersheriff Jerry Mahlum, and Deputy Alan Ronneberg. The County will pay the rent in the amount of \$600 per month, payable at the beginning of each month for a total annual amount of \$7,200 each. The lease will automatically renew July 1, unless the Sheriff, Undersheriff or Deputy terminate employment with the County or purchases a different vehicle. The amount of the lease may be negotiated annually during the budgeting process. The use of the vehicles will be for all job related duties and shall also maintain, possess, and be entitled to use of the vehicle for personal use when vehicle is not required for official duties. The lessee is responsible for all maintenance and the County is responsible to furnish an insurance policy to insure the vehicle. The County pays for the purchase of an installation of all police equipment and in the event that the lease is not renewed there is an agreement to permit the County to remove the police equipment.

NOTE 17. SUBSEQUENT EVENTS

On July 1, 2016 the Pioneer Medical Center (PMC) was officially removed as an enterprise fund of the County and moved to a separate reporting entity. The PMC employees became employees of the new non-profit PMC entity and are no longer employees of the County. The County holds title to assets which were previously reported in the Hospital and nursing home fund. These assets are leased to the new PMC entity. The lease between the County and the new PMC was signed June 20, 2016.

The County accepted bids in June of 2016 for a bridge project for the Lower Sweet Grass Road and Bridger Creek Bridges (LSG-1087 bridge). Bids were sent to Great West Engineering for review, and the project is anticipated to be done during fiscal year 2017 at a cost of \$390,777.

In October of 2017 the State of Montana notified the County of a change in the taxable value related to a settlement with a tax payer. The County elected not to re-certify and change the mills levied and instead covered the anticipated lowered tax revenues by lowering anticipated cash reserves by 0.5%.

SWEET GRASS COUNTY

SCHEDULE OF FUNDING PROGRESS
 Other Post-Employment Benefits Other Than Pensions (OPEB)
 For the year ended June 30, 2016

Schedule of changes in the County's total OPEB liability and related ratios

<u>Fiscal year</u>	<u>Service Cost</u> (a)	<u>Interest</u> (b)	<u>Changes of benefit terms</u> (c)	<u>Changes of assumptions or other inputs</u> (d)	<u>Benefit Payments</u> (e)	<u>Net change in total OPEB liability</u> (a)+(b)+ (c)+(d)+ (e)=(f)	<u>Total OPEB liability – Beginning</u> (g)	<u>Total OPEB liability – Ending</u> (f)+(g)=(h)	<u>Covered-employee payroll</u> (i)	<u>Total OPEB liability as a percent- age of covered-employee payroll</u> (h)/(i)
2015	\$180,864	\$18,586	(\$257,886)	(\$149,434)	(\$199,450)	(\$407,320)	\$1,867,665	\$1,460,335	\$3,696,146	39.64%
2016	\$180,864	\$18,586	\$0	\$0	(\$199,450)	\$0	\$1,460,335	\$1,460,335	\$3,696,146	39.64%

Notes to schedule:

The latest alternative measurements method calculation was performed as of July 1, 2015 and will be performed every two years.

2015 - Changes of benefit terms. Amounts presented reflect increased premiums from a range of \$6,852 to \$13,500 per year to a range of \$8,316 to \$16,632 per year.

2015 - Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the estimated discount rate to 1%, reduction of estimated health cost trend rates approximately 1% each year, changes in estimated salary increases from 2.5% to 2%, change in the measurement method from unit credit cost to entry age normal, and changes in the estimated premium provided to retirees by the County from 89% to 0%.

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

SWEET GRASS COUNTY

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

For the year ended June 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	State of Montana's proportionate share of the net pension liability associated with the Employer (b)	Total (a)+(b)=(c)	Employer's covered- employee payroll (d)	Employer's proportionate share of the net pension liability as a percentage of its covered- employee payroll (a)/(d)	Plan fiduciary net position as a percentage of the total pension liability
2015	0.274091%	\$ 3,415,201	\$ 41,705	\$ 3,456,906	\$ 3,062,630	111.51%	79.9%
2016	0.262432%	\$ 3,668,458	\$ 45,061	\$ 3,713,519	\$ 3,141,463	116.78%	78.4%

SHERIFFS RETIREMENT SYSTEM

Year ended June 30:	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability associated with the Employer (a)	Employer's covered- employee payroll (b)	Employer's proportionate share of the net pension liability as a percentage of its covered- employee payroll (a)/(b)	Plan fiduciary net position as a percentage of the total pension liability
2015	0.499028%	<u>\$ 207,681</u>	<u>\$ 324,579</u>	63.98%	87.2%
2016	0.477003%	<u>\$ 459,825</u>	<u>\$ 372,584</u>	123.42%	75.4%

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

SWEET GRASS COUNTY

SCHEDULE OF CONTRIBUTIONS TO MONTANA RETIREMENT SYSTEMS

For the year ended June 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Contributions in relation to the contractually required contributions (b)	Contribution deficiency (excess) (a)-(b)=(c)	Employer's covered- employee payroll (d)	Contributions as a percentage of covered- employee payroll (a)/(d)
2015	\$ 264,679	\$ 264,679	\$ -	\$ 3,062,630	8.623%
2016	\$ 268,360	\$ 268,360	\$ -	\$ 3,141,463	8.543%

SHERIFFS RETIREMENT SYSTEM

Year ended June 30:	Contractually required contributions (a)	Contributions in relation to the contractually required contributions (b)	Contribution deficiency (excess) (a)-(b)=(c)	Employer's covered- employee payroll (d)	Contributions as a percentage of covered- employee payroll (a)/(d)
2015	\$ 32,925	\$ 32,925	\$ -	\$ 324,579	10.144%
2016	\$ 38,617	\$ 38,617	\$ -	\$ 372,584	10.365%

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2016

	General			Federal Mineral Royalty		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/assessments	\$ 842,202	\$ 842,202	\$ 874,207	\$ -	\$ -	\$ -
Licenses and permits	300	300	472	-	-	-
Intergovernmental revenues	198,893	198,893	193,212	-	-	934
Charges for services	150,845	150,845	143,279	-	-	-
Fines and forfeitures	32,890	32,890	42,455	-	-	-
Miscellaneous	43,300	43,300	42,438	-	-	-
Investment and royalty earnings	6,000	6,000	9,127	-	-	-
Total revenues	1,274,430	1,274,430	1,305,190	-	-	934
EXPENDITURES:						
Current:						
General government	1,249,156	1,249,156	1,152,689	-	-	-
Public safety	95,160	95,160	63,177	-	-	-
Public works	-	-	-	-	-	-
Public health	32,710	32,710	31,134	-	-	-
Social and economic services	5,000	5,000	3,250	-	-	-
Miscellaneous	13,065	13,065	13,064	-	-	-
Debt service:						
Principal	4,605	4,605	4,644	-	-	-
Interest and other charges	-	-	334	-	-	-
Capital outlay	25,000	25,000	15,139	-	-	-
Total expenditures	1,424,696	1,424,696	1,283,431	5,213	5,213	-
Excess (deficiency) of revenues over expenditures	(150,266)	(150,266)	21,759	(5,213)	(5,213)	934
OTHER FINANCING SOURCES/USES:						
Loan proceeds	-	-	-	-	-	-
Insurance proceeds	-	-	-	-	-	-
Fund transfers (out)	115,000	115,000	(115,000)	-	-	-
Total other financial sources/uses	115,000	115,000	(115,000)	-	-	-
Net changes in fund balances	(35,266)	(35,266)	(93,241)	(5,213)	(5,213)	934
FUND BALANCE:						
Beginning of the year			598,851			5,213
Change in inventories			-			-
End of the year			\$ 505,610			\$ 6,147

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2016

	PILT			Road		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/assessments	\$ -	\$ -	\$ -	\$ 529,984	\$ 529,984	\$ 533,030
Licenses and permits	-	-	-	300	300	1,275
Intergovernmental revenues	398,913	398,913	500,230	101,339	101,339	208,080
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Miscellaneous	-	-	10,255	-	-	374
Investment and royalty earnings	-	-	5,558	-	-	-
Total revenues	<u>398,913</u>	<u>398,913</u>	<u>516,043</u>	<u>631,623</u>	<u>631,623</u>	<u>742,759</u>
EXPENDITURES:						
Current:						
General government	1,387,716	1,387,716	153,128	-	-	-
Public safety	-	-	-	-	-	-
Public works	-	-	82,264	917,835	917,835	492,319
Public health	-	-	-	-	-	-
Social and economic services	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	9,573
Interest and other charges	-	-	-	-	-	621
Capital outlay	110,000	110,000	52,964	60,000	60,000	189,734
Total expenditures	<u>1,497,716</u>	<u>1,497,716</u>	<u>288,356</u>	<u>977,835</u>	<u>977,835</u>	<u>692,247</u>
Excess (deficiency) of revenues over expenditures	<u>(1,098,803)</u>	<u>(1,098,803)</u>	<u>227,687</u>	<u>(346,212)</u>	<u>(346,212)</u>	<u>50,512</u>
OTHER FINANCING SOURCES/USES:						
Loan proceeds	-	-	-	-	-	176,160
Insurance proceeds	-	-	-	-	-	7,500
Fund transfers (out)	-	-	(193,072)	-	-	(157,000)
Total other financial sources/uses	<u>-</u>	<u>-</u>	<u>(193,072)</u>	<u>-</u>	<u>-</u>	<u>26,660</u>
Net changes in fund balances	<u>(1,098,803)</u>	<u>(1,098,803)</u>	<u>34,615</u>	<u>(346,212)</u>	<u>(346,212)</u>	<u>77,172</u>
FUND BALANCE:						
Beginning of the year			1,313,317			898,736
Change in inventories			-			30,832
End of the year			<u>\$ 1,347,932</u>			<u>\$ 1,006,740</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Budget and Actual)
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2016

	Law Enforcement			Hard Rock		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
Taxes/assessments	\$ 668,694	\$ 668,694	\$ 672,957	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental revenues	62,203	62,203	61,590	255,000	255,000	299,777
Charges for services	204,935	204,935	214,641	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Miscellaneous	-	-	1,350	-	-	-
Investment and royalty earnings	1,000	1,000	1,476	4,000	4,000	7,707
Total revenues	<u>936,832</u>	<u>936,832</u>	<u>952,014</u>	<u>259,000</u>	<u>259,000</u>	<u>307,484</u>
EXPENDITURES:						
Current:						
General government	-	-	-	-	-	-
Public safety	907,130	907,130	822,639	-	-	-
Public works	-	-	-	-	-	-
Public health	-	-	-	-	-	-
Social and economic services	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Debt service:						
Principal	-	-	13,598	-	-	-
Interest and other charges	-	-	474	-	-	-
Capital outlay	7,000	7,000	1,495	-	-	-
Total expenditures	<u>914,130</u>	<u>914,130</u>	<u>838,206</u>	<u>1,613,894</u>	<u>1,613,894</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>22,702</u>	<u>22,702</u>	<u>113,808</u>	<u>(1,354,894)</u>	<u>(1,354,894)</u>	<u>307,484</u>
OTHER FINANCING SOURCES/USES:						
Loan proceeds	-	-	-	-	-	-
Insurance proceeds	-	-	10,027	-	-	-
Fund transfers (out)	-	-	(34,847)	-	-	-
Total other financial sources/uses	<u>-</u>	<u>-</u>	<u>(24,820)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>22,702</u>	<u>22,702</u>	<u>88,988</u>	<u>(1,354,894)</u>	<u>(1,354,894)</u>	<u>307,484</u>
FUND BALANCE:						
Beginning of the year			364,839			1,354,893
Change in inventories			-			-
End of the year			<u>\$ 453,827</u>			<u>\$ 1,662,377</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

SWEET GRASS COUNTY

NOTES TO THE BUDGET VS ACTUAL SCHEDULE

For the year ended June 30, 2016

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws (Title 7, Chapter 6, Part 40, MCA) which are consistent GAAP. Annual appropriated budgets are adopted for all funds of the County. All annual appropriations lapse at fiscal year-end, unless the County elects to encumber supplies and personal property ordered but not received at year end. The Town does not use a formal encumbrance system.

1. a. 1 GENERAL BUDGET POLICIES:

Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted funds. The major fund Hospital Nursing Home is not included in the schedule because it is an enterprise fund.

1. a. 2 BUDGET OPERATION:

The County operates within the budget requirements for incorporated County's as specified by State law. The financial report reflects the following budgetary standards:

- (1) A local government shall submit a complete copy of the final budget together with a statement of tax levies to the Department of Administration by the later of October 1 or 60 days after receipt of taxable values from the Department of Revenue.
- (2) Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund.
- (3) The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.
- (4) The governing body and each municipal official are limited to the amount of appropriations and by the classifications in the annual appropriation resolution when making disbursements or expenditures or incurring liabilities. Ex-ceptions to this limitation - Appropriations may be adjusted according to procedures authorized by the governing body for:
 - a. debt service funds for obligations related to debt approved by the governing body;
 - b. trust funds for obligations authorized by trust covenants;
 - c. any fund for federal, state, local, or private grants and shared revenue accepted and approved by the governing body;
 - d. any fund for special assessments approved by the governing body;
 - e. the proceeds from the sale of land;
 - f. any fund for gifts or donations; and
 - g. money borrowed during the fiscal year.
- (5) If an expenditure is to be financed from a tax levy required to be authorized and approved at an election, the expenditure may not be made or an obligation may not be incurred against the expenditure until the tax levy is authorized and approved.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the County.

NOTE 2. BUDGET AMENDMENT

The County approved budget amendments during the year as follows:

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
Airport	\$ 37,382	Unanticipated revenues
PMC Facility	103,811	Create budget for new fund
Emergency Disaster mills	256	One-time cash transfer to close fund
Drug forfeiture	1,680	Revenues were originally excluded from budget
Law Enforcement	1,904	Unanticipated revenues
Garnishments	465	Unanticipated revenues
Treasurer petty cash	84	Revenues were originally excluded from budget
Justice Court Trust	4,237	Revenues were originally excluded from budget
County attorney trust	141	Revenues were originally excluded from budget

SWEET GRASS COUNTY

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (continued)

For the year ended June 30, 2016

Urban spurge weed grant	11,289	One-time operating loan from PILT established
Deer and Bridger Creek weed grant	5,671	One-time operating loan from PILT established
Weed resource advisory committee	28,754	One-time operating loan from PILT established
Law enforcement RAC grant	1,405	Transfer from PILT
Bulletproof Vest Grant	4,400	Grants approved after budget set
Airport Improvement plan	44,388	Grant amendment after budget set
Western Federal lands Hwy Project	10,684	Transfer from PILT
Total	<u>\$ 256,551</u>	

NOTE 3. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund</u>	<u>Sub-fund</u>	<u>Sub-fund</u>	<u>Total</u>
	<u>General</u>		<u>Federal</u>	
	<u>Fund</u>	<u>PILT</u>	<u>Mineral</u>	<u>General</u>
			<u>Royalty</u>	<u>Fund</u>
REVENUES:				
Taxes/assessments	\$ 874,207	\$ 0	\$ 0	\$ 874,207
Licenses and permits	472	0	0	472
Intergovernmental revenue	193,212	500,230	934	694,376
Charges for services	143,279	0	0	143,279
Fines and forfeitures	42,455	0	0	42,455
Miscellaneous	42,438	10,255	0	52,693
Investment and royalty earnings	9,127	5,558	0	14,685
Total revenues	<u>\$ 1,305,190</u>	<u>\$ 516,043</u>	<u>\$ 934</u>	<u>\$ 1,822,167</u>
EXPENDITURES:				
General government	1,152,689	153,128	0	1,305,817
Public safety	63,177	0	0	63,177
Public works	0	82,264	0	82,264
Public health	31,134	0	0	31,134
Social and economic services	3,250	0	0	3,250
Miscellaneous	13,064	0	0	13,064
Debt service:				
Principal	4,644	0	0	4,644
Interest and other charges	334	0	0	334
Capital outlay	15,139	52,964	0	68,103
Total expenditures	<u>\$ 1,283,431</u>	<u>\$ 288,356</u>	<u>\$ 0</u>	<u>\$ 1,571,787</u>
Fund transfers (out)	<u>(115,000)</u>	<u>(193,072)</u>	<u>0</u>	<u>(308,072)</u>
Net changes in fund balance	(93,241)	34,615	934	(57,692)
FUND BALANCE:				
Beginning of the Year	<u>598,851</u>	<u>1,313,317</u>	<u>5,213</u>	<u>1,917,381</u>
Ending of the Year (GAAP)	<u>505,610</u>	<u>1,347,932</u>	<u>6,147</u>	<u>\$ 1,859,689</u>

In the reconciliation, the general fund, PILT, and federal mineral royalty funds are added together to get to the aggregate general fund shown as a major fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds. The PILT and Federal Mineral Royalty funds are maintained as special revenue funds for accounting purposes, however, for external financial reporting they are added to the general fund because they have unassigned fund balance like the general fund.

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds display budgeted information for the general and major special revenue funds. The Statement presents budgetary information for the general fund, PILT and Federal mineral royalty fund because they are reported as major funds and have legally adopted budgets.



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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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Sweet Grass County
Big Timber, Montana 59011

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 *Governmental 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 Sweet Grass County as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Sweet Grass County's basic financial statements and have issued our report thereon dated January 25, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as items 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sweet Grass County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sweet Grass County's Response to Findings

The County's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
January 25, 2017

SWEET GRASS COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2016

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2016.

Prior year findings/status:

2015-001 Fire Department and Critical response cash accounts – Repeated as finding 2016-001 below

Current year findings:

2016-001 Fire Department and Critical response cash accounts – Repeat of prior year finding 2015-001

Criteria: The County currently works with the Big Timber fire department to provide fire protection out of the Melville Fire Department and McLeod Fire Department. Donations to these three fire departments should be accounted for by the parent government with responsibility for the incorporated (city) and unincorporated (rural) areas. The County improperly accounts for the city department donation account, in addition the County does not exercise proper internal controls over the donation accounts for the rural fire departments or the critical care response donation account.

Condition: The County works closely with the Big Timber city government to provide fire services to rural areas. The County has improperly recorded city fire department donations accounts as a special revenue fund of the County. The County has established separate checking accounts outside of the normal internal control process for the rural fire departments and critical care response.

Effect: By not following the County internal control processes, the County does not have adequate oversight over revenues and disbursements for the two rural fire departments and the critical care response. In addition, the County assets, revenues and disbursements are overstated by the amounts recorded for the city fire department \$85,058, \$76,423, and \$66,070, respectively.

Context: Currently all three fire department donation accounts and the critical care response donation account are accounted for in special revenue funds of Sweet Grass County. The donation account for the Big Timber Fire department (city) is the responsibility of the municipality and should not be accounted for on Sweet Grass County financial statements. The donations for the two rural fire departments and the critical care response are properly accounted for in special revenue funds, but do not follow the internal controls maintained by the County for revenues and disbursements.

Cause: The County was unaware of the city government's responsibility for the city fire department donation account. Furthermore, the County has not consolidated the donation accounts for the rural fire departments and critical care response into the normal County internal control processes.

Recommendation: We recommend the following steps be taken:

- 1) The donation account for the city fire department should be removed from the Sweet Grass County special revenue fund and should be accounted for by the responsible parent government.
- 2) The donation accounts for the two rural fire districts and the critical care response account should be closed and further revenues and disbursements for these special revenue funds should flow through the normal County internal control process.

Auditee Response: Management concurs with the finding. The County will arrange a meeting between the Big Timber Volunteer Fire Department (including Melville and McLeod departments), the City of Big Timber, and Sweet Grass County to discuss the finding and a resolution to it.