

FERGUS COUNTY, MONTANA

Fiscal Year Ended June 30, 2018

**AUDIT REPORT**

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

FERGUS COUNTY, MONTANA

Fiscal Year Ended June 30, 2018

**TABLE OF CONTENTS**

Organization	1
Management Discussion and Analysis	2-6
Independent Auditor’s Report	7-9
<b>Financial Statements</b>	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	10
Statement of Activities	11
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position – Proprietary Fund Types	16
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund Types	17
Statement of Cash Flows – Proprietary Fund Types	18
Statement of Net Position – Fiduciary Fund Types	19
Statement of Changes in Net Position – Fiduciary Fund Types	20
Notes to Financial Statements	21-66
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule	67-69
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	70
Schedule of Changes in the County’s Total OPEB Liability and Related Ratios	71
Schedule of Proportionate Share of the Net Pension Liability	72
Schedule of Contributions	73
Notes to Required Pension Supplementary Information	74-80
Independent Auditor’s Report on Compliance and 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	81-82
Report on Prior Audit Recommendations	83

FERGUS COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2018

**BOARD OF COUNTY COMMISSIONERS**

Ross Butcher  
Sandy Youngbauer  
Carl Seilstad

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Kent Sipe  
Gwenda L. Gehlen  
Rana J. Wichman  
Phyllis D. Smith  
Kelly Mantooth  
Rhonda Long  
Troy Eades

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

FERGUS COUNTY  
**MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)**  
For Fiscal Year End June 30, 2018

Our discussion and analysis of the County's financial performance provides an overview of the government's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with our financial statements.

**FINANCIAL HIGHLIGHTS**

- Net position at the close of fiscal year 2018 was \$16,904,548. Of this amount, \$13,130,822 was invested in capital assets, net of related debt.
- Total net position increased by \$786,600 as a result of this year's operations.
- This is the third year the Sheriff's Department and Jail were in fund 2300 – Public Safety rather than the General Fund. Actual revenues were \$41,486 more than budgeted.

**USING THIS ANNUAL REPORT**

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

In the Statement of Net Position and the Statement of Activities, our government is divided into two kinds of activities:

- Governmental activities – Basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – Fees charged to customers to help it cover all or most of the cost of certain services it provides. The Hospital and Airport funds are reported here.

FERGUS COUNTY  
**MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)**  
For Fiscal Year End June 30, 2018

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

- **Governmental Funds-Basic services** are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which means cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Position and the Statement of Activities) and government funds in reconciliations.
- **Proprietary Funds-Fees** are charged to customers for the services provided-whether to outside customers or to other units of the government-these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.
- **Fiduciary Funds-Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the same basis of accounting as proprietary funds. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	FY18	FY17	Change Inc (Dec)	FY18	FY17	Change Inc (Dec)
Current and other assets	\$ 10,472,232	\$ 9,755,513	\$ 716,719	\$ 27,439	\$ 38,399	\$ (10,960)
Capital assets	12,172,518	11,755,630	416,888	3,138,063	3,395,082	(257,019)
Total assets	<u>\$ 22,644,750</u>	<u>\$ 21,511,143</u>	<u>\$ 1,133,607</u>	<u>\$ 3,165,502</u>	<u>\$ 3,433,481</u>	<u>\$ (267,979)</u>
Long-term debt outstanding	\$ 2,803,186	\$ 2,830,225	\$ (27,039)	\$ 66,879	\$ 120,398	\$ (53,519)
Other liabilities	5,908,697	5,537,837	370,860	126,942	127,634	(692)
Total liabilities	<u>\$ 8,711,883</u>	<u>\$ 8,368,062</u>	<u>\$ 343,821</u>	<u>\$ 193,821</u>	<u>\$ 248,032</u>	<u>\$ (54,211)</u>
Net investment in capital assets	\$ 10,032,492	\$ 11,300,715	\$ (1,268,223)	\$ 3,098,330	\$ 3,291,762	\$ (193,432)
Restricted	4,429,951	5,499,904	(1,069,953)	-	-	-
Unrestricted (deficit)	(529,576)	(3,657,538)	3,127,962	(126,649)	(106,313)	(20,336)
Total net position	<u>\$ 13,932,867</u>	<u>\$ 13,143,081</u>	<u>\$ 789,786</u>	<u>\$ 2,971,681</u>	<u>\$ 3,185,449</u>	<u>\$ (213,768)</u>

**FERGUS COUNTY**  
**MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)**  
For Fiscal Year End June 30, 2018

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY18</u>	<u>FY17</u>	<u>Change Inc (Dec)</u>	<u>FY18</u>	<u>FY17</u>	<u>Change Inc (Dec)</u>
<b>Revenues</b>						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 1,735,525	\$ 1,659,691	\$ 75,834	\$ 277,573	\$ 267,143	\$ 10,430
Operating grants and contributions	944,009	1,251,005	(306,996)	-	2,229	(2,229)
Capital grants and contributions	36,279	302,605	(266,326)	-	51,342	(51,342)
<i>General revenues (by major source):</i>						
Property taxes for general purposes	5,363,856	5,254,444	109,412	-	-	-
Property taxes, levied for debt service	-	180,154	(180,154)	-	-	-
Licenses and permits	3,300	500	2,800	-	-	-
Miscellaneous	97,690	111,645	(13,955)	-	3,043	(3,043)
Interest/investment earnings	(2,390)	57,601	(59,991)	-	224	(224)
Local option taxes	481,634	-	481,634	-	-	-
Unrestricted federal/state shared revenues	66,854	1,582,410	(1,515,556)	-	-	-
Montana oil and gas production tax	146	-	146	-	-	-
State entitlement	592,413	-	592,413	-	-	-
PILT	1,287,181	-	1,287,181	-	-	-
Entitlement Levy	272,640	-	272,640	-	-	-
Contributions & donations	154,000	-	154,000	-	-	-
State Aid - Pension	58,080	-	58,080	1,796	-	1,796
Total revenues	<u>\$ 11,091,217</u>	<u>\$ 10,400,055</u>	<u>\$ 691,162</u>	<u>\$ 279,369</u>	<u>\$ 323,981</u>	<u>\$ (44,612)</u>
<b>Program expenses</b>						
General government	\$ 3,189,294	\$ 2,566,937	\$ 622,357	\$ -	\$ -	\$ -
Public safety	2,183,871	2,024,250	159,621	-	-	-
Public works	2,563,788	2,706,547	(142,759)	-	-	-
Public health	1,090,818	1,056,220	34,598	-	-	-
Social and economic services	245,113	227,722	17,391	-	-	-
Culture and recreation	707,084	946,412	(239,328)	-	-	-
Housing and community development	10,375	13,751	(3,376)	-	-	-
Debt service - interest	70,710	66,291	4,419	-	-	-
Airport	-	-	-	522,927	559,948	(37,021)
Total expenses	<u>\$ 10,061,053</u>	<u>\$ 9,608,130</u>	<u>\$ 452,923</u>	<u>\$ 522,927</u>	<u>\$ 559,948</u>	<u>\$ (37,021)</u>
Excess (deficiency) before special items and transfers	\$ 1,030,164	\$ 791,925	\$ 238,239	\$ (243,558)	\$ (235,967)	\$ (7,591)
Gain (loss) on sale of capital assets	-	256,855	(256,855)	(6)	-	(6)
Transfers - net	(39,010)	(26,923)	(12,087)	39,010	26,923	12,087
<b>Increase (decrease) in net position</b>	<u>\$ 991,154</u>	<u>\$ 1,021,857</u>	<u>\$ (30,703)</u>	<u>\$ (204,554)</u>	<u>\$ (209,044)</u>	<u>\$ 4,490</u>

**THE GOVERNMENT AS A WHOLE**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Net position at the close of fiscal year 2018 was \$16,904,548. Of this amount, \$13,130,822 was invested in capital assets, net of related debt. Restricted net position for the governmental activities is subject to external resources on how they are used. There is not currently any business-type activities restricted net position.

The county's total net position increased by \$786,600. The increase in net position can be attributed to the net effect of various capital asset transactions, capital grants and conservative spending.

FERGUS COUNTY  
**MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)**  
For Fiscal Year End June 30, 2018

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, a fund must meet each of the two following criteria.

Governments may choose to report other governmental and enterprise funds as major funds, even though they do not meet the test. The General fund is always reported as a major fund. Total assets, liabilities and deferred inflows, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds). The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

- General Fund – The general fund is the County's primary operating fund. It accounts for all financial resources of the general government, except for those accounted for in another fund. At the end of the fiscal year, unassigned fund balance was \$3,010,558. Overall fund balance increased by \$163,947 mainly due to conservative spending.
- Road Fund – The road fund accounts for resources accumulated and payments made for the maintenance, repair and construction of county-owned roads. At the end of fiscal year 2018, the fund balance of the road fund was \$912,086, an increase in \$266,203 mainly due to conservative spending.
- Public Safety – The public safety fund accounts for law enforcement and prisoner incarceration within Fergus County. This is the third year that public safety was reported outside of the general fund in Fergus County. The ending fund balance was \$434,429, a decrease of \$172,990. The decrease is mainly due to the addition of another Deputy, equipment, patrol vehicle, and the replacement rotation of patrol vehicles.
- Airport Fund – Net position decreased by \$204,554. The decrease is mainly due to depreciation expense and uncollected fees.

**GENERAL FUND ANALYSIS OF SIGNIFICANT BUDGETARY VARIATIONS**

There were no significant general fund budget amendments.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Fergus County's net investment in capital assets, as of June 30, 2018, was 13,130,822. Invested in capital assets includes property, buildings, improvements, machinery, equipment and infrastructure (i.e. roads, bridges, etc.). For more information, related to capital assets, see the notes to the basic financial statements.

Compensated absences are a liability of the County for unpaid vacation leave, sick leave, and compensatory time. The liability typically increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. Compensated absences increased by \$132,120. Other debt outstanding consists of bonds and notes payable, with various maturities, the net pension liability and other post-employment benefits other than pensions.

FERGUS COUNTY  
**MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)**  
For Fiscal Year End June 30, 2018

**THE GOVERNMENT'S FUTURE**

Fergus County has worked through many issues over the past few years, and is seeing many positive and progressive changes. The following factors were considered when preparing the Fergus County Budgets for FY2019:

- Utility and fuel costs are always a concern and continue to be unpredictable.
- Trying to keep a living wage for County employees is something that is looked at each year. Fergus County is typically not competitive with its wages so we end up training employees and then watch them move on to higher paying jobs. The Fergus County Community Council, an advisory group to the Commissioners, has asked to work on this issue.
- Continuing on a rotation schedule with replacement of large equipment for the road and bridge departments is essential.
- Continuing on a rotation schedule with replacement of Sheriff's department patrol vehicles is essential.
- Concern over the possible discontinuance of PILT and SRS monies forces us to look into the future years for funding options.
- Technology is expensive and it is essential that the County keep up with the needed information and equipment. This effects all departments.
- Upgrading County shops is always an issue. We continue to look at new locations to upgrade and build out District County Shops.
- Health insurance is always a major concern for Fergus County.
- The workforce in Fergus County is an ongoing concern.
- Fergus County upgraded their storage at the Trade Center at the Fergus County Fairgrounds. Upgrades in the Courthouse, including historically accurate and secure doorways, updated security, phone systems, and courtroom technological updates in FY2019-2020.

***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 County Commissioners  
Fergus County  
Lewistown, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Fergus County, Montana, as of and for the year ended June 30, 2018, 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.

## Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information Fergus County, Montana, as of and for the year ended June 30, 2018, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018 the County adopted new accounting guidance, GASB statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, (an amendment of GASB No. 45). Our opinion is not modified with respect to this matter.

## Emphasis of Matter

As described in Note 1, Note 14 and the preceding paragraph (Change in Accounting Principle), the County adopted GASB #75 resulting in a restatement in the prior year restatement of \$147,260. This restatement did not affect our opinion as it was determined to be appropriate.

As described in Note 14 the County reclassified the following funds and amounts to the General Fund to comply with the reporting requirements of GASB #45. This restatement did not affect our opinion as it was determined to be appropriate.

State Allocated Federal Mineral Royalty Fund	\$	55,294
Hard Rock Trust Fund		130,784
Metal Mines Fund		74,439
PILT		<u>1,565,262</u>
Total	\$	<u>1,825,779</u>

## 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 County's total OPEB liability and related ratios, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 6, and 67 through 73, 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 13, 2019, on our consideration of the Fergus 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 the effectiveness of the County's 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 Fergus County, Montana's internal control over financial reporting and compliance.

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

June 13, 2019

**Fergus County, Montana**  
**Statement of Net Position**  
**June 30, 2018**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 8,042,271	\$ 1,603	\$ 8,043,874
Taxes and assessments receivable, net	164,129	-	164,129
Accounts receivable - net	119,616	-	119,616
Due from other governments	88,360	-	88,360
Inventories	464,247	-	464,247
Total current assets	<u>\$ 8,878,623</u>	<u>\$ 1,603</u>	<u>\$ 8,880,226</u>
Noncurrent assets			
Restricted cash and investments	\$ 103,266	\$ -	\$ 103,266
Capital assets - land	\$ 250,821	\$ 293,237	\$ 544,058
Capital assets - construction in progress	172,770	-	172,770
Capital assets - depreciable, net	11,748,927	2,844,826	14,593,753
Total noncurrent assets	<u>\$ 12,275,784</u>	<u>\$ 3,138,063</u>	<u>\$ 15,413,847</u>
Total assets	<u>\$ 21,154,407</u>	<u>\$ 3,139,666</u>	<u>\$ 24,294,073</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources - pensions	\$ 1,490,343	\$ 25,836	\$ 1,516,179
Total deferred outflows of resources	<u>\$ 1,490,343</u>	<u>\$ 25,836</u>	<u>\$ 1,516,179</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u><u>\$ 22,644,750</u></u>	<u><u>\$ 3,165,502</u></u>	<u><u>\$ 25,810,252</u></u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 220,036	\$ 6,050	\$ 226,086
Accrued payables	107,336	-	107,336
Current portion of long-term capital liabilities	124,651	9,568	134,219
Current portion of compensated absences payable	397,387	15,704	413,091
Total current liabilities	<u>\$ 849,410</u>	<u>\$ 31,322</u>	<u>\$ 880,732</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 161,507	\$ 4,499	\$ 166,006
Noncurrent portion of long-term capital liabilities	2,015,375	30,165	2,045,540
Noncurrent portion of compensated absences	104,266	6,943	111,209
Net pension liability	4,622,739	119,396	4,742,135
Total noncurrent liabilities	<u>\$ 6,903,887</u>	<u>\$ 161,003</u>	<u>\$ 7,064,890</u>
Total liabilities	<u>\$ 7,753,297</u>	<u>\$ 192,325</u>	<u>\$ 7,945,622</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources - pensions	958,586	1,496	960,082
Total Deferred Inflows of resources	<u>\$ 958,586</u>	<u>\$ 1,496</u>	<u>\$ 960,082</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 10,032,492	\$ 3,098,330	\$ 13,130,822
Restricted for debt service	121,994	-	121,994
Restricted for special projects	4,307,957	-	4,307,957
Unrestricted	(529,576)	(126,649)	(656,225)
Total net position	<u>\$ 13,932,867</u>	<u>\$ 2,971,681</u>	<u>\$ 16,904,548</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u><u>\$ 22,644,750</u></u>	<u><u>\$ 3,165,502</u></u>	<u><u>\$ 25,810,252</u></u>

See accompanying Notes to the Financial Statements

**Fergus County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 3,189,294	\$ 314,459	\$ 53,297	\$ -	\$ (2,821,538)	\$ -	\$ (2,821,538)
Public safety	2,183,871	279,246	83,978	-	(1,820,647)	-	(1,820,647)
Public works	2,563,788	260,078	180,962	36,274	(2,086,474)	-	(2,086,474)
Public health	1,090,818	442,775	423,576	-	(224,467)	-	(224,467)
Social and economic services	245,113	2,000	-	-	(243,113)	-	(243,113)
Culture and recreation	707,084	434,986	202,196	5	(69,897)	-	(69,897)
Housing and community development	10,375	1,981	-	-	(8,394)	-	(8,394)
Debt service - interest	70,710	-	-	-	(70,710)	-	(70,710)
Total governmental activities	\$ 10,061,053	\$ 1,735,525	\$ 944,009	\$ 36,279	\$ (7,345,240)	\$ -	\$ (7,345,240)
Business-type activities:							
Airport	\$ 522,927	\$ 277,573	\$ -	\$ -	\$ -	\$ (245,354)	\$ (245,354)
Total business-type activities	\$ 522,927	\$ 277,573	\$ -	\$ -	\$ -	\$ (245,354)	\$ (245,354)
Total primary government	\$ 10,583,980	\$ 2,013,098	\$ 944,009	\$ 36,279	\$ (7,345,240)	\$ (245,354)	\$ (7,590,594)
General Revenues:							
Property taxes for general purposes					\$ 5,363,856	\$ -	\$ 5,363,856
Licenses and permits					3,300	-	3,300
Miscellaneous					97,690	-	97,690
Interest/investment earnings					(2,390)	-	(2,390)
Local option taxes					481,634	-	481,634
Unrestricted federal/state shared revenues					66,854	-	66,854
Montana oil and gas production tax					146	-	146
State entitlement					592,413	-	592,413
PILT					1,287,181	-	1,287,181
Entitlement Levy					272,640	-	272,640
Contributions & donations					154,000	-	154,000
State Aid - Pension					58,080	1,796	59,876
Gain (loss) on sale of capital assets					-	(6)	(6)
Transfers - net					(39,010)	39,010	-
Total general revenues, special items and transfers					\$ 8,336,394	\$ 40,800	\$ 8,377,194
Change in net position					\$ 991,154	\$ (204,554)	\$ 786,600
Net position - beginning					\$ 13,143,081	\$ 3,185,449	\$ 16,328,530
Restatements					(201,368)	(9,214)	(210,582)
Net position - beginning - restated					\$ 12,941,713	\$ 3,176,235	\$ 16,117,948
Net position - end					\$ 13,932,867	\$ 2,971,681	\$ 16,904,548

See accompanying Notes to the Financial Statements

**Fergus County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**

	<b>General</b>	<b>Road</b>	<b>Public Safety</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 2,953,870	\$ 652,018	\$ 494,040	\$ 3,942,343	\$ 8,042,271
Taxes and assessments receivable, net	26,755	18,675	27,196	91,503	164,129
Accounts receivable - net	96,788	-	-	22,828	119,616
Due from other funds	7,116	-	-	-	7,116
Due from other governments	23,440	-	-	64,920	88,360
Inventories	32,482	284,393	-	147,372	464,247
Total current assets	<u>\$ 3,140,451</u>	<u>\$ 955,086</u>	<u>\$ 521,236</u>	<u>\$ 4,268,966</u>	<u>\$ 8,885,739</u>
Noncurrent assets:					
Restricted cash and investments	\$ -	\$ -	\$ -	\$ 103,266	\$ 103,266
Advances to other funds	-	-	-	54,590	54,590
Total noncurrent assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,856</u>	<u>\$ 157,856</u>
Total assets	<u>\$ 3,140,451</u>	<u>\$ 955,086</u>	<u>\$ 521,236</u>	<u>\$ 4,426,822</u>	<u>\$ 9,043,595</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,140,451</u>	<u>\$ 955,086</u>	<u>\$ 521,236</u>	<u>\$ 4,426,822</u>	<u>\$ 9,043,595</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 70,656	\$ 24,325	\$ 59,311	\$ 65,744	\$ 220,036
Accrued payables	-	-	-	107,336	107,336
Due to other funds	-	-	-	7,116	7,116
Total current liabilities	<u>\$ 70,656</u>	<u>\$ 24,325</u>	<u>\$ 59,311</u>	<u>\$ 180,196</u>	<u>\$ 334,488</u>
Noncurrent liabilities:					
Advances payable	\$ -	\$ -	\$ -	\$ 54,590	\$ 54,590
Total noncurrent liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,590</u>	<u>\$ 54,590</u>
Total liabilities	<u>\$ 70,656</u>	<u>\$ 24,325</u>	<u>\$ 59,311</u>	<u>\$ 234,786</u>	<u>\$ 389,078</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows of resources	\$ 26,755	\$ 18,675	\$ 27,196	\$ 91,503	\$ 164,129
Total deferred inflows of resources	<u>\$ 26,755</u>	<u>\$ 18,675</u>	<u>\$ 27,196</u>	<u>\$ 91,503</u>	<u>\$ 164,129</u>
<b>FUND BALANCES</b>					
Nonspendable	\$ 32,482	\$ 284,393	\$ -	\$ 147,372	\$ 464,247
Restricted	-	627,693	434,729	2,957,657	4,020,079
Committed	-	-	-	1,040,512	1,040,512
Unassigned fund balance	3,010,558	-	-	(45,008)	2,965,550
Total fund balance	<u>\$ 3,043,040</u>	<u>\$ 912,086</u>	<u>\$ 434,729</u>	<u>\$ 4,100,533</u>	<u>\$ 8,490,388</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	<u>\$ 3,140,451</u>	<u>\$ 955,086</u>	<u>\$ 521,236</u>	<u>\$ 4,426,822</u>	<u>\$ 9,043,595</u>

See accompanying Notes to the Financial Statements

**Fergus County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**June 30, 2018**

<b>Total fund balances - governmental funds</b>	\$	8,490,388
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		12,172,518
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.		164,129
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(2,803,186)
Proportionate share of ending collective net pension liability		(4,622,739)
Deferred outflows related to net pension liability		1,490,343
Deferred inflows related to net pension liability		(958,586)
<b>Total net position - governmental activities</b>	<b>\$</b>	<b><u><u>13,932,867</u></u></b>

See accompanying Notes to the Financial Statements

**Fergus County, Montana**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2018**

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes and assessments	\$ 1,185,968	\$ 862,181	\$ 1,183,063	\$ 2,940,143	\$ 6,171,355
Licenses and permits	600	-	-	58,097	58,697
Intergovernmental	722,053	743,533	29,882	1,431,065	2,926,533
Charges for services	325,046	121,268	215,205	725,825	1,387,344
Fines and forfeitures	86,237	-	-	59,582	145,819
Miscellaneous	7,155	-	-	129,540	136,695
Investment earnings	(76)	-	-	(439)	(515)
Internal services	-	-	-	19	19
Total revenues	<u>\$ 2,326,983</u>	<u>\$ 1,726,982</u>	<u>\$ 1,428,150</u>	<u>\$ 5,343,832</u>	<u>\$ 10,825,947</u>
<b>EXPENDITURES</b>					
General government	\$ 2,086,224	\$ -	\$ -	\$ 715,605	\$ 2,801,829
Public safety	123,541	-	1,865,944	100,659	2,090,144
Public works	-	1,111,006	-	1,074,774	2,185,780
Public health	250,600	-	-	836,662	1,087,262
Social and economic services	8,900	-	-	228,030	236,930
Culture and recreation	-	-	-	583,355	583,355
Housing and community development	92	-	-	10,283	10,375
Debt service - principal	-	200,000	28,853	92,027	320,880
Debt service - interest	-	10,252	953	59,505	70,710
Capital outlay	9,495	357,218	46,752	532,180	945,645
Total expenditures	<u>\$ 2,478,852</u>	<u>\$ 1,678,476</u>	<u>\$ 1,942,502</u>	<u>\$ 4,233,080</u>	<u>\$ 10,332,910</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (151,869)</u>	<u>\$ 48,506</u>	<u>\$ (514,352)</u>	<u>\$ 1,110,752</u>	<u>\$ 493,037</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ 407,038	\$ 217,697	\$ 341,362	\$ 298,103	\$ 1,264,200
Transfers out	(91,222)	-	-	(1,211,988)	(1,303,210)
Total other financing sources (uses)	<u>\$ 315,816</u>	<u>\$ 217,697</u>	<u>\$ 341,362</u>	<u>\$ (913,885)</u>	<u>\$ (39,010)</u>
Net Change in Fund Balance	<u>\$ 163,947</u>	<u>\$ 266,203</u>	<u>\$ (172,990)</u>	<u>\$ 196,867</u>	<u>\$ 454,027</u>
Fund balances - beginning	\$ 1,037,893	\$ 645,883	\$ 607,719	\$ 5,728,340	\$ 8,019,835
Restatements	1,841,200	-	-	(1,824,674)	16,526
Fund balances - beginning, restated	<u>\$ 2,879,093</u>	<u>\$ 645,883</u>	<u>\$ 607,719</u>	<u>\$ 3,903,666</u>	<u>\$ 8,036,361</u>
Fund balance - ending	<u>\$ 3,043,040</u>	<u>\$ 912,086</u>	<u>\$ 434,729</u>	<u>\$ 4,100,533</u>	<u>\$ 8,490,388</u>

See accompanying Notes to the Financial Statements

**Fergus 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, 2018**

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

<b>Net change in fund balances - total governmental funds</b>	\$ 454,027
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	945,645
- Depreciation expense	(682,757)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
- Donated capital assets	154,000
- Long-term receivables (deferred revenue)	53,190
The change in compensated absences is shown as an expense in the Statement of Activities	(57,709)
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	320,880
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	(18,238)
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	(235,964)
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	58,080
<b>Change in net position - Statement of Activities</b>	<b>\$ <u>991,154</u></b>

See accompanying Notes to the Financial Statements

**Fergus County, Montana**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2018**

		<u><b>Business-Type Activities - Enterprise Funds</b></u> <u><b>Airport</b></u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	1,603
Total current assets	\$	<u>1,603</u>
Noncurrent assets:		
Capital assets - land	\$	293,237
Capital assets - depreciable, net		<u>2,844,826</u>
Total noncurrent assets	\$	<u>3,138,063</u>
Total assets	\$	<u>3,139,666</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources - pensions	\$	25,836
Total deferred outflows of resources	\$	<u>25,836</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$	6,050
Current portion of long-term capital liabilities		9,568
Current portion of compensated absences payable		<u>15,704</u>
Total current liabilities	\$	<u>31,322</u>
Noncurrent liabilities:		
Noncurrent portion of long-term liabilities	\$	4,499
Noncurrent portion of long-term capital liabilities		30,165
Noncurrent portion of compensated absences		6,943
Net pension liability		<u>119,396</u>
Total noncurrent liabilities	\$	<u>161,003</u>
Total liabilities	\$	<u>192,325</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources - pensions	\$	1,496
Total deferred inflows of resources	\$	<u>1,496</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$	3,098,330
Unrestricted		<u>(126,649)</u>
Total net position	\$	<u>2,971,681</u>
Total liabilities and net position	\$	<u>3,164,006</u>

See accompanying Notes to the Financial Statements

**Fergus County, Montana**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2018**

		<b>Business-Type Activities - Enterprise Funds</b>
		<u><b>Airport</b></u>
<b>OPERATING REVENUES</b>		
Charges for services	\$	268,184
Miscellaneous revenues		9,389
Total operating revenues	\$	<u>277,573</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$	148,192
Supplies		19,351
Purchased services		89,039
Fixed charges		7,095
Depreciation		257,020
Total operating expenses	\$	<u>520,697</u>
Operating income (loss)	\$	<u>(243,124)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Intergovernmental revenue	\$	1,796
Debt service interest expense		(2,230)
Total non-operating revenues (expenses)	\$	<u>(434)</u>
Income (loss) before contributions and transfers	\$	(243,558)
Transfers in		39,010
<b>SPECIAL AND EXTRAORDINARY ITEMS</b>		
Gain (loss) on sale of capital assets	\$	<u>(6)</u>
Change in net position	\$	<u>(204,554)</u>
Net Position - Beginning of the year	\$	3,185,449
Restatements		(9,214)
Net Position - Beginning of the year - Restated	\$	<u>3,176,235</u>
Net Position - End of the year	\$	<u>2,971,681</u>

See accompanying Notes to the Financial Statements

**Fergus County, Montana**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Fiscal Year Ended June 30, 2018**

	<b>Business - Type</b> <b>Activities -</b> <b>Enterprise Funds</b> <hr/> <b>Airport</b> <hr/>
<b>Cash flows from operating activities:</b>	
Cash received from providing services	\$ 268,184
Cash received from miscellaneous sources	9,389
Cash payments to suppliers	(15,849)
Cash payments for professional services	(96,134)
Cash payments to employees	(157,051)
Net cash provided (used) by operating activities	<u>\$ 8,539</u>
<b>Cash flows from capital and related financing activities:</b>	
Principal paid on debt	\$ (63,587)
Interest paid on debt	(2,230)
Net cash provided (used) by capital and related financing activities	<u>\$ (65,817)</u>
<b>Cash flows from non-capital financing activities:</b>	
Transfers from other funds	\$ 39,010
Cash received from other sources	1,790
Net cash provided (used) from non-capital financing activities	<u>\$ 40,800</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (16,478)</b>
<b>Cash and cash equivalents at beginning</b>	<u>18,081</u>
<b>Cash and cash equivalents at end</b>	<u><u>\$ 1,603</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (243,124)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	257,020
Increase in accounts payable	3,502
Increase in deferred outflows	(5,518)
Decrease in deferred inflows	(3,398)
Increase in compensated absences	345
Increase in OPEB	508
Decrease in net pension liability	(796)
Net cash provided (used) by operating activities	<u>\$ 8,539</u>

See accompanying notes to the financial statements

**Fergus County, Montana**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2018**

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 14,691,146	\$ 1,419,832
0	-	-
Taxes receivable	-	621,947
Prepaid insurance	-	45,762
Total assets	<u>\$ 14,691,146</u>	<u>\$ 2,087,541</u>
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 595,936
Accounts payable	-	14,674
Due to others	-	1,476,931
Total liabilities	<u>\$ -</u>	<u>\$ 2,087,541</u>
<b>NET POSITION</b>		
Assets held in trust	<u>\$ 14,691,146</u>	

See accompanying Notes to the Financial Statements

**Fergus County, Montana**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2018**

		<u>Investment Trust Funds</u>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$	10,386,997
Total contributions	\$	<u>10,386,997</u>
Investment earnings:		
Interest and change in fair value of investments	\$	58,093
Total investment earnings		<u>58,093</u>
Net investment earnings		<u>58,093</u>
Total additions	\$	<u>10,445,090</u>
 <b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	9,338,948
Total deductions	\$	<u>9,338,948</u>
Change in net position	\$	<u>1,106,142</u>
Net Position - Beginning of the year	\$	13,806,369
Restatements		<u>(221,365)</u>
Net Position - Beginning of the year - Restated	\$	<u>13,585,004</u>
Net Position - End of the year	\$	<u><u>14,691,146</u></u>

See accompanying Notes to the Financial Statements

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**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.

GASB No. 75 *Accounting and Financial Report for Postemployment Benefits Other than Pension (OPEB)*, is effective for years beginning after June 15, 2017 with early implementation encouraged. The statement fully amends the previously issued GASB No. 45 *Accounting and Financial Report for Postemployment Benefits Other than Pension*. GASB 75 established standards for recognition and measurement of the liabilities, deferred outflows and inflows of resources, and expense/expenditures related to OPEB. Different distinctions are made regarding the particular requirements depending upon whether the OPEB plans are administered through a trust that meets criteria identified in the statement. The statement also identifies the methods and assumptions required in projecting benefit payments, discounting those payments to actuarial present value, and applying that present value to periods of employee service in the County. The disclosure requirements for OPEB plans is defined in this statement, that includes further detail on the County's plan and benefits provided, the assumptions used in the valuations, sensitivity analysis, and number of employees in the plan. Lastly, it increased the required supplementary information requiring 10 most recent fiscal years summarizing sources of change in OPEB liability, its components, and other related ratios. These changes are similar to pension GASB No. 68 that became effective in the prior fiscal year.

**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.

*Primary Government*

The County is a political subdivision of the State of Montana governed by an elected Board of County Commissioners, duly elected by the registered voters of the County. 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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**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 reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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 except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements:**

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-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 position are available.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**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 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 to be upon receipt. 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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

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 County’s primary operating fund and it accounts for all financial resources of the County except those required to be accounted for in other funds.

*Road Fund* – A special revenue fund accounting for resources accumulated from property taxes and state entitlement and payment made for the maintenance, repair and construction of county-owned roads.

*Public Safety Fund* – A special revenue fund accounting for resources from property taxes, statement entitlement and charges for services and payment made for providing law enforcement and public safety services.

**Proprietary Funds:**

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund’s principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the County’s policy to use restricted resources first, then unrestricted resources as they are needed.

**Major Funds:**

The County reports the following major proprietary funds:

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

*Airport Fund* – An enterprise fund that accounts for the activities of the County’s airport services.

**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.

*Agency Funds* – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consists of assets held by the County as an agent for individuals, private organizations, other local governmental entities and the County’s claims and payroll clearing funds

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2018, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash on hand	
Petty Cash	\$ 1,835
Cash in banks:	
Demand deposits	798,679
Savings deposits	35,879
Time deposits	116,595
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	100,000
U.S. Government Mortgage backed Securities	13,517,265
Repurchase agreements	9,832,669
Total	\$ 24,402,922

**Credit Risk**

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;

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

(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.

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

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, 2018, (in thousands) unaudited:

<u>Security Investment Type</u>	<u>Total Fixed Income Investments at Fair Value</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity in Days</u>
Treasuries	\$ 19,900	A-1+	97
Corporate:			
Corporate Commercial Paper	288,944	A-1	71
Corporate Notes	225,944	A-1+	67
Certificates of Deposit	<u>546,591</u>	A-1	41
Total Investments	<u>\$ 1,080,556</u>		

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

Audited financial statements for the State of Montana’s Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

**Repurchase Agreements**

An agreement in which a governmental entity (buyer-lender) transfers cash to a broker dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

**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. All deposits are carried at cost plus accrued interest. As of June 30, 2018 the government’s bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>Balance as of June 30, 2018</u>
Insured	\$ 442,405
- Collateral held by the pledging bank's trust department but not in the County's name	323,811
Total deposits and investments	<u>\$ 766,216</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, 2018 equaled or exceeded the amount required by State statutes.

**Concentration of Credit Risk**

The government places no limit on the amount the entity may invest in any one issuer. The government’s concentration of credit risk percentages follow for each investment issued that is not issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments:

	<u>% of credit risk</u>
Repurchase Agreements	40%

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

**Interest Rate Risk**

The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of individual investments as of June 30, 2018 along with their related interest rates and maturity dates.

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
Federal Home Loan Mortgage Corp	1.5%	7/26/19	\$495,070
Federal Home Loan Bank Bond	1.75%	10/30/19	1,248,300
Federal Home Loan Bank Bond	1.9%	1/10/20	990,810
Federal Home Loan Mortgage Corp	1.375%	5/28/20	487,960
Federal Home Loan Mortgage Corp	1.5%	6/23/20	494,990
Federal National Mortgage Association Note	1.75%	6/29/20	983,490
Federal Home Loan Mortgage Corp	1.25%	8/25/20	1,966,560
Federal Home Loan Mortgage Corp	1.75%	9/29/20	489,725
Federal Home Loan Bank Bond	1.25%	10/27/20	492,320
Federal Home Loan Bank Bond	2.1%	12/29/20	985,060
Federal Home Loan Mortgage Corp	1.5%	5/7/21	960,780
Federal Home Loan Bank Bond	1.85%	7/6/21	486,380
Federal National Mortgage Association Note	1.5%	7/26/21	481,275
Federal Home Loan Mortgage Corp	2.0%	10/28/21	987,610
Federal Home Loan Mortgage Corp	2.25%	12/28/21	982,330
Federal Home Loan Mortgage Corp	2.25%	12/29/21	490,440
Federal Home Loan Mortgage Corp	2.0%	8/17/22	494,165
Total			<u>\$13,517,265</u>

**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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

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 fund, invested in STIP, Repurchase Agreement, and U.S. Government Securities. The pooled funds are carried at fair value.

Non-pooled investments are also carried at fair value. The fair value of non-pooled investments is determined annually and is based on current market prices.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2018 to support the value of the shares in the pool.

As noted below State statutes limit the type of investments but provide no other regulatory oversight.

**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, 2018;

**Statement of Net Position**

Net position held in trust for all pool participants:

Equity of internal pool participants	\$ 8,875,382
Equity of external pool participants	14,691,146
Total equity	\$ 23,566,528

**Condensed Statement of Changes in Net Position**

	External	Internal
Investment earnings	\$ 58,093	\$ 35,096
Contributions to trust	10,386,997	6,198,388
Distributions paid	(9,338,948)	(5,768,947)
Net change in net position	\$ 1,106,142	\$ 464,537
Net position at beginning of year	13,806,369	8,547,898
Restatements	(221,365)	(137,053)
Net position at end of year	\$ 14,691,146	\$ 8,875,382

**Cash equivalents**

For purposes of the statement of cash flows, the enterprise funds consider all funds (including restricted assets) held in the County's cash management pool to be cash equivalents.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**NOTE 3. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the County as of June 30, 2018. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>Amount</u>
Fair Bond Reserve	\$ <u>103,266</u>

**NOTE 4. RECEIVABLES**

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

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.

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 5. INVENTORIES AND PREPAIDS**

The costs of inventories are recorded as an expenditure when consumed rather than purchased and valued at cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fiduciary financial statements.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

**NOTE 6. 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 and Improvements	10 -100 years
Infrastructure	100 years
Machinery and Equipment	5 - 25 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 2018 Basic Financial Statements.

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

	Balance July 1, 2017	Additions	Donated Assets	Retirements	Transfers	Balance June 30, 2018
Capital assets not being depreciated:						
Land	\$ 250,821	\$ -	\$ -	\$ -	\$ -	250,821
Construction in progress	90,455	459,296	-	-	(376,981)	172,770
Total capital assets not being depreciated	<u>\$ 341,276</u>	<u>\$ 459,296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (376,981)</u>	<u>\$ 423,591</u>
Other capital assets:						
Buildings	\$ 7,468,808	\$ 9,895	\$ -	\$ -	\$ 376,981	\$ 7,855,684
Machinery and equipment	7,200,919	476,454	154,000	(58,700)	-	7,772,673
Infrastructure	4,151,649	-	-	-	-	4,151,649
Total other capital assets at historical cost	<u>\$ 18,821,376</u>	<u>\$ 486,349</u>	<u>\$ 154,000</u>	<u>\$ (58,700)</u>	<u>\$ 376,981</u>	<u>\$ 19,780,006</u>
Less: accumulated depreciation	<u>\$ (7,407,022)</u>	<u>\$ (682,757)</u>	<u>\$ -</u>	<u>\$ 58,700</u>	<u>\$ -</u>	<u>\$ (8,031,079)</u>
Total	<u><u>\$ 11,755,630</u></u>	<u><u>\$ 262,888</u></u>	<u><u>\$ 154,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,172,518</u></u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 43,327
Public safety	125,954
Public works	378,008
Public health	3,556
Social and economic services	8,183
Culture and recreation	<u>123,729</u>
Total governmental activities depreciation expense	<u><u>\$ 682,757</u></u>

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

A summary of changes in business-type capital assets was as follows:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	Balance <u>June 30, 2018</u>
Capital assets not being depreciated:			
Land	\$ 293,237	\$ -	\$ 293,237
Total capital assets not being depreciated	<u>\$ 293,237</u>	<u>\$ -</u>	<u>\$ 293,237</u>
Other capital assets:			
Buildings	\$ 706,085	\$ -	\$ 706,085
Improvements other than buildings	8,193,816	-	8,193,816
Machinery and equipment	<u>541,480</u>	<u>-</u>	<u>541,480</u>
Total other capital assets at historical cost	\$ 9,441,381	\$ -	\$ 9,441,381
Less: accumulated depreciation	<u>\$ (6,339,536)</u>	<u>\$ (257,019)</u>	<u>\$ (6,596,555)</u>
Total	<u><u>\$ 3,395,082</u></u>	<u><u>\$ (257,019)</u></u>	<u><u>\$ 3,138,063</u></u>

**NOTE 7. LONG TERM DEBT OBLIGATIONS**

In the governmental-wide, proprietary, and financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

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.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2018 the following changes occurred in liabilities reported in long-term debt:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Restatements</u>	Balance <u>June 30, 2018</u>	Due Within <u>One Year</u>
Revenue bonds	\$ 2,000,208	\$ -	\$ (92,027)	\$ 5,783	\$ 1,913,964	\$ 94,809
Intercap loans	420,292	-	(200,000)	-	220,292	24,072
Contracted debt	34,623	-	(28,853)	-	5,770	5,770
Compensated Absences	375,102	57,709	-	68,842	501,653	397,387
Net pension liability*	4,888,806	-	(266,067)	-	4,622,739	-
Other post-employment benefits**	-	18,238	-	143,269	161,507	-
Total	<u><u>\$ 7,719,031</u></u>	<u><u>\$ 75,947</u></u>	<u><u>\$ (586,947)</u></u>	<u><u>\$ 217,894</u></u>	<u><u>\$ 7,425,925</u></u>	<u><u>\$ 522,038</u></u>

\*See Note 11

\*\*See Note 8

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

	Balance				Balance	Due Within
	<u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Restatements</u>	<u>June 30, 2018</u>	<u>One Year</u>
Contracted Debt	\$ 103,320	\$ -	\$ (63,587)	\$ -	\$ 39,733	\$ 9,568
Compensated absences	17,078	346	-	5,223	22,647	15,704
Net pension liability*	120,192	-	(796)	-	119,396	-
Other post-employment benefits**	-	508	-	3,991	4,499	-
Total	<u>\$ 240,590</u>	<u>\$ 854</u>	<u>\$ (64,383)</u>	<u>\$ 9,214</u>	<u>\$ 186,275</u>	<u>\$ 25,272</u>

\*See Note 11

\*\*See Note 8

*Revenue Bonds* - The County issues bonds where the County pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2018</u>
Water & Sewer Improvements- fairgrounds (1)	11/1/14	3.00%	20yrs	1/1/35	\$2,293,318	\$151,532	\$ <u>1,913,964</u>
(1) Reported in Governmental-type activities							

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The County was in compliance with applicable covenants as of June 30, 2018.

Annual requirement to amortize debt:

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 94,809	\$ 56,723
2020	97,529	54,003
2021	100,623	50,909
2022	103,664	47,868
2023	106,797	44,735
2024	109,914	41,618
2025	113,347	38,185
2026	116,773	34,759
2027	120,303	31,229
2028	123,866	27,666
2029	127,683	23,849
2030	131,542	19,990
2031	135,518	16,014
2032	139,583	11,949
2033	143,833	7,699
2034	148,180	3,352
Total	<u>\$ 1,913,964</u>	<u>\$ 510,548</u>

**Loans/Contracted Debt**

Loans/contracted debts outstanding as of June 30, 2018 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, 2018</u>
Sheriff vehicle-2015 #1 (1)	8/15/14	3.49%	4yrs	8/15/18	\$ 28,588	\$ 3,347
Sheriff vehicle-2015 #2 (1)	8/15/14	3.49%	4yrs	8/15/18	28,944	2,423
Total					<u>\$ 292,222</u>	<u>\$ 5,770</u>

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 5,770	\$ 134
Total	<u>\$ 5,770</u>	<u>\$ 134</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 16<sup>th</sup> 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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

Interacap loans outstanding as of June 30, 2018 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, 2018</u>
Road and bridge-2012 (1)	11/4/11	Varies	15yrs	8/15/26	\$ 615,454	\$ 220,292
Airport-2013 (2)	3/1/12	Varies	10yrs	3/1/22	89,902	39,733
Total					<u>\$ 705,356</u>	<u>\$ 260,025</u>

(1) Reported in the governmental activities.

(2) Reported in business-type activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 33,640	\$ 7,924
2020	34,502	6,854
2021	35,173	5,762
2022	35,573	4,649
2023	26,014	3,612
2024	26,525	2,788
2025	27,044	1,949
2026	27,574	1,093
2027	13,980	220
Total	<u>\$ 260,025</u>	<u>\$ 34,851</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 8. 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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

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.

*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	2
Active employees	<u>84</u>
Total employees	<u>86</u>

**Total OPEB Liability**

The County’s total OPEB liability of \$166,006 at June 30, 2018, and was determined by using the alternative measurement method as of that date.

*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)	62
Discount rate (average anticipated rate)	3.96%
Average salary increase (Consumer Price Index)	2.00%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	

<u>Year</u>	<u>% Increase</u>
2018	5.70%
2019	5.20%
2020	6.10%
2021	5.90%
2022	5.80%
2023	5.90%
2024	5.90%

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

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.

Changes in the Total OPEB Liability

Balance at 6/30/2017	\$ _____
Changes for the year:	
Service Cost	\$ 18,746
Restatement	<u>147,260</u>
Net Changes	\$ <u>166,006</u>
Balance at 6/30/2018	\$ <u><u>166,006</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	\$ 186,987	\$ 166,006	\$ 148,838

*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	\$ 144,462	\$ 166,006	\$ 192,807

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

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

In the 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 the valuation completed as of July 1, 2017.

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

For the year ended June 30, 2018, the County recognized an OPEB expense of \$18,746. 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.

**NOTE 9. CONDUIT DEBT**

To provide for the remodeling to the Central Montana Medical Facilities (CMMF), the County issued revenue hospital notes (\$4.5 million) in May 2014. This note is a special limited obligation of the County payable solely from separate loan agreement with CMMF. The note does not constitute a debt or pledge of the full faith and credit of the County or the State, and accordingly has not been reported in the accompanying financial statements. As of June 30, 2018, the amount of the 2014 revenue hospital notes outstanding was \$3,714,588.

**NOTE 10. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2018, was as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Short Term operating loan	General – Major Governmental	Crime Victims – Non-major Governmental	\$ 3,046
Short Term operating loan	General – Major Governmental	DES Grants – Non-major Governmental	<u>4,070</u>
Total			<u>\$ 7,116</u>

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2018:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Permissive health levy allocation	General – Major Governmental	Group Health Insurance – Nonmajor Governmental	\$134,343
Permissive health levy allocation	Road – Major Governmental	Group Health Insurance – Nonmajor Governmental	53,730
Permissive health levy allocation	Bridge – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	18,456
Permissive health levy allocation	Weed – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	5,935
Permissive health levy allocation	Fair – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	15,502
Permissive health levy allocation	District Court – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	15,284
Permissive health levy allocation	County Planning – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	11,400
Permissive health levy allocation	Extension Services – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	12,600
Permissive health levy allocation	Public Safety – Major Governmental	Group Health Insurance – Nonmajor Governmental	99,865
PERS levy allocation	General – Major Governmental	Empr Cont PERS – Nonmajor Governmental	42,219
PERS levy allocation	Road – Major Governmental	Empr Cont PERS – Nonmajor Governmental	15,055
PERS levy allocation	Bridge – Nonmajor Governmental	Empr Cont PERS – Nonmajor Governmental	6,428
PERS levy allocation	Weed – Nonmajor Governmental	Empr Cont PERS – Nonmajor Governmental	1,802
PERS levy allocation	Fair – Nonmajor Governmental	Empr Cont PERS – Nonmajor Governmental	3,276
PERS levy allocation	District Court – Nonmajor Governmental	Empr Cont PERS – Nonmajor Governmental	5,003
PERS levy allocation	County Planning – Nonmajor Governmental	Empr Cont PERS – Nonmajor Governmental	2,762
PERS levy allocation	Extension Services – Nonmajor Governmental	Empr Cont PERS – Nonmajor Governmental	4,344
Permissive health levy allocation	Public Safety – Major Governmental	Empr Cont PERS – Nonmajor Governmental	47,357
Permissive health levy allocation	General – Major Governmental	Group Health Insurance – Nonmajor Governmental	81,233
Permissive health levy allocation	Road – Major Governmental	Group Health Insurance – Nonmajor Governmental	35,838
Permissive health levy allocation	Bridge – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	11,908

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

Permissive health levy allocation	Weed – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	3,561
Permissive health levy allocation	Fair – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	3,561
Permissive health levy allocation	District Court – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	10,323
Permissive health levy allocation	County Planning – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	6,000
Permissive health levy allocation	Extension Services – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	7,200
Permissive health levy allocation	Public Safety – Major Governmental	Group Health Insurance – Nonmajor Governmental Empr Cont PERS –	68,444
PERS levy allocation	General – Major Governmental	Nonmajor Governmental Empr Cont PERS –	23,677
PERS levy allocation	Road – Major Governmental	Nonmajor Governmental Empr Cont PERS –	8,920
PERS levy allocation	Bridge – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	4,423
PERS levy allocation	Weed – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	936
PERS levy allocation	Fair – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	864
PERS levy allocation	District Court – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	2,133
PERS levy allocation	County Planning – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	1,587
PERS levy allocation	Extension Services – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	1,346
Permissive health levy allocation	Public Safety – Major Governmental	Nonmajor Governmental Empr Cont PERS –	23,643
Permissive health levy allocation	General – Major Governmental	Group Health Insurance – Nonmajor Governmental	13,744
Permissive health levy allocation	Road – Major Governmental	Group Health Insurance – Nonmajor Governmental	5,973
Permissive health levy allocation	Bridge – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	2,973
Permissive health levy allocation	Weed – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	594
Permissive health levy allocation	Fair – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	594
Permissive health levy allocation	District Court – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	1,720
Permissive health levy allocation	County Planning – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	600
Permissive health levy allocation	Extension Services – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	1,200

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

Permissive health levy allocation	Public Safety – Major Governmental	Group Health Insurance – Nonmajor Governmental Empr Cont PERS –	11,302
PERS levy allocation	General – Major Governmental	Nonmajor Governmental Empr Cont PERS –	7,598
PERS levy allocation	Road – Major Governmental	Nonmajor Governmental Empr Cont PERS –	2,793
PERS levy allocation	Bridge – NonmJOR Governmental	Nonmajor Governmental Empr Cont PERS –	1,431
PERS levy allocation	Weed – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	312
PERS levy allocation	Fair – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	386
PERS levy allocation	District Court – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	690
PERS levy allocation	County Planning – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	301
PERS levy allocation	Extension Services – Nonmajor Governmental	Nonmajor Governmental Empr Cont PERS –	387
PERS levy allocation	Public Safety – Major Governmental	Nonmajor Governmental	9,293
Permissive health levy allocation	General – Major Governmental	Group Health Insurance – Nonmajor Governmental	104,224
Permissive health levy allocation	Road – Major Governmental	Group Health Insurance – Nonmajor Governmental	40,857
Permissive health levy allocation	Bridge – NonmJOR Governmental	Group Health Insurance – Nonmajor Governmental	23,857
Permissive health levy allocation	Weed – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	4,068
Permissive health levy allocation	Fair – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	4,617
Permissive health levy allocation	District Court – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	10,803
Permissive health levy allocation	County Planning – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	5,200
Permissive health levy allocation	Extension Services – Nonmajor Governmental	Group Health Insurance – Nonmajor Governmental	8,200
Permissive health levy allocation	Public Safety – Major Governmental	Group Health Insurance – Nonmajor Governmental	81,458
Operations	Road – Major Governmental	General – Major Governmental	54,531
Operations	Local Govt Study Comm – Nonmajor Governmental	General – Major Governmental	74
Operations	Crime Victims – Nonmajor Governmental	General – Major Governmental	14,400
Operations	Family Planning – Nonmajor Governmental	General – Major Governmental	15,000

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

Operations	MCH Nurses– Nonmajor Governmental	General – Major Governmental	7,217
Capital Improvement	Junk Vehicle Capital Improvement– Nonmajor Governmental	Junk Vehicle – Nonmajor Governmental	36,845
Capital Improvement Total	Airport– Major- Business-type	Airport Const Reserve – Nonmajor Governmental	<u>39,010</u> <u>\$ 1,303,210</u>

**NOTE 11. NET PENSION LIABILITY**

**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.

**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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**TRS**

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana.

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

**Summary of Benefits**

**PERS**

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

**Eligibility for benefit**

**Service retirement:**

- Hired prior to July 1, 2011:
  - Age 60, 5 years of membership service;
  - Age 65, regardless of membership service; or
  - Any age, 30 years of membership service.
- Hired on or after July 1, 2011:
  - Age 65, 5 years of membership service;
  - Age 70, regardless of membership service.

**Early Retirement** (actuarially reduced):

- Hired prior to July 1, 2011:
  - Age 50, 5 years of membership service; or
  - Any age, 25 years of membership service.
- Hired on or after July 1, 2011:
  - Age 55, 5 years of membership service.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**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.
- 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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**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

**Eligibility for benefit**

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.

**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

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**TRS**

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation -  $1.85\% \times \text{AFC} \times \text{years of creditable service}$  - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than  $1.6667 \times \text{AFC} \times \text{years of creditable service}$ )
- A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date.

The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

**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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

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.
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.
  - b. Not Special Funding
    - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

**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.

<b><u>Fiscal Year</u></b>	<b><u>Member</u></b>	<b><u>Employer</u></b>
2010-2018	9.245%	10.115%
2008-2009	9.245%	9.825%
1998-2007	9.2.45%	9.535%

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

TRS

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1st of each year.

MCA 19-20-605 requires each employer to contribute 9.85% of total compensation paid to all re- employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

Stand-Alone Statements

The PERS's and 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>.

TRS' stand-alone financial statements, actuarial valuations and experience studies can be found online at <https://trs.mt.gov/TrsInfo/NewsAnnualReports>

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) and Montana Teachers' Retirement System (TRS), 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 and TRS 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 State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2017 and June 30, 2018 (reporting dates).

**FERGUS COUNTY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

	PERS NPL as of 6/30/2017	PERS NPL as of 6/30/2018	Percent of Collective NPL as of 6/30/2018	SRS NPL as of 6/30/2017	SRS NPL as of 6/30/2018	Percent of Collective NPL as of 6/30/2018	TRS NPL as of 6/30/17	TRS NPL as of 6/30/18	Percent of Collective NPL as of 6/30/2018	Total Collective NPL as of 6/30/2018	Percent Totals as of 6/30/2018
Employer Proportionate Share	\$ 3,404,880	3,979,857	0.20430%	\$ 1,537,368	702,559	0.92322%	\$ 66,750	\$ 59,719	0.0035%	\$ 4,742,135	1.13100%
State of Montana Proportionate Share associated with Employer	41,604	55,195	0.2813%	-	-	-	46,881	38,117	0.0023%	\$ 93,312	0.28360%
<b>Total</b>	<b>\$ 3,446,484</b>	<b>\$ 4,035,052</b>	<b>0.4856%</b>	<b>\$ 1,537,368</b>	<b>\$ 702,559</b>	<b>0.92322%</b>	<b>\$ 113,631</b>	<b>\$ 97,836</b>	<b>0.0058%</b>	<b>\$ 4,835,447</b>	<b>1.41460%</b>

At June 30, 2018, the employer recorded a liability of \$4,742,135 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 for TRS. The net pension liability of PERS and SRS was measured as of June 30, 2016 and applying roll forward procedures. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS, SRS, and TRS during the measurement period July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERS, SRS, and TRS participating employers. At June 30, 2018, the employer's proportion was 1.13100 percent.

*Changes in actuarial assumptions and methods:*

**PERS**

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

**SRS**

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased the rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

- Increased the administrative expense load from 0.17% to 0.21%.

Effective July 1, 2017, the following contributions changes were used:

- Effective July 1, 2017, SRS employee contributions increase from 9.245% to 10.495% of the member's compensation.
- SRS employer additional contributions increase from 0.58% to 3.58% for a total employer contributions rate of 13.115%
  
- SRS employee contributions will return to 9.245% and SRS employer contributions will return to 9.535% when reducing the employee contribution and terminating the additional employer contributions will not cause the amortization period to exceed 25 years.

TRS

There have been no changes in actuarial assumptions and other inputs since the previous measurement date.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

*Changes in benefit terms:*

PERS

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

SRS

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Working Retiree Limitations applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
- Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

**TRS**

There have been 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 6/30/18**

	TRS	PERS	SRS	Total
Employer Proportionate Share	\$ 4,234	\$ 395,051	43,832	\$ 438,883
State of Montana Proportionate Share associated with the Employer	1,152	59,906	-	59,906
Total	\$ 5,386	\$ 454,957	\$ 43,832	\$ 498,789

At June 30, 2018, the employer recognized a Pension Expense of \$498,789 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$59,906 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

**Recognition of Beginning Deferred Outflow**

At June 30, 2018, the employer recognized a beginning deferred outflow of resources for the employer's FY 2017 contributions of \$306,957.

**Deferred Inflows and Outflows**

At June 30, 2018, the employer reported its proportionate share of PERS, SRS, and TRS, deferred outflows of resources and deferred inflows of resources related to PERS, SRS, and TRS from the following sources:

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	SRS Deferred Outflows Resources	SRS Deferred Inflows of Resources	TRS Deferred Outflows Resources	TRS Deferred Inflows of Resources	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 98,011	\$ 5,761	\$ 4,611	\$ 2,162	\$ 220	\$ 89	\$ 102,842	\$ 8,012
Actual vs. Expected Investment Earnings	-	26,729	-	8,624	-	236	-	35,589
Changes in Assumptions	544,005	-	548,294	896,813	-	250	1,092,299	897,063
Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions	-	17,363	24,591	-	686	2,055	25,277	19,418
Employer contributions subsequent to the measurement date - #FY18	219,177	-	72,177	-	4,406	-	295,760	-
<b>Total</b>	<u>\$ 861,193</u>	<u>\$ 49,853</u>	<u>\$ 649,673</u>	<u>\$ 907,599</u>	<u>\$ 5,312</u>	<u>\$ 2,630</u>	<u>\$ 1,516,178</u>	<u>\$ 960,082</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, 2018.

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

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

**Deferred Inflows and Outflows**

PERS: Year ended June 30, 2018	Amount of Deferred Outflows and Deferred Inflows recognized in future years as an increase or (decrease) to Pension Expense
2019	\$ 140,976
2020	\$ 311,208
2021	\$ 242,052
2022	\$ (84,079)
2023	\$ -
Thereafter	\$ -

SRS: Year ended June 30, 2018	Amount of Deferred Outflows and Deferred Inflows recognized in future years as an increase or (decrease) to Pension Expense
2019	\$ (104,281)
2020	\$ (61,946)
2021	\$ (78,459)
2022	\$ (110,007)
2023	\$ -
Thereafter	\$ -

TRS: Year ended June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount of Deferred Outflows and Deferred Inflows recognized in future years as an increase or (decrease) to Pension Expense
2019	\$ 815	\$ 1,826	\$ (1,011)
2020	\$ 1,294	\$ 886	\$ 408
2021	\$ 482	\$ 549	\$ (67)
2022	\$ -	\$ 1,054	\$ (1,054)
2023	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**Actuarial Assumptions**

**PERS**

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. 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 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% 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, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. 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

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**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.

TRS

The Total Pension Liability as of June 30, 2018, is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases\* 4% - 8.51% for Non-University Members and 5.00% for University Members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
  - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

\*Total Wage Increases include 4.00% general wage increase.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**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.

**TRS**

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

**Target Allocations**

PERS and SRS

<u>Asset Class</u>	Target Asset <u>Allocation</u>	Real Rate of Return Arithmetic <u>Basis</u>	Long-Term Expected Real <u>Rate of Return</u>
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	<u>8.00%</u>	4.00%	<u>0.32%</u>
Total	<u>100.00%</u>		<u>4.37%</u>
	Inflation		2.75%
	Portfolio Return Expectation		7.12%

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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, are summarized above. The long-term expected nominal rate of return above of 7.12% is an expected portfolio rate of return provided by Board of Investments (BOI), which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

TRS

<u>Asset Class</u>	Target Asset <u>Allocation</u>	Real Rate of Return <u>Arithmetic Basis</u>	Long-Term Expected Portfolio Real <u>Rate of Return*</u>
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	<u>4.00%</u>	7.50%	<u>0.30%</u>
Total	<u>100.00%</u>		<u>4.75%</u>
	Inflation		<u>3.25%</u>
	Expected arithmetic nominal return		8.00%

\*The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2018, is summarized in the above table.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

**Sensitivity Analysis**

	<u>1.0% Decrease</u>	Current <u>Discount Rate</u>	<u>1.0% Increase</u>
PERS	\$ 5,796,321	\$ 3,979,857	\$ 2,455,072
SRS	\$ 1,240,549	\$ 702,559	\$ 262,416
TRS	\$ 82,294	\$ 59,719	\$ 40,705

**TRS**

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 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

**PERS and 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.

**Summary of Significant Accounting Policies**

The Montana Public Employee Retirement Administration (MPERA (for PERS and 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).

**TRS**

The Teachers' Retirement System prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Teachers' Retirement System (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

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

**NOTE 12. 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 – Resources not in spendable form, such as inventory, or those legally required to be maintained intact, such as principle portion of permanent funds.

Restricted - constraint is externally imposed by a third party, State Constitution, or enabling legislation.

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

Unassigned – negative bund balance 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>
General	\$ 32,482	Inventories
Road	284,393	Inventories
All Other Aggregate:	59,859	Inventories
	37,867	Inventories
	<u>49,646</u>	Inventories
Total	<u>\$ 464,247</u>	

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 627,693	Road maintenance
Public Safety	434,729	Law enforcement
All Other Aggregate:	66,445	Bridge maintenance
	163,968	Culture and recreation
	115,894	Debt service
	230,199	District court services
	481,565	Employee benefits
	205,255	General government
	236,692	Housing and community development
	99,273	Law enforcement
	4,603	Liability insurance
	4,529	Lighting maintenance
	4	Miscellaneous
	59,880	Noxious weed control
	25,526	Predatory animal control
	1,099,288	Public health
	64,155	Public safety
	28,521	Road maintenance
	<u>71,860</u>	Social and economic services
Total	<u>\$ 4,020,079</u>	

**Committed Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other Aggregate:	\$ 562,805	Construction
	<u>477,707</u>	Capital Improvements
Total	<u>\$ 1,040,512</u>	

**NOTE 13. DEFICIT FUND BALANCES/NET POSITION**

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
Round House	\$ (40,938)	Expenditures in prior year exceeding the revenues resulting in an advance from other funds recorded	Recovery of construction costs from hookup fees or a contribution from the General Fund
DES Grants	<u>(4,070)</u>	Expenditures in prior year exceeding the revenues resulting in an advance from other funds recorded	Future grant revenues or a contribution from the General Fund
Total	<u>\$ (45,008)</u>		

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**NOTE 14. 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>
General	\$ 15,421	Correct prior year payable
General	1,825,779	Reclassify funds to General Fund for reporting purposes in accordance with GASB 54
State Allocated Federal Mineral Royalties	(55,294)	Reclassify funds to General Fund for reporting purposes in accordance with GASB 54
Hard Rock Trust	(130,784)	Reclassify funds to General Fund for reporting purposes in accordance with GASB 54
Metal Mines	(74,439)	Reclassify funds to General Fund for reporting purposes in accordance with GASB 54
PILT	(1,565,262)	Reclassify funds to General Fund for reporting purposes in accordance with GASB 54
Weed	1,000	Correct prior year payable
Mental Health	21,588	Correct prior year payable
Alcohol Rehab	(21,588)	Correct prior year payable
Fair Levy	105	Correct prior year payable
Airport	(3,991)	Implementation of GASB 75 to report the beginning of the year balance
Airport	(5,223)	Prior year compensated absences liability adjustment for employer benefits

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

Government-wide Governmental	(143,269)	Implementation of GASB 75 to report the beginning of the year balance
Government-wide Governmental	(68,842)	Prior year compensated absences liability adjustment for employer benefits
Government-wide Governmental	(5,783)	Reclassifying long-term debt
Investment Trust	<u>(221,365)</u>	Prior year calculation error in pooled investment
Total	<u><u>\$(431,947)</u></u>	

**NOTE 15. JOINT VENTURES**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

**City-County Airport**

The City-County Airport is owned and operated jointly by the City of Lewistown and Fergus County. The operation of the airport is accounted for by the County as an enterprise fund. All capital assets are recorded within the County's accounting records. The airport is administered by a five-member board consisting of the City's manager, a City-appointed member, one County commissioner, a County-appointed member and one member-at-large appointed by the Airport Board. The budget is approved by the controlling members. The Airport Board exercises control over the airports normal operations.

**City-County Library**

The City-County Library District is operated under an interlocal agreement between Fergus County and the City of Lewistown. The City maintains the library accounting records and includes the financial activities of the library in its financial statements. The County contributed \$46,193 for the year ended June 30, 2018.

**City Judge Services**

The County and the City of Lewistown entered into an agreement whereby the County provides a justice of the peace who acts as City judge for the City. The city contributes fort-five percent of fines and assessment collected or \$25,000, whichever is greater. The County maintains the accounting records and remits a monthly accounting to the City.

**NOTE 16. JOINTLY GOVERNED ORGANIZATIONS**

An organization that is jointly controlled but the participants do not have an ongoing financial interest or ongoing financial responsibility.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

**Central Montana Health District Number 6 (CMHD)**

The CMHD, which was formed September 1987, was created under the provision of Montana Code Annotated. The District was formed to provide for the salaries of sanitarians. The District member made contributions to Fergus County (responsible for record keeping and reporting), based on population.

**South Central Montana Regional Mental Health Center**

The Fergus County Mental Health Center is a satellite office of the South Central Montana Regional Mental Health Center located in Billings, Montana. The County belongs to Region No. 3 which consists of eleven counties. The District was created under the provision of Montana Code Annotated(MCA). Each County is represented on the Board by one of its county commissioners. Fergus County contributed \$14,254 during fiscal year 2018.

The purpose of the Center is to initiate preventive mental health activities for statewide mental health programs and to perform other duties as listed in MCA.

**Fergus County Council on Aging**

The Fergus County Council on Aging is a satellite office of the Area II Agency on Aging (Area II). Eleven counties belong to Area II. Fergus County contributes money to Area II each fiscal year for the purpose of matching federal grants that Area II obtains. During the year ended June 30, 2018, the County contributed \$28,125 for matching purposes.

**NOTE 17. SERVICES PROVIDED TO OTHER GOVERNMENTS**

Fergus 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 18. 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.

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2018

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 proved to member counties to protect member employees from on-the-job injuries and occupational diseases.

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.

Separate audited financial statements are available from the Montana Association of Counties Joint Powers Insurance Trust.

**NOTE 19. 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. The County has liability insurance which may cover all or part of the damages requested.

<u>Case</u>	<u>Damages</u> <u>Requested</u>	<u>Potential</u> <u>of Loss</u>
<i>Teamsters Union vs. Fergus County</i>	Not stated	Not stated
<i>Mabee Road lawsuit</i>	Not stated	Not stated

FERGUS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2018

\*\*\*\*In October of 2018 there was an HR investigation into several allegations that the Fergus County Undersheriff was using his position to campaign on County time and that he was utilizing his position to gain strength in the election. An independent HR Agency was hired by Fergus County to conduct an investigation into the matter. For a public record search for the findings a written request may be made to the Fergus County Attorney's Office

\*\*\*\* In October of 2018 there was several grievances filed by the Undersheriff that he was being targeted in different ways due to him running for Sheriff. An independent county was hired to conduct an investigation. The results of these findings have not been concluded at this time.

\*\*\*\*In March of 2019 there was a lawsuit filed by the Justice of the Peace of Fergus County against Fergus County in regards to a joint Justice of the Peace Office and City Court. Responses to the lawsuit are being worked on along with answers from the Montana Supreme Court.

\*\*\*\*In March of 2019 there was a lawsuit filed by Teamsters against Fergus County for unfair labor practices. This is in regards to allegations of: not filling vacant positions in dispatch, lost wages in dispatch, a consolidation agreement between Central Montana Dispatch and Fergus County, and refusing to bargain. This lawsuit is still pending.

**NOTE 20. SUBSEQUENT EVENTS**

The City of Lewistown and Fergus County received FAA grant agreement #3-30-0048-022-2018 for the Lewistown Municipal Airport on 8/14/18 to rehabilitate a runway, reconstruct a taxiway, and reconstruct the apron. Total award amount was \$2,120,148. Total grant revenues received to date were \$1,245,000. Fergus County is halfway through this FAA grant for Fiscal Year 1819. There is \$875,000 remaining for this grant and it will be used for repaving of taxiways and taxi-lanes plus a ramp in front of a hangar.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Fergus County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2018**

General				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,189,162	\$ 1,189,162	\$ 1,185,968	\$ (3,194)
Licenses and permits	-	-	600	600
Intergovernmental	435,487	438,329	441,120	2,791
Charges for services	389,369	389,369	325,046	(64,323)
Fines and forfeitures	81,200	81,200	86,237	5,037
Miscellaneous	3,000	5,400	7,155	1,755
Investment earnings	-	-	203	203
Amounts available for appropriation	\$ 2,098,218	\$ 2,103,460	\$ 2,046,329	\$ (57,131)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 2,136,274	\$ 2,136,274	\$ 1,991,180	\$ 145,094
Public safety	147,000	147,000	123,541	23,459
Public health	327,738	327,738	250,600	77,138
Social and economic services	18,375	18,375	8,900	9,475
Capital outlay	-	-	9,495	(9,495)
Total charges to appropriations	\$ 2,629,387	\$ 2,629,387	\$ 2,383,716	\$ 245,671
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 481,001	\$ 481,001	\$ 407,038	\$ (73,963)
Transfers out	(84,707)	(84,707)	(91,222)	(6,515)
Total other financing sources (uses)	\$ 396,294	\$ 396,294	\$ 315,816	\$ (80,478)
Net change in fund balance			\$ (21,571)	
Fund balance - beginning of the year			\$ 1,037,893	
Restatements			15,421	
Fund balance - beginning of the year - restated			\$ 1,053,314	
Fund balance - end of the year			\$ 1,031,743	

**Fergus County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2018**

		<b>Road</b>			
		<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>VARIANCE WITH FINAL BUDGET</b>
		<b>ORIGINAL</b>	<b>FINAL</b>		
<b>RESOURCES (INFLOWS):</b>					
Taxes and assessments	\$	873,011	\$ 873,011	\$ 862,181	\$ (10,830)
Intergovernmental		737,468	737,468	743,533	6,065
Charges for services		10,000	10,000	121,268	111,268
Miscellaneous		20,000	20,000	-	(20,000)
Amounts available for appropriation	\$	1,640,479	\$ 1,640,479	\$ 1,726,982	\$ 86,503
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>					
Public works	\$	1,214,275	\$ 1,267,695	\$ 1,111,006	\$ 156,689
Debt service - principal		200,000	200,000	200,000	-
Debt service - interest		20,000	20,000	10,252	9,748
Capital outlay		384,500	384,500	357,218	27,282
Total charges to appropriations	\$	1,818,775	\$ 1,872,195	\$ 1,678,476	\$ 193,719
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$	213,527	\$ 213,527	\$ 217,697	\$ 4,170
Total other financing sources (uses)	\$	213,527	\$ 213,527	\$ 217,697	\$ 4,170
Net change in fund balance				\$ 266,203	
Fund balance - beginning of the year				\$ 645,883	
Fund balance - end of the year				\$ 912,086	

**Fergus County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2018**

Public Safety				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,190,965	\$ 1,190,965	\$ 1,183,063	\$ (7,902)
Intergovernmental	29,699	29,699	29,882	183
Charges for services	166,000	166,000	215,205	49,205
Amounts available for appropriation	\$ 1,386,664	\$ 1,386,664	\$ 1,428,150	\$ 41,486
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public safety	\$ 1,699,554	\$ 1,845,503	\$ 1,865,944	\$ (20,441)
Debt service - principal	65,000	65,000	28,853	36,147
Debt service - interest	7,000	7,000	953	6,047
Capital outlay	25,000	25,000	46,752	(21,752)
Total charges to appropriations	\$ 1,796,554	\$ 1,942,503	\$ 1,942,502	\$ 1
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 335,483	\$ 335,483	\$ 341,362	\$ 5,879
Total other financing sources (uses)	\$ 335,483	\$ 335,483	\$ 341,362	\$ 5,879
Net change in fund balance			\$ (172,990)	
Fund balance - beginning of the year			\$ 607,719	
Fund balance - end of the year			\$ 434,729	

**Fergus 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>
<b>Sources/Inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,046,329	\$ 1,726,982	\$ 1,428,150
Combined funds (GASBS 54) revenues	<u>280,654</u>	<u>-</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,326,983</u>	<u>\$ 1,726,982</u>	<u>\$ 1,428,150</u>
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,383,716	\$ 1,678,476	\$ 1,942,502
Combined funds (GASBS 54) expenditures	<u>95,136</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,478,852</u>	<u>\$ 1,678,476</u>	<u>\$ 1,942,502</u>

**Fergus County, Montana**  
**Schedule of Changes in the County's**  
**Total OPEB Liability and Related Ratios**  
**For The Year Ended June 30, 2018**

	2018
<b>Total OPEB liability</b>	
Service Cost	\$ 18,746
Net change in total OPEB liability	18,746
Total OPEB Liability - beginning	-
Restatement	147,260
Total OPEB Liability - ending	\$ 166,006
Covered-employee payroll	\$ 3,459,946
 Total OPEB liability as a percentage of covered -employee payroll	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, but due to this being the first year of implementation only one year of data is available.*

**Fergus County, Montana**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**For the Year Ended June 30, 2018**

	<b>PERS 2018</b>	<b>PERS 2017</b>	<b>PERS 2016</b>	<b>PERS 2015</b>
Employer's proportion of the net pension liability	0.2043%	0.1999%	0.2026%	0.2147%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 3,979,857	\$ 3,404,880	\$ 2,832,592	\$ 2,675,738
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 55,195	\$ 41,604	\$ 34,793	\$ 32,675
<b>Total</b>	<b>\$ 4,035,052</b>	<b>\$ 3,446,484</b>	<b>\$ 2,867,385</b>	<b>\$ 2,708,413</b>
Employer's covered payroll	\$ 2,535,381	\$ 2,394,375	\$ 2,364,803	\$ 2,446,845
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	156.97%	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	73.75%	74.71%	78.40%	79.87%

	<b>SRS 2018</b>	<b>SRS 2017</b>	<b>SRS 2016</b>	<b>SRS 2015</b>
Employer's proportion of the net pension liability	0.92%	0.88%	0.88%	0.91%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 702,559	\$ 1,537,368	\$ 851,752	\$ 379,906
<b>Total</b>	<b>\$ 702,559</b>	<b>\$ 1,537,368</b>	<b>\$ 851,752</b>	<b>\$ 379,906</b>
Employer's covered payroll	\$ 690,768	\$ 617,767	\$ 601,230	\$ 590,372
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	101.71%	248.86%	141.67%	64.35%
Plan fiduciary net position as a percentage of the total pension liability	81.30%	63.00%	75.40%	87.24%

	<b>TRS 2018</b>	<b>TRS 2017</b>	<b>TRS 2016</b>	<b>TRS 2015</b>
Employer's proportion of the net pension liability	0.0035%	0.0037%	0.0036%	0.0034%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 59,719	\$ 66,750	\$ 59,572	\$ 52,469
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 38,117	\$ 46,881	\$ 47,330	\$ 38,604
<b>Total</b>	<b>\$ 97,836</b>	<b>\$ 113,631</b>	<b>\$ 106,902</b>	<b>\$ 91,073</b>
Employer's covered payroll	\$ 46,740	\$ 47,423	\$ 46,279	\$ 42,998
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	127.77%	140.75%	128.72%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	70.09%	66.69%	69.30%	70.36%

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

**Fergus County, Montana**  
**Schedule of Contributions**  
**For the Year Ended June 30, 2018**

	<b><u>PERS</u></b> <b><u>2018</u></b>	<b><u>PERS</u></b> <b><u>2017</u></b>	<b><u>PERS</u></b> <b><u>2016</u></b>	<b><u>PERS</u></b> <b><u>2015</u></b>
Contractually required contributions	\$ 219,177	\$ 212,175	\$ 200,135	\$ 194,869
Contributions in relation to the contractually required contributions	\$ 219,177	\$ 212,175	\$ 206,035	\$ 204,167
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$2,587,686	\$2,535,381	\$2,394,375	\$2,364,803
Contributions as a percentage of covered payroll	8.47%	8.37%	8.60%	8.63%

	<b><u>SRS</u></b> <b><u>2018</u></b>	<b><u>SRS</u></b> <b><u>2017</u></b>	<b><u>SRS</u></b> <b><u>2016</u></b>	<b><u>SRS</u></b> <b><u>2015</u></b>
Contractually required contributions	\$ 72,177	\$ 69,871	\$ 64,029	\$ 60,988
Contributions in relation to the contractually required contributions	\$ 72,177	\$ 69,871	\$ 64,029	\$ 60,988
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$550,339	\$ 690,768	\$617,767	\$601,230
Contributions as a percentage of covered payroll	13.115%	10.12%	10.36%	10.14%

	<b><u>TRS</u></b> <b><u>2018</u></b>	<b><u>TRS</u></b> <b><u>2017</u></b>	<b><u>TRS</u></b> <b><u>2016</u></b>	<b><u>TRS</u></b> <b><u>2015</u></b>
Contractually required contributions	\$ 4,406	\$ 4,097	\$ 4,112	\$ 3,966
Contributions in relation to the contractually required contributions	\$ 4,406	\$ 4,097	\$ 4,112	\$ 3,966
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$49,672	\$ 46,740	\$ 47,423	\$46,279
Contributions as a percentage of covered payroll	8.78%	8.77%	8.67%	8.57%

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

**Fergus 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, 2018**

**PERS**

**Changes of Benefit Terms**

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

**2015 Legislative Changes:**

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

Second Retirement Benefit – for PERS

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

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

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

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47% and the 1.00% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

**Fergus 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, 2018**

**2017 Legislative Changes:**

General Revisions – House Bill 101, effective July 1, 2017

**Working Retiree Limitations** – for PERS

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

**Terminating Employers – Recovery of actuary costs** – for PERS

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

**Refunds**

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

**Family Law Orders**

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

**Disabled PERS Defined Contribution (DC) Members**

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

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

1. FY2018 - \$31.386 million
2. FY2019 - \$31.958 million
3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
  - a. FY2020 - \$32.277 million
  - b. FY2021 - \$32.6 million
  - c. FY2022 - \$32.926 million
  - d. FY2023 - \$33.255 million
  - e. FY2024 - \$33.588 million
  - f. FY2025 - \$33.924 million

**Fergus 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, 2018**

**Changes in Actuarial Assumptions and Methods**

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

The following Actuarial Assumptions were adopted from the June 30, 2017 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
* Includes inflation at	2.75%
Merit salary increases	0% to 6.30%
Asset valuation method	Four-year smoothed market
Actuarial cost method	Entry Age Normal
Mortality (Healthy members)	For Males and Females: RP 200 Combine Employee and Annuitant Mortality Table project to 2020 Using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.23%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

**SRS**

**Changes of Benefit Terms**

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

**2015 Legislative Changes:** none

**2017 Legislative Changes:**

General Revisions – House Bill 101, effective July 1, 2017

**Second Retirement Benefit** – for SRS

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

**Fergus 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, 2018**

- 3) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
  - 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
    - ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- 4) A member who returns to covered service is not eligible for a disability benefit.

**Refunds**

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

**Family Law Orders**

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

**SRS Funding** – House Bill 383, effective July 1, 2017

**Increase in SRS Employee and Employer Contributions**

- 1) SRS employee contributions increase 1.25% from 9.245% to 10.495%.
- 2) SRS employer additional contributions increase 3%, from 0.58% to 3.58%, for a total employer contributions rate of 13.115%.
- 3) SRS employee contributions will return to 9.245% and SRS employer contributions will return to 9.535% when reducing the employee contribution and terminating the additional employer contributions will not cause the amortization period to exceed 25 years.

**Fergus 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, 2018**

**TRS**

**Changes of Benefit Terms:**

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

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

- (1) **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average
- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
- (4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
- (5) **Annual Contribution:** 8.15% of member's earned compensation
- (6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
  - a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
  - b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
  - c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
- (7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
- (8) **Guaranteed Annual Benefit Adjustment (GABA):**
  - a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

**Fergus 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, 2018**

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to \$25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was \$22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
  - School Districts contributions will increase from 7.47% to 8.47%
  - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
  - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the \$500 death benefit after termination.

**Fergus 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, 2018**

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

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

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	22 years
Asset valuation method	4- year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 83.51 percent, including inflation for Non-University Members and 5.00% for University members;
Investment rate of return	7.75 percent, net of pension plan investment expense and including inflation

**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 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  
Fergus County  
Lewistown, 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, business-type activities, each major fund, and the aggregate remaining fund information of Fergus County, Montana, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 13, 2019.

**Internal Control Over Financial Reporting**

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

*Denning, Downey and Associates, CPAs, P.C.*

June 13, 2019

***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  
Fergus County  
Lewistown, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
2017-001 Segregation of Duties	Implemented
2017-002 Auditor Prepared Financial Statements	Implemented
2017-003 Other Post-Employment Benefit Liability Not Recorded	Implemented
2017-004 Justice of the Peace Time Pay Accounting	Implemented
2017-005 Road and Bridge Materials and Supplies Inventory	Implemented
2017-006 Reconcile Payroll Clearing Fund	Implemented
2017-007 Bond Resolution	Implemented

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

June 13, 2019