

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2019

AUDIT REPORT

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

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2019

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PONDERA COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2019

BOARD OF COUNTY COMMISSIONERS

Thomas A. Kuka
Dale J. Seifert
Jim Morren

Chairperson
Commissioner
Commissioner

COUNTY OFFICIALS

Mary Ann Ries
Elaine McLean
Kody L. Farkell
Cody Shaw
Elaine McLean
Robert Skorupa

County Attorney
Treasurer
Clerk and Recorder
Justice of the Peace
Superintendent
Sheriff

Pondera County
Management's Discussion and Analysis (MD&A)
For fiscal year ending June 30, 2019

Our discussion and analysis of Pondera County's financial performance provides an overview of Fiscal Year 2018-2019 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should review the principal financial statements found in the annual report to augment their understanding of the County's financial performance.

FINANCIAL HIGHLIGHTS

- Budget Status: We maintained a basic status quo budget with an emphasis on maintaining cash reserves to ensure fiscal stability. Wages were increased by a 3.0% and health insurance contribution remained at 100% of employee premium for employees who enroll in the \$1,500 deductible insurance plan.
- Interest revenue: Pondera County's interest revenue for the fiscal year totaled \$96,998. This amount is \$43,602 more than the prior fiscal year.
- Area Development: Pondera County participated fiscally in Sweet Grass Development (\$2,000), and the Northern Transit Inter-Local (\$20,000).
- Pondera Medical Center: The PMC Capital Improvement Fund voted levy was in its fourth year. PMC has not expended any fund from there yet.
- Public Safety: The Public Safety department purchased a new copier in the amount of \$5,109. The County had been saving for purchase of a new dispatch console in preparation of needing an upgrade in the next couple years. Our DES Coordinator was able to secure a \$250,000 grant to cover this expense and will be purchased in FY2019-20.
- Roads and Bridges: The County purchased a building bordering the Valier Airport in the amount of \$75,000 to use as an additional road shop. A used rotary plow was purchased from Cascade County for \$10,000. \$32,364 worth of gravel and asphalt mix were purchased and \$6,776 was spent in replacement culverts. Repairs on loaders totaled \$20,000. The Road Department worked diligently to keep up on culvert replacement and road graveling throughout the County.
- Courthouse Improvements: The Heating and Air Conditioning (HVAC) upgrades in the County Courthouse was completed in FY2017-18, but the county was not satisfied with the way the chiller was working and an additional \$6,500 was spent to get this system working correctly. Three new copiers were purchased for a total of \$13,894.
- Conrad Airport: FAA cost-share for runway and taxiway upgrades and construction of 6-bay hangar project was started in fiscal year 2017-18 at the Conrad Airport. The total cost of the project is \$1,225,000 with 90% funded by an FAA grant and 10% by the County. At the end of fiscal year 2017-18, the total construction costs for this project was \$1,073,293. During the current fiscal year the county worked to secure funding for a fuel system to be placed at the Conrad Airport.

Pondera County
Management's Discussion and Analysis (MD&A)
For fiscal year ending June 30, 2019

- Emergency services: The County contributed funds from the Ambulance fund for the purchase of four new radios.
- Records Preservation: The Clerk & Recorder's office paid \$3,300 from the Records Preservation fund to have the Commissioners Minutes books scanned. Up to this point, there was no back-up of the Commissioner minutes dated back to 1919.

USING THIS ANNUAL FINANCIAL REPORT

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. Pondera County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

FINANCIAL STATEMENTS

Statement of Net Position and the Statement of Activities

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

A comparative analysis is provided.

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

Pondera County uses Fund Accounting to guarantee and demonstrate compliance with finance-related legal requirements. A "fund" is a grouping of related accounts that is used to maintain control and accountability over resources that have been designated for specific activities or objectives. Pondera County Funds are divided into two categories: Governmental Funds and Fiduciary Funds.

Governmental Funds: Most of the County's fundamental services are reported in governmental funds, which details the flow of money into and out of the funds and the balances left at year-end available for future expenditures. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to government operations and essential services it provides. Governmental fund information helps to determine whether there are adequate financial resources available to finance future county services. The variance between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Pondera County
Management's Discussion and Analysis (MD&A)
For fiscal year ending June 30, 2019

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the governmental wide financial statements because the resources of those funds are not available to support the Pondera County's inherent functions. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary funds and notes to the financial statements can be found in the Audit Report.

Condensed Financial Statements

Government-wide STATEMENT OF NET POSITION:

| | <u>FY 2018-19</u> | <u>Post Audit</u> |
|----------------------------------|----------------------------|----------------------------|
| | <u>Governmental</u> | <u>FY 2017-18</u> |
| | <u>Activities</u> | <u>Governmental</u> |
| | | <u>Activities</u> |
| Current and other assets | \$ 8,359,700 | \$ 7,643,596 |
| Capital assets | <u>6,724,336</u> | <u>7,312,167</u> |
| Total assets | \$ <u>15,084,036</u> | \$ <u>14,955,763</u> |
| Long-term debt outstanding | \$ 4,916,232 | \$ 5,473,199 |
| Other liabilities | <u>1,068,756</u> | <u>895,257</u> |
| Total liabilities | \$ <u>5,984,988</u> | \$ <u>6,368,456</u> |
| | | |
| Net position: | | |
| Net investment in capital assets | \$ 4,658,006 | \$ 5,118,189 |
| Restricted | 4,013,751 | 2,965,824 |
| Unrestricted (deficit) | <u>427,291</u> | <u>503,294</u> |
| Total net position | \$ <u>9,099,048</u> | \$ <u>8,587,307</u> |

Government-wide STATEMENT OF ACTIVITIES

| | <u>FY 2018-19</u> | <u>Post Audit</u> |
|--|----------------------------|----------------------------|
| | <u>Governmental</u> | <u>FY 2017-18</u> |
| | <u>Activities</u> | <u>Governmental</u> |
| | | <u>Activities</u> |
| <u>Program Revenues</u> | | |
| Charges for Services | \$ 325,494 | \$ 311,041 |
| Operating Grants and Contributions | 1,026,263 | 1,192,805 |
| Capital Grants and Contributions | <u>57,715</u> | <u>992,033</u> |
| Total Program Revenues | \$ <u>1,409,472</u> | \$ <u>2,495,879</u> |
| | | |
| <u>General Revenues</u> | | |
| Property Taxes | \$ 3,769,563 | \$ 3,669,683 |
| Licenses & Permits | 110 | 45 |
| Video Poker Apportionment | 2,400 | 2,625 |
| Miscellaneous | 86,729 | 123,120 |
| Interest/Investment Earnings | 96,998 | 53,396 |
| PILT | 237,420 | 289,984 |
| MT Oil and Gas Production Tax | 70,670 | 38,927 |
| Local Options Tax | 230,584 | 228,195 |
| Unrestricted fed/state shared revenues | 342 | 16,949 |
| State Entitlement | 713,671 | 712,611 |

Pondera County
Management's Discussion and Analysis (MD&A)
For fiscal year ending June 30, 2019

| | | |
|---|---------------------|---------------------|
| Grants & Entitlements not restricted to specific programs | - | 5,723 |
| Contributions & donations | 275 | 147,350 |
| State contributions to Retirement | <u>43,764</u> | <u>34,564</u> |
| Total General Revenues | \$ <u>5,252,526</u> | \$ <u>5,323,172</u> |
| Total Revenues | <u>\$ 6,661,998</u> | <u>\$ 7,819,051</u> |

Government-wide STATEMENT OF ACTIVITIES

| | <u>FY 2018-19</u> <u>Governmental</u> <u>Activities</u> | <u>Post Audit</u> <u>FY 2017-18</u> <u>Governmental</u> <u>Activities</u> |
|--|---|--|
| <u>Program Expenses by Function</u> | | |
| General Government | \$ 1,899,491 | \$ 2,073,156 |
| Public Safety | 1,147,962 | 1,207,906 |
| Public Works | 1,562,809 | 1,308,050 |
| Public Health | 829,154 | 1,185,542 |
| Social & Economic Services | 136,651 | 137,702 |
| Culture & Recreation | 285,474 | 283,872 |
| Housing & Community Development | 625 | 625 |
| Debt Service Interest | 67,003 | 67,491 |
| Miscellaneous | 221,088 | 218,700 |
| Unallocated Depreciation | <u>-</u> | <u>-</u> |
| Total Expenses | \$ <u>6,150,257</u> | \$ <u>6,483,044</u> |
| Changes in net position | <u>\$ 511,741</u> | <u>\$ 1,336,007</u> |

The largest portion of the County's net position is in capital assets less any outstanding, related debt used to acquire those assets. The capital assets are used to provide services to citizens. Resources, other than the asset itself, are used to retire any debt attributed to the asset. Sources for debt retirement can be from general and/or program revenues.

GOVERNMENTAL ACTIVITIES

The cost of all governmental activities this year was \$6,150,257 compared to \$6,483,044 for fiscal year 2017-18 as found in the Statement of Activities. Some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with operating grants.

The amount that our taxpayers ultimately financed for these activities through county taxes was, \$3,769,563 up by \$99,880 from \$3,669,683 in fiscal year 2017-18. Other revenues were derived from investment earnings, entitlement reimbursements, loans and other miscellaneous charges. Cash carryovers from the prior fiscal year (reserves) were utilized as well.

The County's programs net costs are presented above.

Pondera County
 Management's Discussion and Analysis (MD&A)
 For fiscal year ending June 30, 2019

Fund Balance Analysis (Major Funds)

| | <u>General</u> | <u>Road</u> | <u>Public Safety</u> | <u>Road/Bridge Capital Impr</u> |
|-----------------------------------|----------------|-------------|--------------------------|-------------------------------------|
| Fund Balance – Current Year | 1,495,662 | 819,843 | 434,795 | 870,392 |
| Fund Balance – Prior Year | 1,287,791 | 642,809 | 396,004 | 796,308 |
| Change in unassigned fund balance | 207,871 | 177,034 | 38,791 | 74,084 |
| % change in fund balance | 16.1% | 25.86% | 9.8% | 9.3% |

The increase in the fund balance in the General Fund is due an increase in tax revenues collected, county office fees, oil & gas revenue, and very little change in overall expenditures of the Fund. This increase occurred despite the additional payments to an InterCap loan (HVAC system), an increase in salaries and benefits.

The increase in the Road Fund cash balance is a result of revenues reimbursing the fund due to expenses repairing roads due to flooding. \$52,881 was received from FEMA for road repairs. Oil & Gas revenues increased approximately \$7,000. Overall expenses only increased about \$35,000, allowing for an overall increase in cash available.

The Public Safety Fund saw an increase in revenues of \$116,000 due to increased tax collections, oil & gas revenue, and additional entitlement monies, despite a significant decrease in boarding of prisoners for other agencies/counties. In addition, the Fund saw a \$83,000 decrease in salaries due to deputies schedules returning to 5-8 hour shifts per week as opposed to 4-10 hour shifts that had been done the year before. The new schedule allows for greater coverage without the use of additional part time deputies. Overall, the expenditures for the Public Safety fund decreased by \$51,000 from the year before.

The Road/Bridge Capital Improvement Fund saw a net increase in the cash balance. Revenues from transfers were down substantially from \$494,238 to \$149,000 as there were no FEMA reimbursements put in the Fund in the current year. The expenditures were also down overall, but not enough to maintain or increase the Fund's cash balance.

Revenue Budget to Actual Variances:

| <u>General Fund:</u> | <u>Budgeted</u> | <u>Actual</u> | <u>Variance</u> | <u>% Variance</u> |
|----------------------|-----------------|---------------|-----------------|-------------------|
| | 1,634,501 | 1,695,250 | 60,749 | 3.7% |

There was a variance between the final budget amount and actual amount of revenue received in the General Fund of \$60,749 for a 3.7% variance. The variance was due to receiving approximately \$30,000 more in investment earnings than anticipated as well as more office fees collected and monies received by other agencies (Entitlement, DES Reimbursement, etc).

| <u>Road Fund:</u> | <u>Budgeted</u> | <u>Actual</u> | <u>Variance</u> | <u>% Variance</u> |
|-------------------|-----------------|---------------|-----------------|-------------------|
| | 766,895 | 772,660 | 5,765 | 0.8% |

There was an insignificant variance between the final budget amount and actual amount of revenue received in the Road Fund of \$5,765 for a 0.8% variance.

Pondera County
 Management's Discussion and Analysis (MD&A)
 For fiscal year ending June 30, 2019

Public Safety

| <u>Fund:</u> | <u>Budgeted</u> | <u>Actual</u> | <u>Variation</u> | <u>% Variance</u> |
|--------------|-----------------|---------------|------------------|-------------------|
| | 1,034,593 | 1,013,970 | -20,623 | -2.0% |

There was a variation between the final budget amount and actual amount of revenue received in the Public Safety Fund of -\$20,623 for a -2.0% variance. The negative variance was due primarily to the \$26,400 shortfall in estimated revenue for boarding of prisoners for other agencies/counties.

Road/Bridge Capital Improvement

| <u>Fund:</u> | <u>Budgeted</u> | <u>Actual</u> | <u>Variation</u> | <u>% Variance</u> |
|--------------|-----------------|---------------|------------------|-------------------|
| | 151,000 | 163,340 | 12,340 | 8.2% |

There was a variation between the final budget amount and actual amount of revenue received in the Road/Bridge Capital Improvement Fund of \$12,340 for a 8.2% variance, primarily due to the increase in investment earnings over what was budgeted.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets are those assets which are used in the performance of the County's functions. In addition, debt is considered a liability of the governmental activities.

Long Term Debt

Payments on loans with the FAA and Pondera Regional Port Authority for the building of a 6-bay hangar at the Conrad Airport were paid on. An InterCap loan for the purchase of the Pondera Center was paid off and other InterCap loan payments were made for remodeling the Pondera Center and the HVAC system. As of June 30, 2019 the principal due to InterCap loans decreased from \$423,951 to \$390,399 from the beginning of the fiscal year. Capital lease payments decreased by \$72,839 leaving a balance of \$1,611,394. Compensated absences balance as of June 30, 2019 was \$217,931 a decrease of \$40,924 over the prior year. OPEB increased by \$7,353 to \$93,404 and net pension liability decreased by \$395,748 to \$2,538,567.

Capital Assets

The purchase of new assets, sale of assets, depreciation and other factors resulted in the current value of Pondera County net capital assets as of June 30, 2019 of \$6,724,336.

Capital asset purchases were kept at status quo with new purchases of vehicles and/or equipment being offset, as much as possible, with trade-in or sale of fixed assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The FY2019-20 Taxable Valuation increased in Pondera County from \$16,596,563 to \$17,481,779 increasing the value of a county-wide mill from \$16,596 to \$17,481. The FY19-20 budget did not allow for the reservation of any floated mills; all were levied.

Pondera County
Management's Discussion and Analysis (MD&A)
For fiscal year ending June 30, 2019

The county has set up a fund to account for our enhanced gas tax funds (BaRSAA). We anticipate future revenue from additional gas tax to be approximately \$75,000 per year. This money is restricted for road maintenance.

A 3.0% COLA and wage increase was approved for elected officials. Hourly employees received an equal increase of 3.0%.

While aiming for a 33% reserve in all funds, reserve amounts range from 17.8% (County Hospital) to 33.3% (Bridge Fund). Our goal remains to achieve the 33% reserve in all funds.

Due to Windows 7 computers no longer being supported, 10-12 computers need to be replaced countywide. The Clerk & Recorders' office will continue its records preservation work by having the microfilm records for deeds, mortgages, and other documents converted to pdf format and entered into an indexing and searchable computer program.

The Road/Bridge Department hopes to purchase two new retrievers and four mowers. Due to a large amount of hail damage to the county's Road Department buildings, several windows, doors, siding, and other repairs will need to be done.

REQUESTS FOR INFORMATION

This financial report provides a general overview of Pondera County's finances for anyone interested in this government's finances. Question concerning any of the information provided in this report or requests for additional information should be addressed to:

Pondera County Clerk & Recorder's Office
20 4th Ave SW, Ste 202
Conrad, MT 59425-2340
Or e-mail to: ponderaclerk@3rivers.net

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Pondera County
Conrad, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2019, and the respective changes in financial position and, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2019, the County has changed their method of reporting the claims and payroll clearing funds. In past years these clearing funds were reported as Agency Funds. In accordance with GASB statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the clearing funds are now combined with the County General Funds. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the total OPEB liability and related ratios, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 8, 53 through 59, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2020, on our consideration of the Pondera County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pondera County, Montana's internal control over financial reporting and compliance.

Derringer, Downey and Associates, CPA's, P.C.

June 22, 2020

Pondera County, Montana
Statement of Net Position
June 30, 2019

| | | Governmental Activities |
|--|-----------|------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and investments | \$ | 7,114,200 |
| Taxes and assessments receivable, net | | 137,844 |
| Accounts receivable - net | | 44 |
| Due from other governments | | 16,201 |
| Inventories | | 206,972 |
| Total current assets | \$ | 7,475,261 |
| Noncurrent assets | | |
| Capital assets - land | \$ | 285,409 |
| Capital assets - construction in progress | | 45,673 |
| Capital assets - depreciable, net | | 6,393,254 |
| Total noncurrent assets | \$ | 6,724,336 |
| Total assets | \$ | 14,199,597 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources - pensions | \$ | 884,439 |
| Total deferred outflows of resources | \$ | 884,439 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ | 15,084,036 |
| LIABILITIES | | |
| Current liabilities | | |
| Warrants payable | \$ | 146,950 |
| Accounts payable | | 10,838 |
| Accrued payables | | 30,412 |
| Other payroll payables | | 22,628 |
| Due to other governments | | 260 |
| Current portion of long-term capital liabilities | | 113,619 |
| Current portion of compensated absences payable | | 150,520 |
| Total current liabilities | \$ | 475,227 |
| Noncurrent liabilities | | |
| Noncurrent portion of long-term liabilities | \$ | 93,404 |
| Noncurrent portion of long-term capital liabilities | | 1,952,711 |
| Noncurrent portion of compensated absences | | 67,411 |
| Net pension liability | | 2,538,567 |
| Total noncurrent liabilities | \$ | 4,652,093 |
| Total liabilities | \$ | 5,127,320 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources - pensions | \$ | 857,668 |
| Total deferred inflows of resources | \$ | 857,668 |
| NET POSITION | | |
| Net investment in capital assets | \$ | 4,658,006 |
| Restricted for capital projects | | 743,871 |
| Restricted for debt service | | 451 |
| Restricted for special projects | | 3,269,429 |
| Unrestricted | | 427,291 |
| Total net position | \$ | 9,099,048 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ | 15,084,036 |

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2019

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expenses) Revenues and Changes in Net Position</u> |
|---|-----------------|---------------------------------|---|---|--|
| <u>Primary government:</u> | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Primary Government</u> |
| Governmental activities: | | | | | <u>Governmental Activities</u> |
| General government | \$ 1,899,491 | \$ 98,029 | \$ 72,294 | \$ - | \$ (1,729,168) |
| Public safety | 1,147,962 | 97,783 | 95,883 | - | (954,296) |
| Public works | 1,562,809 | 43,503 | 426,831 | 57,715 | (1,034,760) |
| Public health | 829,154 | 64,916 | 431,255 | - | (332,983) |
| Social and economic services | 136,651 | 21,263 | - | - | (115,388) |
| Culture and recreation | 285,474 | - | - | - | (285,474) |
| Housing and community development | 625 | - | - | - | (625) |
| Debt service - interest | 67,003 | - | - | - | (67,003) |
| Miscellaneous | 221,088 | - | - | - | (221,088) |
| Total governmental activities | \$ 6,150,257 | \$ 325,494 | \$ 1,026,263 | \$ 57,715 | \$ (4,740,785) |
| General Revenues: | | | | | |
| | | | | \$ | |
| Property taxes for general purposes | | | | | 3,769,563 |
| Licenses and permits | | | | | 110 |
| Video poker apportionment | | | | | 2,400 |
| Miscellaneous | | | | | 86,729 |
| Interest/investment earnings | | | | | 96,998 |
| Local option taxes | | | | | 230,584 |
| Unrestricted federal/state shared revenues | | | | | 342 |
| Montana oil and gas production tax | | | | | 70,670 |
| State entitlement | | | | | 713,671 |
| PILT | | | | | 237,420 |
| Contributions & donations | | | | | 275 |
| State contributions to retirement | | | | | 43,764 |
| Total general revenues, special items and transfers | | | | \$ | 5,252,526 |
| Change in net position | | | | \$ | 511,741 |
| Net position - beginning | | | | \$ | 8,587,307 |
| Net position - end | | | | \$ | 9,099,048 |

See accompanying Notes to the Financial Statements

**Pondera County, Montana
Balance Sheet
Governmental Funds
June 30, 2019**

| | <u>General</u> | <u>Road</u> | <u>Public Safety</u> | <u>Road/Bridge Equipment Purchase</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-------------------|--------------------------|---|---|---|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and investments | \$ 1,661,502 | \$ 686,899 | \$ 441,702 | \$ 853,387 | \$ 3,470,710 | \$ 7,114,200 |
| Taxes and assessments receivable, net | 38,976 | 16,996 | 19,232 | - | 62,640 | 137,844 |
| Accounts receivable - net | - | - | - | - | 44 | 44 |
| Due from other funds | 16,201 | - | - | - | - | 16,201 |
| Due from other governments | - | - | - | - | 16,201 | 16,201 |
| Inventories | - | 148,125 | - | 17,005 | 41,842 | 206,972 |
| TOTAL ASSETS | <u>\$ 1,716,679</u> | <u>\$ 852,020</u> | <u>\$ 460,934</u> | <u>\$ 870,392</u> | <u>\$ 3,591,437</u> | <u>\$ 7,491,462</u> |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Warrants payable | \$ 146,881 | \$ - | \$ - | \$ - | \$ 69 | \$ 146,950 |
| Accounts payable | 224 | 10,614 | - | - | - | 10,838 |
| Accrued payables | 12,048 | 4,567 | 6,907 | - | 6,890 | 30,412 |
| Other payroll payables | 22,628 | - | - | - | - | 22,628 |
| Due to other funds | - | - | - | - | 16,201 | 16,201 |
| Due to other governments | 260 | - | - | - | - | 260 |
| Total liabilities | <u>\$ 182,041</u> | <u>\$ 15,181</u> | <u>\$ 6,907</u> | <u>\$ -</u> | <u>\$ 23,160</u> | <u>\$ 227,289</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred inflows of resources - taxes | \$ 38,976 | \$ 16,996 | \$ 19,232 | \$ - | \$ 62,640 | \$ 137,844 |
| Total deferred inflows of resources | <u>\$ 38,976</u> | <u>\$ 16,996</u> | <u>\$ 19,232</u> | <u>\$ -</u> | <u>\$ 62,640</u> | <u>\$ 137,844</u> |
| FUND BALANCES | | | | | | |
| Nonspendable | \$ - | \$ 148,125 | \$ - | \$ 17,005 | \$ 45,828 | \$ 210,958 |
| Restricted | - | 671,718 | 434,795 | - | 2,614,460 | 3,720,973 |
| Committed | - | - | - | 853,387 | 845,418 | 1,698,805 |
| Unassigned fund balance | 1,495,662 | - | - | - | (69) | 1,495,593 |
| Total fund balance | <u>\$ 1,495,662</u> | <u>\$ 819,843</u> | <u>\$ 434,795</u> | <u>\$ 870,392</u> | <u>\$ 3,505,637</u> | <u>\$ 7,126,329</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | <u>\$ 1,716,679</u> | <u>\$ 852,020</u> | <u>\$ 460,934</u> | <u>\$ 870,392</u> | <u>\$ 3,591,437</u> | <u>\$ 7,491,462</u> |

See accompanying Notes to the Financial Statements

Pondera County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2019

| | | |
|--|-----------|-------------------------|
| Total fund balances - governmental funds | \$ | 7,126,329 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 6,724,336 |
| Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. | | 137,844 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. | | (2,377,665) |
| Net pension liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. | | (2,538,567) |
| The changes between actuarial assumptions, differences in expected vs actual pension experiences, changes in proportionate share allocation, and current year retirement contributions as they relate to the net pension liability are a deferred outflow of resources and are not payable in current period, therefore are not reported in the funds. | | 884,439 |
| The changes between actuarial assumptions, differences in projected vs actual investment earnings, and changes in proportionate share allocation as they relate to the net pension liability are a deferred inflows of resources and are not available to pay for current expenditures, therefore are not reported in the funds. | | (857,668) |
| Total net position - governmental activities | \$ | <u><u>9,099,048</u></u> |

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2019

| | <u>General</u> | <u>Road</u> | <u>Public Safety</u> | <u>Road/Bridge Equipment Purchase</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-------------------|----------------------|---|---|---|
| REVENUES | | | | | | |
| Taxes and assessments | \$ 1,025,348 | \$ 496,192 | \$ 782,075 | \$ - | \$ 1,673,845 | \$ 3,977,460 |
| Licenses and permits | 110 | - | 2,750 | - | - | 2,860 |
| Intergovernmental | 579,591 | 260,257 | 128,556 | - | 1,036,522 | 2,004,926 |
| Charges for services | 214,396 | - | 94,263 | - | 40,512 | 349,171 |
| Fines and forfeitures | 37,598 | - | - | - | 2,219 | 39,817 |
| Miscellaneous | 25,723 | 16,211 | 6,326 | - | 83,289 | 131,549 |
| Investment earnings | 51,390 | - | - | 14,340 | 31,287 | 97,017 |
| Total revenues | <u>\$ 1,934,156</u> | <u>\$ 772,660</u> | <u>\$ 1,013,970</u> | <u>\$ 14,340</u> | <u>\$ 2,867,674</u> | <u>\$ 6,602,800</u> |
| EXPENDITURES | | | | | | |
| General government | \$ 1,210,135 | \$ - | \$ - | \$ - | \$ 625,632 | \$ 1,835,767 |
| Public safety | 54,071 | - | 839,759 | - | 157,683 | 1,051,513 |
| Public works | - | 566,784 | - | - | 594,047 | 1,160,831 |
| Public health | 190,835 | - | - | - | 395,892 | 586,727 |
| Social and economic services | 7,250 | - | - | - | 128,005 | 135,255 |
| Culture and recreation | 1,086 | - | - | - | 284,141 | 285,227 |
| Debt service - principal | 33,552 | 72,839 | - | - | 21,257 | 127,648 |
| Debt service - interest | 12,954 | 51,228 | - | - | 2,821 | 67,003 |
| Miscellaneous | 12,964 | - | - | - | 208,124 | 221,088 |
| Capital outlay | - | - | 37,920 | 89,256 | 129,499 | 256,675 |
| Total expenditures | <u>\$ 1,522,847</u> | <u>\$ 690,851</u> | <u>\$ 877,679</u> | <u>\$ 89,256</u> | <u>\$ 2,547,101</u> | <u>\$ 5,727,734</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ 411,309</u> | <u>\$ 81,809</u> | <u>\$ 136,291</u> | <u>\$ (74,916)</u> | <u>\$ 320,573</u> | <u>\$ 875,066</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | \$ - | \$ 54,000 | \$ - | \$ 149,000 | \$ 432,485 | \$ 635,485 |
| Transfers out | (203,438) | (1,825) | (97,500) | - | (332,722) | (635,485) |
| Total other financing sources (uses) | <u>\$ (203,438)</u> | <u>\$ 52,175</u> | <u>\$ (97,500)</u> | <u>\$ 149,000</u> | <u>\$ 99,763</u> | <u>\$ -</u> |
| Net Change in Fund Balance | <u>\$ 207,871</u> | <u>\$ 133,984</u> | <u>\$ 38,791</u> | <u>\$ 74,084</u> | <u>\$ 420,336</u> | <u>\$ 875,066</u> |
| Fund balances - beginning | \$ 1,287,791 | \$ 642,809 | \$ 396,004 | \$ 796,308 | \$ 3,128,351 | \$ 6,251,263 |
| Restatements | - | 43,050 | - | - | (43,050) | - |
| Fund balances - beginning, restated | <u>\$ 1,287,791</u> | <u>\$ 685,859</u> | <u>\$ 396,004</u> | <u>\$ 796,308</u> | <u>\$ 3,085,301</u> | <u>\$ 6,251,263</u> |
| Fund balance - ending | <u>\$ 1,495,662</u> | <u>\$ 819,843</u> | <u>\$ 434,795</u> | <u>\$ 870,392</u> | <u>\$ 3,505,637</u> | <u>\$ 7,126,329</u> |

See accompanying Notes to the Financial Statements

Pondera County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

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

| | | |
|---|-----------|-----------------------|
| Net change in fund balances - total governmental funds | \$ | 875,066 |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets: | | |
| - Capital assets purchased | | 256,675 |
| - Depreciation expense | | (844,506) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds: | | |
| - Long-term receivables (deferred revenue) | | 15,434 |
| The change in compensated absences is shown as an expense in the Statement of Activities | | |
| | | 40,924 |
| Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position: | | |
| - Long-term debt principal payments | | 127,648 |
| Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance: | | |
| - Post-employment benefits other than retirement liability | | (7,353) |
| Pension expense related to the net pension liability is shown as an expense on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance | | |
| | | 214,291 |
| State aid revenue related to net pension liability is shown as a revenue on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance | | |
| | | 43,764 |
| Current year contributions to retirement benefits are shown as deferred outflows of resources on the Statement of Net Position and shown as expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balance when paid. | | |
| | | (210,202) |
| Change in net position - Statement of Activities | \$ | <u>511,741</u> |

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2019

| | <u>Investment Trust Funds</u> | <u>Agency Funds</u> |
|---------------------------------|-----------------------------------|-------------------------|
| ASSETS | | |
| Cash and short-term investments | \$ 11,717,888 | \$ 493,426 |
| Taxes receivable | - | 328,200 |
| Land aquired by deed | - | 317 |
| Total assets | <u>\$ 11,717,888</u> | <u>\$ 821,943</u> |
| LIABILITIES | | |
| Due to others | <u>\$ -</u> | <u>\$ 821,943</u> |
| Total liabilities | <u>\$ -</u> | <u>\$ 821,943</u> |
| NET POSITION | | |
| Assets held in trust | <u>\$ 11,717,888</u> | |

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2019

| | | <u>Investment Trust Funds</u> |
|--|----|--|
| ADDITIONS | | |
| Contributions: | | |
| Contributions to Investment Trust Fund | \$ | <u>13,245,046</u> |
| Total contributions | \$ | <u>13,245,046</u> |
| Investment earnings: | | |
| Interest and change in fair value of investments | \$ | <u>213,863</u> |
| Net investment earnings | \$ | <u>213,863</u> |
| Total additions | \$ | <u>13,458,909</u> |
| DEDUCTIONS | | |
| Distributions from investment trust fund | \$ | <u>12,466,244</u> |
| Total deductions | \$ | <u>12,466,244</u> |
| Change in net position | \$ | <u>992,665</u> |
| Net Position - Beginning of the year | \$ | <u>10,725,223</u> |
| Net Position - End of the year | \$ | <u><u>11,717,888</u></u> |

See accompanying Notes to the Financial Statements

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New Accounting Pronouncements

GASB No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, is effective for years beginning after July 15, 2018. The objective of this Statement is to improve the information disclosed below related to the debt of the County, that includes direct borrowings and direct placements. For the purposes of disclosures in the following notes to the financial statements, debt is now defined as a liability that arises from contractual obligation to pay cash in one or more payments to settle amount that is fixed at the date of the contractual obligations. This excludes leases, except for contracts reported as financed purchased of an asset, or accounts payable. In addition, the Statement requires that the County disclose summarized information about unused lines of credit, assets pledged as collateral, and terms specified in debt agreements that are significant. The County has implemented this pronouncement current fiscal year and is related in the debt footnotes below if applicable.

Change in Accounting Principle

Beginning in fiscal year 2019, the County changed the method of reporting its clearing funds, claims and payroll clearing. Previously, these funds were reported as agency funds, but it was determined in the current year that these funds did not meet the definition of an agency fund as outlined in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as the resources are not being held by the County in a custodial capacity. As explained further in the major fund descriptions, these funds were combined with the General Funds of the County for reporting purposes.

Financial Reporting Entity

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Primary Government

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

Basis of Presentation, Measurement Focus and Basis of Accounting

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the County except fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

Measurement Focus and Basis of Accounting

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Fund Financial Statements

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements is collection within 60 days of the end of the current fiscal period with the exception of property taxes and other state grants that is upon receipt.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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

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

Major Funds:

The County reports the following major governmental funds:

General Fund - This is the District's primary operating fund and it accounts for all financial resources of the District except those required to be accounted for in other funds. The payroll and claims clearing funds of the District, previously reported in the agency funds, have been combined with the General Funds for reporting purposes. The cash and related payables of these clearing funds are also reported here.

Road Fund - A special revenue fund that account or the activities of the County's Road maintenance and construction operations.

Public Safety Fund - A special revenue fund used for revenues received and expended for public safety purposes.

Road/Bridge Equipment Purchases Fund - A capital projects fund used to account for the transfers in from the Road and Bridge Funds for future capital expenditures.

Fiduciary Funds

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

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the County as an agent for individuals, private organizations, other local governmental entities.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2019, are as follows:

| | <u>Primary Government</u> |
|---|-------------------------------|
| <u>Cash on hand and deposits:</u> | |
| Cash on hand | |
| Petty Cash | \$ 1,300 |
| Cash in banks: | |
| Demand deposits | 1,646,175 |
| Savings deposits | 2,981,039 |
| Certificates of deposits | 7,195,000 |
| <u>Investments:</u> | |
| State Short-Term Investment Pool (STIP) | 7,502,000 |
| Total | \$ <u><u>19,325,514</u></u> |

Cash equivalents

Cash equivalents are short-term, highly liquid deposits and investments that both readily convertible to known amounts of cash, and have maturities at purchase date of three months or less. The County’s cash and cash equivalents (including restricted assets) are considered to be cash on hand, demand, savings money market and certificates of deposits, STIP, and all other short-term investments with original maturity dates of three months or less from the date of acquisition.

Fair Value Measurements

Investments, including pooled and non-pooled investments, are reported at fair value, with the following limited exceptions: 1) investments in non-negotiable certificates of deposit are reported at cost and 2) money market investments, including U.S Treasury and Agency obligations, which mature within one year of acquisition, are reported at amortized cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between markets participates at the measurement date.

Credit Risk

As a means of limiting exposure to credit risk, the County is required to follow specific state statutes adding security to the deposits and investments. Below are the legal provisions provided in the state MCA:

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

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

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

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

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

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

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

The government has no investment policy that would further limit its investment choices.

The government has no investments that require credit risk disclosure.

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2019, (in thousands):

| <u>Security Investment Type</u> | Total Fixed Income Investments at <u>Fair Value</u> | Credit Quality <u>Rating</u> | WAM <u>(Days)</u> |
|---------------------------------|--|------------------------------------|----------------------|
| Treasuries | \$ 129,877 | A-1+ | 20 |
| Agency or Government Related | 873,181 | A-1+ | 69 |
| Corporate: | | | |
| Commercial Paper | 200,145 | A-1+ | 16 |
| Notes | 448,909 | A-1+ | 61 |
| Certificates of Deposit | <u>325,235</u> | A-1+ | 45 |
| Total Investments | <u>\$ 1,977,347</u> | | |

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Audited financial statements for the State of Montana’s Board of Investments are available at 2401 Colonial Drive 3rd Floor in Helena, Montana.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk other than that required by state statutes. All deposits are carried at cost plus accrued interest. As of June 30, 2019 the government’s bank balance was exposed to custodial credit risk as follows:

| | June 30, 2019 |
|---|----------------------|
| | <u>Balance</u> |
| <u>Depository Account</u> | |
| Insured | \$ 7,922,308 |
| - Collateral held by the pledging bank's trust department but not in the County's name | 3,998,476 |
| Total deposits and investments | <u>\$ 11,920,784</u> |

Deposit Security

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

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

The amount of collateral held for County deposits at June 30, 2019, equaled or exceeded the amount required by State statutes.

Cash and Investment Pool

The government maintains a cash and investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the combined balance sheet as “Cash and investments.”

Investment in the Treasurer’s Pools

The County Treasurer invests on behalf of most funds of the County and external participants in accordance with the County’s investment policy and Montana law. The County’s pools are managed by the County Treasurer. The external portion of the County’s investment pools are accounted for as investment trust funds.

The County has one pooled investment trust funds, invested in STIP and the other is invested in non-negotiable certificates of deposit and money market deposits. The County invests funds for external entities.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2019 to support the value of the shares in the pool. As stated previously, the fair value of the investments is determined annually following the fair value measurement hierarchy. The condensed statement below is measured at fair value at fiscal year ended June 30, 2019.

As noted above state statutes limit the type of investments but provide no other regulatory oversight, and the pool is not registered with the Securities and Exchange Commission.

Investment Income

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

Condensed statements of investments pools

The following represents a condensed statement of net position and changes in net position for the Treasurer's Pool as of June 30, 2019.

Statement of Net Position

Net position held in trust for all pool participants:

| | |
|--------------------------------------|---------------|
| Equity of internal pool participants | \$ 5,653,112 |
| Equity of external pool participants | 11,717,888 |
| Total equity | \$ 17,371,000 |

Condensed Statement of Changes in Net Position

| | External | Internal |
|-----------------------------------|---------------|--------------|
| Investment earnings | \$ 213,863 | \$ 103,176 |
| Contributions to trust | 13,245,046 | 7,013,715 |
| Distributions paid | (12,466,244) | (5,713,178) |
| Net change in net position | \$ 992,665 | \$ 1,403,713 |
| Net position at beginning of year | 10,725,223 | 4,249,399 |
| Net position at end of year | \$ 11,717,888 | \$ 5,653,112 |

NOTE 3. RECEIVABLES

Tax Receivables

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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

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

NOTE 4. INVENTORIES

The cost of inventories are recorded as an expenditure when purchased and an adjustment is made to inventory at year-end of any amounts which are not consumed.

NOTE 5. CAPITAL ASSETS

The County's assets are capitalized at historical cost or estimated historical cost. County policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

| | |
|----------------|---------------|
| Buildings | 10 – 40 years |
| Improvements | 10 – 20 years |
| Equipment | 5 – 10 years |
| Infrastructure | 20 years |

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2019 Basic Financial Statements.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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

| | Balance <u>July 1, 2018</u> | <u>Additions</u> | Balance <u>June 30, 2019</u> |
|---|--------------------------------|----------------------------|---------------------------------|
| Capital assets not being depreciated: | | | |
| Land | \$ 265,409 | \$ - | \$ 265,409 |
| Pondera Medical Center | 20,000 | - | 20,000 |
| CIP | - | 45,673 | 45,673 |
| Total capital assets not being depreciated | <u>\$ 285,409</u> | <u>\$ 45,673</u> | <u>\$ 331,082</u> |
| Other capital assets: | | | |
| Buildings | \$ 4,367,143 | \$ 79,256 | \$ 4,446,399 |
| Improvements other than buildings | 4,804,145 | 6,556 | 4,810,701 |
| Machinery and equipment | 5,768,590 | 125,190 | 5,893,780 |
| Infrastructure | 168,827 | - | 168,827 |
| Pondera Medical Center | 7,042,733 | - | 7,042,733 |
| Total other capital assets at historical cost | <u>\$ 22,151,438</u> | <u>\$ 211,002</u> | <u>\$ 22,362,440</u> |
| Less: accumulated depreciation | <u>(15,124,680)</u> | <u>(844,506)</u> | <u>(15,969,186)</u> |
| Total | <u><u>\$ 7,312,167</u></u> | <u><u>\$ (587,831)</u></u> | <u><u>\$ 6,724,336</u></u> |

Governmental activities depreciation expense was charged to functions as follows:

| | |
|--|--------------------------|
| Governmental Activities: | |
| General government | \$ 101,384 |
| Public safety | 96,449 |
| Public works | 401,978 |
| Public health | 242,427 |
| Social and economic services | 1,396 |
| Culture and recreation | 247 |
| Housing and community development | <u>625</u> |
| Total governmental activities depreciation expense | <u><u>\$ 844,506</u></u> |

NOTE 6. LONG TERM DEBT OBLIGATIONS

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

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2019, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

| | Balance <u>July 1, 2018</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2019</u> | Due Within <u>One Year</u> |
|-------------------------------------|--------------------------------|------------------|---------------------|---------------------------------|-------------------------------|
| Compensated absences | \$ 258,855 | \$ - | \$ (40,924) | \$ 217,931 | \$ 150,520 |
| Intercap loans | 423,951 | - | (33,552) | 390,399 | 29,547 |
| Capital leases | 1,684,233 | - | (72,839) | 1,611,394 | 75,221 |
| Loans | 85,794 | - | (21,257) | 64,537 | 8,851 |
| Net pension liability* | 2,934,315 | - | (395,748) | 2,538,567 | - |
| Other post-employment benefits** | 86,051 | 7,353 | - | 93,404 | - |
| Total | <u>\$ 5,473,199</u> | <u>\$ 7,353</u> | <u>\$ (564,320)</u> | <u>\$ 4,916,232</u> | <u>\$ 264,139</u> |

*See Note 9

**See Note 7

Loans

Loans outstanding as of June 30, 2019 were as follows:

| <u>Purpose</u> | <u>Origination Date</u> | <u>Interest Rate</u> | <u>Term</u> | <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Balance June 30, 2019</u> |
|----------------------|-----------------------------|--------------------------|-------------|--------------------------|-----------------------------|----------------------------------|
| MDT Aeronautics Loan | 9/27/17 | 1.88% | 10 yrs | 3/1/27 | \$ 11,500 | \$ 9,200 |
| Port Authority Loan | 11/1/17 | 4.00% | 10 yrs | 10/5/27 | <u>135,000</u> | <u>55,337</u> |
| Total | | | | | <u>\$ 146,500</u> | <u>\$ 64,537</u> |

Annual requirement to amortize debt:

| <u>For Fiscal Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------------|------------------|-----------------|
| 2020 | \$ 8,851 | \$ 2,264 |
| 2021 | 9,165 | 1,929 |
| 2022 | 9,492 | 1,580 |
| 2023 | 9,830 | 1,220 |
| 2024 | 10,186 | 843 |
| 2025 | 10,552 | 455 |
| 2026 | 5,311 | 790 |
| 2027 | 1,150 | 43 |
| Total | <u>\$ 64,537</u> | <u>\$ 9,126</u> |

Intercap Loans

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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Interacap loans outstanding as of June 30, 2019 were as follows:

| <u>Purpose</u> | <u>Origination Date</u> | <u>Interest Rate</u> | <u>Term</u> | <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Balance June 30, 2019</u> |
|--------------------------------------|-------------------------|----------------------|-------------|----------------------|-------------------------|------------------------------|
| Building for Senior Center - remodel | 8/12/11 | 1.00-4.85% | 15 yrs | 8/15/26 | \$ 113,841 | \$ 62,501 |
| HVAC system | 4/13/17 | 1.00-4.85% | 14.5 yrs | 2/15/32 | <u>359,000</u> | <u>327,898</u> |
| Total | | | | | <u>\$ 149,741</u> | <u>\$ 390,399</u> |

Annual requirement to amortize debt:

| <u>For Fiscal Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------|-------------------|------------------|
| 2020 | \$ 29,547 | \$ 12,426 |
| 2021 | 30,260 | 12,161 |
| 2022 | 30,989 | 11,141 |
| 2023 | 31,737 | 10,097 |
| 2024 | 32,505 | 9,027 |
| 2025 | 33,289 | 7,932 |
| 2026 | 34,095 | 6,810 |
| 2027 | 30,400 | 5,661 |
| 2028 | 26,635 | 4,636 |
| 2029 | 27,322 | 3,739 |
| 2030 | 28,026 | 2,818 |
| 2031 | 28,525 | 1,874 |
| 2032 | <u>27,069</u> | <u>912</u> |
| Total | <u>\$ 390,399</u> | <u>\$ 89,232</u> |

Capital Leases

The County has entered into several leases which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2019 were as follows:

| <u>Purpose</u> | <u>Origination Date</u> | <u>Interest rate</u> | <u>Term</u> | <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Remaining Payments as of June 30, 2019</u> |
|--|-------------------------|----------------------|-------------|----------------------|-------------------------|---|
| New 8 Caterpillar Motor Graders (2015) | 5/4/16 | 3.00% | 5 yrs | 11/1/20 | \$ 1,780,317 | \$ 1,595,001 |
| 2 Walk & Rollers | 7/1/16 | 3.00% | 5 yrs | 11/1/20 | <u>40,000</u> | <u>16,393</u> |
| Total | | | | | <u>\$ 1,820,317</u> | <u>\$ 1,611,394</u> |

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Annual requirement to amortize debt:

| For Fiscal Year Ended | <u>Principal</u> | <u>Interest</u> |
|--------------------------|---------------------|-------------------|
| 2020 | \$ 75,221 | \$ 48,846 |
| 2021 | 77,177 | 46,754 |
| 2022 | 1,458,996 | 29,449 |
| Total | <u>\$ 1,611,394</u> | <u>\$ 125,050</u> |

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the County’s policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from County service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN

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

Benefits Provided. The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in MCA 2-18-704. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums, but may pay the same premiums as the other members in the group health plan.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

| | |
|--|----|
| Inactive employees or beneficiaries receiving benefit payments | 1 |
| Active employees | 51 |
| Total employees | 52 |

Total OPEB Liability

The County’s total OPEB liability of \$93,404 at June 30, 2019, and was determined by using the alternative measurement method. The measurement date of the determined liability was June 30, 2018, with roll forward procedures applied to current year reported balance at June 30, 2019.

Actuarial assumptions and other input. The total OPEB liability in the June 30, 2018 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|-------|
| Average age of retirement (based on historical data) | 65 |
| Discount rate (average anticipated rate) | 3.96% |
| Average salary increase (County experience) | 2.25% |
| <u>Health care cost rate trend (Federal Office of the Actuary)</u> | |

| <u>Year</u> | <u>% Increase</u> |
|--------------------|--------------------------|
| 2019 | 5.20% |
| 2020 | 6.10% |
| 2021 | 5.90% |
| 2022 | 5.80% |
| 2023 | 5.90% |
| 2024 | 5.90% |
| 2025 | 5.70% |
| 2026 | 6.50% |
| 2027 | 6.50% |
| 2028 and after | 6.50% |

The discount rate was based on the 20 year General obligation (GO) bond index.

Life expectancy of employees was based on the United States Life Tables, 2014 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 66, No. 4, August 14, 2017.

The turnover rates were determined from the periodic experience studies of the Montana public retirement systems for the covered groups as documented in the GASB 68 actuarial valuations.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Changes in the Total OPEB Liability

| | |
|-----------------------|-------------------------|
| Balance at 6/30/2018 | \$ <u>86,051</u> |
| Changes for the year: | |
| Service Cost | \$ <u>7,353</u> |
| Net Changes | \$ <u>7,353</u> |
| Balance at 6/30/2019 | \$ <u><u>93,404</u></u> |

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

| | 1% Decrease (2.96%) | Discount Rate (3.96%) | 1% Increase (4.96%) |
|-------------------------|------------------------|--------------------------|------------------------|
| Total OPEB Liability \$ | \$ 96,391 | \$ 86,051 | \$ 77,517 |

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

| | 1% Decrease | Healthcare Cost Trends* | 1% Increase |
|-------------------------|----------------|----------------------------|----------------|
| Total OPEB Liability \$ | \$ 74,967 | \$ 86,051 | \$ 99,801 |

**Reference the assumptions footnotes to determine the healthcare cost trends used to calculate the OPEB liability.*

In fiscal year ending June 30, 2019, the above sensitivity analysis does not reflect the change to the total OPEB liability. The total OPEB liability in the analysis is based on the June 30, 2018 calculated liability per valuation completed on June 30, 2018.

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

For the year ended June 30, 2019, the County recognized an OPEB expense of \$7,353. The County does not report any deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since County records costs as they come due there are no deferred outflows of resources for contributions to the OPEB plan trust.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2019, was as follows:

| Due to/from other funds | | | |
|--|-----------------------------------|---|------------------|
| <u>Purpose</u> | <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
| Short-term loan for deficit cash balance | General Fund – Major Governmental | Middle Pondera Creek-Solid Rd Co-op Grant – Nonmajor Governmental | \$ 970 |
| Short-term loan for deficit cash balance | General Fund – Major Governmental | E-911 & GPS/GIS Project Grant – Nonmajor Governmental | 4,395 |
| Short-term loan for deficit cash balance | General Fund – Major Governmental | Northern Transit Interlocal – Nonmajor Governmental | 548 |
| Short-term loan for deficit cash balance | General Fund – Major Governmental | WIC Grant – Nonmajor Governmental | 7,934 |
| Short-term loan for deficit cash balance | General Fund – Major Governmental | Immunization Action Grant – Nonmajor Governmental | 100 |
| Short-term loan for deficit cash balance | General Fund – Major Governmental | Chronic Disease (FKA Tobacco Use Prev) – Nonmajor Governmental | <u>2,254</u> |
| | | | <u>\$ 16,201</u> |

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2019:

| <u>Purpose</u> | <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-----------------------------|--|-------------------------------|---------------|
| Operating | Airport – Nonmajor Governmental | General – Major Governmental | \$ 12,963 |
| Future capital improvements | General Capital Improvement – Nonmajor Governmental | General– Major Governmental | 28,250 |
| Matching funds | Enhanced Gas Tax – Nonmajor Governmental | Road– Major Governmental | 1,825 |
| Future capital improvements | Road/Bridge Equip Purchase – Major Governmental | Bridge– Nonmajor Governmental | 55,000 |
| Matching funds | Enhanced Gas Tax– Nonmajor Governmental | Bridge– Nonmajor Governmental | 1,825 |
| Future capital improvements | Weed District Capital Improvement– Nonmajor Governmental | Weed– Nonmajor Governmental | 7,000 |

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

| | | | |
|-----------------------------|--|---|------------------|
| Future capital improvements | General Capital Improvement– Nonmajor Governmental | Extension– Nonmajor Governmental | 6,000 |
| Future capital improvements | Public Safety Capital Improvement– Nonmajor Governmental | Public Safety – Major Governmental | 97,500 |
| Operating | Health Insurance Employer Contribution– Nonmajor Governmental | Permissive Medical Levy– Nonmajor Governmental | 194,992 |
| Operating | PERS Employer Contribution– Nonmajor Governmental | Sheriff Retirement Permissive Levy– Nonmajor Governmental | 18,702 |
| Future capital improvements | Road/Bridge Equip Purchase – Major Governmental | Gas Apportionment Tax– Nonmajor Governmental | 40,000 |
| Future capital improvements | Junk Vehicle Capital Improvement– Nonmajor Governmental | Junk Vehicle– Nonmajor Governmental | 7,911 |
| Matching funds | Pondera County Electronic Plat Book Grant– Nonmajor Governmental | Land Use Planning– Nonmajor Governmental | 236 |
| Future capital improvements | General Capital Improvement– Nonmajor Governmental | Northern Transit Interlocal– Nonmajor Governmental | 1,000 |
| Future capital improvements | General Capital Improvement– Nonmajor Governmental | Oil & Gas Severance Accelerated Tax* – Major Governmental | 9,000 |
| Operating | Road – Major Governmental | PILT* – Major Governmental | 54,000 |
| Operating | Northern Transit Interlocal– Nonmajor Governmental | PILT* – Major Governmental | 22,000 |
| Future capital improvements | Road/Bridge Equip Purchase – Major Governmental | PILT* – Major Governmental | 54,000 |
| Operating | Airport– Nonmajor Governmental | PILT* – Major Governmental | 23,225 |
| Residual equity transfer | County Hospital & Nursing Home– Nonmajor Governmental | Debt Service Hospital– Nonmajor Governmental | 56 |
| | | | <u>\$635,485</u> |

*This fund is combined with the General Fund for reporting purposes per GASB 54.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 9. NET PENSION LIABILITY

Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA (for PERS, SRS)) MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. 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 in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Plan Descriptions

PERS

The PERS-Defined Benefit Retirement Plan (PERS) 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 provides retirement benefits to covered employees of 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 participants of both the *defined contribution* and *defined benefit* retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP. All new members from the universities also have third option to join the university system's Montana University System Retirement Program (MUS-RP).

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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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.

Summary of Benefits

PERS

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.

Second Retirement (requires returning to PERS-covered employer or PERS service):

1) Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:

- a. A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
- b. No service credit for second employment;
- c. Start the same benefit amount the month following termination; and
- d. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

- 2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
 - a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- 3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
 - a. The same retirement as prior to the return to service;
 - b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Vesting

- 5 years of membership service

Member's highest average compensation (HAC)

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

Compensation Cap

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

SRS

Service retirement:

- 20 years of membership service.
- 2.5% of HAC x years of service credit.

Early retirement:

- Age 50 with 5 years of membership service.
- This benefit calculated using HAC and service credit at early retirement, and reduced to the actuarial equivalent commencing at the earliest of age 60 or the attainment of 20 years of service credit.

Second Retirement:

Applies to retirement system members re-employed in a SRS position on or after July 1, 2017:

- 1) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - a. Is not awarded service credit for the period of reemployment;
 - b. Is refunded the accumulated contributions associated with the period of reemployment;
 - c. Starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - d. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
- 2) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - a. Is awarded service credit for the period of reemployment;
 - b. Starting the first month following termination of service, receives:
 - i. The same retirement benefit previously paid to the member, and
 - ii. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
 - c. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - i. On the initial retirement benefit in January immediately following second retirement, and

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- ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- 3) A member who returns to covered service is not eligible for a disability benefit.

Vesting

5 years of membership service

Member's compensation period used in benefit calculation

- HAC = Highest Average Compensation
- Hired prior to July 1, 2011: HAC is average of the highest 36 consecutive months of compensation paid to member.
- Hired on or after July 1, 2011: HAC is average of the highest 60 consecutive months of compensation paid to member.

Compensation Cap

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

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Overview of Contributions

PERS

1. Rates are specified by state law and are a percentage of the member's compensation.
 - a. Contributions are deducted from each member's salary and remitted by participating employers;
 - b. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

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3. 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 actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional 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.
4. Non Employer Contributions
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - iii. The State contributed a statutory appropriation from its General Fund of \$33,454,182.

SRS

Member and employer contribution rates are specified by state law 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. Member and employer contribution rates are shown in the table below.

| <u>Fiscal Year</u> | <u>Member</u> | <u>Employer</u> |
|---------------------------|----------------------|------------------------|
| 2018-2019 | 10.245% | 13.115% |
| 2010-2017 | 9.245% | 10.115% |
| 2008-2009 | 9.245% | 9.825% |
| 1998-2007 | 9.245% | 9.535% |

Stand-Alone Statements

The PERS's, SRS financial statements of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at <http://mpera.mt.gov>.

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Net Pension Liability

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

The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2018 and June 30, 2019 (reporting dates).

| | PERS NPL as of 6/30/2018 | PERS NPL as of 6/30/2019 | Percent of Collective NPL as of 6/30/2019 | SRS NPL as of 6/30/2018 | SRS NPL as of 6/30/2019 | Percent of Collective NPL as of 6/30/2019 | Total Collective NPL as of 6/30/2019 | Percent Totals as of 6/30/2019 |
|--|--------------------------------|--------------------------------|--|-------------------------------|----------------------------|--|--|--------------------------------------|
| Employer Proportionate Share | \$ 2,308,087 | \$ 1,965,173 | 0.0942% | \$ 626,228 | \$ 573,394 | 0.7628% | \$ 2,538,567 | 0.8570% |
| State of Montana Proportionate Share associated with Employer | 28,996 | 655,744 | 0.1261% | - | - | - | 655,744 | 0.1261% |
| Total | \$ 2,337,083 | \$ 2,620,917 | 0.2203% | \$ 626,228 | \$ 573,394 | 0.7628% | \$ 3,194,311.00 | 0.9831% |

At June 30, 2019, the employer recorded a liability of \$2,538,567 for its proportionate share of the net pension liability of 0.8570 percent. The net pension liability of PERS, SRS reported was determined by taking the results of the June 30, 2017 actuarial valuation and applying roll forward procedures to the June 30, 2018 measurement date. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS, SRS during the measurement period July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERS, SRS participating employers.

Changes in actuarial assumptions and methods:

PERS, SRS

There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

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 June 30, 2019

Changes in benefit terms:

PERS, SRS

There were no changes in benefit terms since the previous measurement date.

Changes in proportionate share:

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

Pension Expense as of 6/30/19

| | PERS | SRS | Total |
|---|------------|-------------|------------|
| Employer Proportionate Share | \$ 183,667 | \$ (23,636) | \$ 160,031 |
| State of Montana Proportionate Share associated with the Employer | 43,764 | - | 43,764 |
| Total | \$ 227,431 | \$ (23,636) | \$ 203,795 |

At June 30, 2019, the employer recognized a Pension Expense of \$160,031 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$43,764 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer. Additionally, the employer recognized grant revenue of \$0 from the State Statutory Appropriation from the General Fund.

Recognition of Beginning Deferred Outflow

At June 30, 2019, the employer recognized a beginning deferred outflow of resources for the employers fiscal year 2018 contributions of \$212,545.

Deferred Inflows and Outflows

At June 30, 2019, the employer reported its proportionate share of PERS, SRS deferred outflows of resources and deferred inflows of resources related to PERS, SRS from the following sources:

PONDERA COUNTY, MONTANA
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| | PERS Deferred Outflows of Resources | PERS Deferred Inflows of Resources | SRS Deferred Outflows of Resources | SRS Deferred Inflows of Resources | Total Deferred Outflows of Resources | Total Deferred Inflows of Resources |
|---|--|---|---|--|---|--|
| Differences between expected and actual economic experience | \$ 149,438 | \$ - | \$ 31,625 | \$ 1,277 | \$ 181,063 | \$ 1,277 |
| Actual vs. Expected Investment Earnings | - | 30,519 | - | 16,051 | - | 46,570 |
| Changes in Assumptions | 167,108 | - | 326,065 | 542,214 | 493,173 | 542,214 |
| Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions | - | 244,230 | - | 23,377 | - | 267,607 |
| Employer contributions subsequent to the measurement date - FY19 | 141,960 | - | 68,243 | - | 210,203 | - |
| Total | \$ <u>458,506</u> | \$ <u>274,749</u> | \$ <u>425,933</u> | \$ <u>582,919</u> | \$ <u>884,439</u> | \$ <u>857,668</u> |

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Deferred Inflows and Outflows

| PERS: Year ended June 30, 2019 | Amount of Deferred Outflows and Deferred Inflows recognized in future years as an increase or (decrease) to Pension Expense |
|-----------------------------------|--|
| 2020 | \$ 109,922 |
| 2021 | \$ 56,299 |
| 2022 | \$ (111,844) |
| 2023 | \$ (12,540) |
| 2024 | \$ - |
| Thereafter | \$ - |

| SRS: Year ended June 30, 2019 | Amount of Deferred Outflows and Deferred Inflows recognized in future years as an increase or (decrease) to Pension Expense |
|----------------------------------|--|
| 2020 | \$ (54,373) |
| 2021 | \$ (68,016) |
| 2022 | \$ (90,323) |
| 2023 | \$ (12,517) |
| 2024 | \$ - |
| Thereafter | \$ - |

Actuarial Assumptions

PERS

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2017, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2018. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017, for the six year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth* 3.50%
- *includes Inflation at 2.75%
- Merit Increases 0% to 6.3%
- Postretirement Benefit Increase Below:

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Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Member hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 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, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among Disabled members are based on RP 2000 Combined Mortality Tables with no projections.

SRS

The Total Pension Liability (TPL) used to calculate the NPL was determined taking the results of June 30, 2017, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2018. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- | | |
|--|-------------|
| • General Wage Growth* | 3.50% |
| • *includes Inflation at | 2.75% |
| • Merit Increases | 0% to 6.30% |
| • Investment Return (net of admin expense) | 7.65% |
| • Admin Expense as a % of Payroll | 0.21% |
| • Postretirement Benefit Increases | |

Guaranteed Annual Benefit Adjustment(GABA)

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Mortality assumptions among contributing members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Mortality Tables with no projections.

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NOTES TO THE FINANCIAL STATEMENTS
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Discount Rate

PERS

The discount rate used to measure the Total Pension Liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated.

For PERS the State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the state contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

SRS

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the Board’s funding policy, which established the contractually required rates under the Montana Code Annotated. Based on those assumptions, the Plan’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

PERS, SRS

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return Arithmetic Basis</u> |
|--------------------|--------------------------------|--|
| Cash Equivalents | 2.60% | 4.00% |
| Domestic Equity | 36.00% | 4.55% |
| Foreign Equity | 18.00% | 6.35% |
| Fixed Income | 23.40% | 1.00% |
| Private Equity | 12.00% | 7.75% |
| Real Estate | <u>8.00%</u> | 4.00% |
| Total | <u>100.00%</u> | |

PONDERA COUNTY, MONTANA
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The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, is outlined in a report dated May 2017 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions 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 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 by adding expected inflation. The above table outlines the best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018.

Sensitivity Analysis

| | 1.0% <u>Decrease</u> | Current <u>Discount Rate</u> | 1.0% <u>Increase</u> |
|------|-------------------------|---------------------------------|-------------------------|
| PERS | \$ 2,842,095 | \$ 1,965,173 | \$ 1,245,080 |
| SRS | \$ 1,043,502 | \$ 573,394 | \$ 188,416 |

PERS, SRS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

NOTE 10. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

The Entity offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all Entity employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

Non-spendable – Includes resources not in spendable form, such as inventory, or those legally required to be maintained intact, such as principle portion of permanent funds.

PONDERA COUNTY, MONTANA
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Restricted – includes constraint for specific purposes which are externally imposed by a third party, State Constitution, or enabling legislation.

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

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

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

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

Nonspendable Fund Balance

| <u>Major Fund</u> | <u>Amount</u> | <u>Reason Nonspendable</u> |
|--------------------------------|-------------------|----------------------------|
| Road | \$ 148,125 | Inventory |
| Road/Bridge Equipment Purchase | 17,005 | Inventory |
| All Other Aggregate | 41,842 | Inventories |
| | <u>3,986</u> | Permanent fund |
| Total | \$ <u>210,958</u> | |

Restricted Fund Balance

| <u>Major Fund</u> | <u>Amount</u> | <u>Purpose of Restriction</u> |
|---------------------|---------------------|-----------------------------------|
| Road | \$ 671,718 | Road operations and maintenance |
| Public Safety | 434,795 | Law enforcement |
| All Other Aggregate | 323,255 | Bridge operations and maintenance |
| | 131,949 | Weed control |
| | 4,423 | Miscellaneous |
| | 151,835 | Insurance |
| | 359,309 | Emergency services |
| | 59,114 | Social and economic services |
| | 274,991 | Employee benefits |
| | 21,755 | Law enforcement |
| | 26,086 | Records preservation |
| | 264,768 | Road operations and maintenance |
| | 18,598 | Geographic information systems |
| | 16,744 | Rural planning |
| | 221,460 | Public health services |
| | 2,478 | Airport Operations |
| | <u>737,695</u> | Public health capital costs |
| Total | \$ <u>3,720,973</u> | |

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019

Committed Fund Balance

| <u>Major Fund</u> | <u>Amount</u> | <u>Purpose of Commitment</u> |
|--------------------------------|---------------------|----------------------------------|
| Road/Bridge Equipment Purchase | \$ 853,387 | Road and bridge capital costs |
| All Other Aggregate | 344,388 | Law enforcement capital costs |
| | 400,049 | General government capital costs |
| | 63,067 | Emergency services capital costs |
| | <u>37,914</u> | Weed capital costs |
| Total | <u>\$ 1,698,805</u> | |

NOTE 12. DEFICIT FUND BALANCES/NET POSITION

| <u>Fund Name</u> | <u>Amount</u> | <u>Reason for Deficit</u> | <u>How Deficit will be Eliminated</u> |
|------------------|----------------|--|---------------------------------------|
| District Court | \$ <u>(69)</u> | Insufficient resources to cover short term liabilities | Future tax revenues |

NOTE 13. RESTATEMENTS

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

| <u>Fund</u> | <u>Amount</u> | <u>Reason for Adjustment</u> |
|-----------------------|---------------|---|
| Road | \$ (43,050) | Move prior year balance sheet accounts related to FEMA Grants to new FEMA Grants Fund |
| Bridge | (33,125) | Move prior year balance sheet accounts related to FEMA Grants to new FEMA Grants Fund |
| Gas Tax Apportionment | (23,411) | Move prior year balance sheet accounts related to FEMA Grants to new FEMA Grants Fund |
| FEMA Grants | <u>99,586</u> | Move prior year balance sheet accounts related to FEMA Grants to new FEMA Grants Fund |
| | <u>\$ -</u> | |

NOTE 14. RELATED PARTY TRANSACTIONS

The Pondera County Medical Center operates independently of the County and the County does not have a voting majority of the Medical Center Board. The Medical Center building and equipment is owned by the County totaling about \$7M and the County allows the Medical Center to utilize these assets in order for medical services to be provided to citizens within the County.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 15. SERVICES PROVIDED TO OTHER GOVERNMENTS

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

NOTE 16. RISK MANAGEMENT

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

Property and Casualty Insurance

The County is part of a public entity risk pool called the Montana Association of Counties Property and Casualty Trust (MACo PCT). The MACo PCT pool is a group self-insurance program that offers a package concept combining multiple lines of coverages designed to meet the coverage and service needs for Montana Counties and Special Districts. Liability coverages are provided for at \$750,000/claim and \$1,500,000/occurrence.

PCT Coverage Includes:

- Public officials' errors and omissions
- Employment practices including legal advice on employment issues
- Law enforcement liability
- Auto liability
- General liability
- Defense only coverage for subdivisions approval and denials
- Property
- Faithful performance of duty
- Boiler and Machinery
- Fidelity and Crime
- Professional liability

Workers Compensation Insurance

The County is part of a public entity self-insured risk sharing pool that provides statutorily mandated workers' compensation called the Montana Association of Counties Workers' Compensation Trust (MACo WCT). Coverage is provided to member counties to protect member employees from on-the-job injuries and occupational diseases.

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Health Care Insurance

The County is part of a public entity risk sharing pool that provides group health benefits for Montana Counties called the Montana Association of Counties Health Care Trust (MACo HCT). The plan provides medical, pharmacy, Vision and Dental benefits.

NOTE 17. PENDING LITIGATION

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

| <u>Case</u> | <u>Damages Requested</u> | <u>Potential of Loss</u> |
|--|------------------------------|------------------------------|
| <i>LeAnne Stokes Orcutt vs. Pondera County</i> | Unknown | Unkown |

NOTE 18. SUBSEQUENT EVENTS

Covid-19 Virus

The government, like all governments in the United States is dealing with the effects of the Covid 19 virus. Possible government operational changes or even shutdowns may occur. Additionally, the financial effects to the government are equally as uncertain.

The County obtained a \$315,000 Federal Aviation Administration grant to construct airport fuel system at the Conrad Airport. The grant portion will fund ninety percent of the project and the remaining ten percent being matched by the County. The County has contracted with Robert, Peccia, and Associates for design, engineering, and project management of the project. The bid for construction was awarded to NWestCo LLC. The total incurred through June 2020 on project was \$124,442 and \$112,381 being funded from the grant.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2019

| General | | | | | |
|--|------------------|--------------|--------------------------|------------|----------|
| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE | |
| | ORIGINAL | FINAL | AMOUNTS | WITH FINAL | |
| | | | (BUDGETARY | BUDGET | |
| RESOURCES (INFLOWS): | | | BASIS) See Note A | | |
| Taxes and assessments | \$ 1,047,583 | \$ 1,045,583 | \$ 1,025,348 | \$ | (20,235) |
| Licenses and permits | 25 | 25 | 110 | | 85 |
| Intergovernmental | 321,278 | 321,278 | 340,685 | | 19,407 |
| Charges for services | 181,555 | 181,555 | 214,396 | | 32,841 |
| Fines and forfeitures | 39,525 | 39,525 | 37,598 | | (1,927) |
| Miscellaneous | 24,995 | 24,995 | 25,723 | | 728 |
| Investment earnings | 21,540 | 21,540 | 51,390 | | 29,850 |
| Amounts available for appropriation | \$ 1,636,501 | \$ 1,634,501 | \$ 1,695,250 | \$ | 60,749 |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | | |
| General government | \$ 1,441,607 | \$ 1,441,607 | \$ 1,210,010 | \$ | 231,597 |
| Public safety | 114,700 | 114,700 | 54,071 | | 60,629 |
| Public health | 201,731 | 213,123 | 190,835 | | 22,288 |
| Social and economic services | 9,750 | 9,750 | 7,250 | | 2,500 |
| Culture and recreation | 2,400 | 2,400 | 1,086 | | 1,314 |
| Debt service - principal | 48,198 | 48,198 | 33,552 | | 14,646 |
| Debt service - interest | 19,305 | 19,305 | 12,954 | | 6,351 |
| Miscellaneous | - | - | 12,964 | | (12,964) |
| Total charges to appropriations | \$ 1,837,691 | \$ 1,849,083 | \$ 1,522,722 | \$ | 326,361 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers out | \$ (54,176) | \$ (54,176) | \$ (41,212) | \$ | 12,964 |
| Total other financing sources (uses) | \$ (54,176) | \$ (54,176) | \$ (41,212) | \$ | 12,964 |
| Net change in fund balance | | | \$ 131,316 | | |
| Fund balance - beginning of the year | | | \$ 860,179 | | |
| Fund balance - end of the year | | | \$ 991,495 | | |

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2019

| | Road | | | |
|---|-------------------------|--------------|--|---|
| | BUDGETED AMOUNTS | | ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A | VARIANCE WITH FINAL BUDGET |
| | ORIGINAL | FINAL | | |
| RESOURCES (INFLOWS): | | | | |
| Taxes and assessments | \$ 510,667 | \$ 510,667 | \$ 496,192 | \$ (14,475) |
| Intergovernmental | 254,278 | 254,278 | 260,257 | 5,979 |
| Miscellaneous | 1,950 | 1,950 | 16,211 | 14,261 |
| Amounts available for appropriation | \$ 766,895 | \$ 766,895 | \$ 772,660 | \$ 5,765 |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | |
| Public works | \$ 896,334 | \$ 896,334 | \$ 566,784 | \$ 329,550 |
| Debt service - principal | 72,810 | 72,810 | 72,839 | (29) |
| Debt service - interest | 51,259 | 51,259 | 51,228 | 31 |
| Total charges to appropriations | \$ 1,020,403 | \$ 1,020,403 | \$ 690,851 | \$ 329,552 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ 54,000 | \$ 54,000 | \$ 54,000 | \$ - |
| Transfers out | (1,825) | (1,825) | (1,825) | - |
| Total other financing sources (uses) | \$ 52,175 | \$ 52,175 | \$ 52,175 | \$ - |
| Net change in fund balance | | | \$ 133,984 | |
| Fund balance - beginning of the year | | | \$ 642,809 | |
| Restatements | | | 43,050 | |
| Fund balance - beginning of the year - restated | | | \$ 685,859 | |
| Fund balance - end of the year | | | \$ 819,843 | |

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2019

| Public Safety | | | | |
|--|------------------|--------------|--|----------------------------------|
| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET |
| | ORIGINAL | FINAL | AMOUNTS (BUDGETARY BASIS) See Note A | |
| RESOURCES (INFLOWS): | | | | |
| Taxes and assessments | \$ 785,615 | \$ 785,615 | \$ 782,075 | \$ (3,540) |
| Licenses and permits | 3,000 | 3,000 | 2,750 | (250) |
| Intergovernmental | 123,532 | 123,532 | 128,556 | 5,024 |
| Charges for services | 120,596 | 120,596 | 94,263 | (26,333) |
| Miscellaneous | 1,850 | 1,850 | 6,326 | 4,476 |
| Amounts available for appropriation | \$ 1,034,593 | \$ 1,034,593 | \$ 1,013,970 | \$ (20,623) |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | |
| Public safety | \$ 1,079,943 | \$ 1,079,943 | \$ 839,759 | \$ 240,184 |
| Capital outlay | - | - | 37,920 | (37,920) |
| Total charges to appropriations | \$ 1,079,943 | \$ 1,079,943 | \$ 877,679 | \$ 202,264 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | \$ (97,500) | \$ (97,500) | \$ (97,500) | \$ - |
| Total other financing sources (uses) | \$ (97,500) | \$ (97,500) | \$ (97,500) | \$ - |
| Net change in fund balance | | | \$ 38,791 | |
| Fund balance - beginning of the year | | | \$ 396,004 | |
| Fund balance - end of the year | | | \$ 434,795 | |

Pondera County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation

Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures

| | <u>General</u> | <u>Road</u> | <u>Public Safety</u> |
|--|---------------------|-------------------|--------------------------|
| Sources/Inflows of resources | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | \$ 1,695,250 | \$ 772,660 | \$ 1,013,970 |
| Combined funds (GASBS 54) revenues | <u>238,906</u> | <u>-</u> | <u>-</u> |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds. | <u>\$ 1,934,156</u> | <u>\$ 772,660</u> | <u>\$ 1,013,970</u> |
| Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 1,522,722 | \$ 690,851 | \$ 877,679 |
| Combined funds (GASBS 54) expenditures | 125 | - | - |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u>\$ 1,522,847</u> | <u>\$ 690,851</u> | <u>\$ 877,679</u> |

**Pondera County, [Montana
Required Supplementary Information
Schedule of Changes in the Total OPEB Liability
and Related Ratios
For the Year Ended June 30, 2019**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|------------------|------------------|
| Total OPEB liability | | | | |
| Service Cost | \$ 7,353 | \$ 7,353 | \$ - | \$ 7,780 |
| Net change in total OPEB liability | 7,353 | 7,353 | - | 7,780 |
| Total OPEB Liability - beginning | 86,051 | 80,396 | 80,396 | 256,980 |
| Restatement | - | (1,698) | - | (184,364) |
| Total OPEB Liability - ending | <u>\$ 93,404</u> | <u>\$ 86,051</u> | <u>\$ 80,396</u> | <u>\$ 80,396</u> |
| Covered-employee payroll | \$ 1,816,995 | \$ 1,921,708 | \$ 2,513,371 | \$ 1,772,655 |
| Total OPEB liability as a percentage of covered -employee payroll | 5.1% | 4.5% | 3.2% | 4.5% |

**The above schedule is presented by combining the required schedules from GASB 75 paragraphs 170a and 170b. The GASB requires that 10 years of information related to the OPEB liability be presented, additional data will be reported as it becomes available.*

Pondera County, Montana
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2019

| | <u>PERS</u> <u>2019</u> | <u>PERS</u> <u>2018</u> | <u>PERS</u> <u>2017</u> | <u>PERS</u> <u>2016</u> | <u>PERS</u> <u>2015</u> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Employer's proportion of the net pension liability | 0.0942% | 0.1185% | 0.1139% | 0.1081% | 0.1113% |
| Employer's proportionate share of the net pension liability associated with the Employer | \$ 1,965,173 | \$ 2,308,087 | \$ 1,940,621 | \$ 1,511,425 | \$ 1,387,023 |
| State of Montana's proportionate share of the net pension liability associated with the Employer | \$ 655,744 | \$ 28,996 | \$ 23,712 | \$ 18,565 | \$ 16,938 |
| Total | <u>\$ 2,620,917</u> | <u>\$ 2,337,083</u> | <u>\$ 1,964,333</u> | <u>\$ 1,529,990</u> | <u>\$ 1,403,961</u> |
| Employer's covered payroll | \$ 1,548,446 | \$ 1,467,442 | \$ 1,364,681 | \$ 1,261,821 | \$ 1,269,671 |
| Employer's proportionate share of the net pension liability as a percentage of its covered payroll | 126.91% | 157.29% | 142.20% | 119.78% | 111.22% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.47% | 73.75% | 74.71% | 78.40% | 79.87% |
| | <u>SRS</u> <u>2019</u> | <u>SRS</u> <u>2018</u> | <u>SRS</u> <u>2017</u> | <u>SRS</u> <u>2016</u> | <u>SRS</u> <u>2015</u> |
| Employer's proportion of the net pension liability | 0.7628% | 0.8229% | 0.7731% | 0.7653% | 0.7873% |
| Employer's proportionate share of the net pension liability associated with the Employer | \$ 573,394 | \$ 626,228 | \$ 1,358,212 | \$ 737,728 | \$ 327,652 |
| Total | <u>\$ 573,394</u> | <u>\$ 626,228</u> | <u>\$ 1,358,212</u> | <u>\$ 737,728</u> | <u>\$ 327,652</u> |
| Employer's covered payroll | \$ 591,820 | \$ 614,322 | \$ 545,775 | \$ 520,743 | \$ 50,919 |
| Employer's proportionate share of the net pension liability as a percentage of its covered payroll | 96.89% | 101.94% | 248.86% | 141.67% | 64.35% |
| Plan fiduciary net position as a percentage of the total pension liability | 82.68% | 81.30% | 63.00% | 75.40% | 87.24% |

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

Pondera County, Montana
Required Supplementary Information
Schedule of Contributions
For the Year Ended June 30, 2019

| | <u>PERS</u> <u>2019</u> | <u>PERS</u> <u>2018</u> | <u>PERS</u> <u>2017</u> | <u>PERS</u> <u>2016</u> | <u>PERS</u> <u>2015</u> |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Contractually required contributions | \$ 141,959 | \$ 134,211 | \$ 123,049 | \$ 114,068 | \$ 103,979 |
| Contributions in relation to the contractually required contributions | \$ 141,959 | \$ 134,211 | \$ 12,049 | \$ 116,172 | \$ 108,820 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| County's covered payroll | \$ 1,637,359 | \$ 1,584,541 | \$ 1,467,442 | \$ 1,364,681 | \$ 1,261,821 |
| Contributions as a percentage of covered payroll | 8.67% | 8.47% | 8.39% | 8.51% | 8.62% |

| | <u>SRS</u> <u>2019</u> | <u>SRS</u> <u>2018</u> | <u>SRS</u> <u>2017</u> | <u>SRS</u> <u>2016</u> | <u>SRS</u> <u>2015</u> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Contractually required contributions | \$ 68,243 | \$ 79,071 | \$ 62,280 | \$ 56,567 | \$ 52,824 |
| Contributions in relation to the contractually required contributions | \$ 68,243 | \$ 79,071 | \$ 62,280 | \$ 56,567 | \$ 52,824 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| County's covered payroll | \$ 520,343 | \$ 591,820 | \$ 614,322 | \$ 545,775 | \$ 520,743 |
| Contributions as a percentage of covered payroll | 13.115% | 13.36% | 10.14% | 10.36% | 10.14% |

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

Pondera County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2019

Public Employees' Retirement System of Montana (PERS)

Changes of Benefit Terms

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

2013 Legislative Changes

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

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

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

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

Permanent Injunction Limits Application of the GABA Reduction – Passed under House Bill 454

Guaranteed Annual Benefit Adjustment (GABA) - for PERS

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013:
 - 1.5% 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.

2015 Legislative Changes

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

Second Retirement Benefit - for PERS

- Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
 - Refund of member's contributions from second employment, plus regular interest (currently 2.5%);
 - No service credit for second employment;
 - Start same benefit amount the month following termination; and
 - GABA starts again in the January immediately following second retirement.

Pondera County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2019

- For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - Member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts in the January after receiving recalculated benefit for 12 months.
- For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - Refund of member’s contributions from second employment, plus regular interest (currently 2.5%);
 - No service credit for second employment
 - Start same benefit amount the month following termination; and,
 - GABA starts again in the January immediately following second retirement.
- For members who retire on or after January 1, 2016, return to PERS-covered employment, and accumulate five or more years of service credit before retiring again:
 - Member receives same retirement benefit as prior to return to service;
 - Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

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

The PCR was paid off effective March 2016, and the contributions of 2.37%, 0.47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member’s account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

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

| | |
|-------------------------------|-------|
| Admin Expense as % of Payroll | 0.27% |
|-------------------------------|-------|

The following changes were adopted in 2013 based on the 2013 Economic Experience Study:

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

Pondera County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2019

The following actuarial assumptions are from the June 2010 Experience Study:

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

Sheriffs' Retirement System of Montana (SRS)

Changes of Benefit Terms

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

2013 Legislative Changes

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

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

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

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

2015 Legislative Changes

There were no legislative changes with regards to SRS in 2015.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

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

| | |
|---|--|
| SRS Discount Rate – Used to measure the TPL | 6.86%, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80% |
|---|--|

Pondera County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2019

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

| | |
|---|---|
| Admin Expense as % of Payroll | 0.17% |
| SRS Discount Rate – Used to measure the TPL | 7.75%, which is the assumed long-term expected rate of return on System’s investments |

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

| | |
|---|--|
| SRS Discount Rate – Used to measure the TPL | 6.68%, which is a blend of the assumed long-term expected rate of return of 7.82% on System’s investments and a municipal bond index rate of 4.27% |
|---|--|

The following changes were adopted in 2013 based on the 2013 Economic Experience Study:

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

The following actuarial assumptions are from the June 2010 Experience Study:

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

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

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

Board of Commissioners
Pondera County
Conrad, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Pondera County's basic financial statements and have issued our report thereon dated June 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pondera County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pondera County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Pondera County's internal control over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pondera 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*.

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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 22, 2020

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

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

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Commissioners
Pondera County
Conrad, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

| <u>Recommendation</u> | <u>Action Taken</u> |
|-----------------------|---------------------|
| Unallowable Transfer | Implemented |

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

June 22, 2020