

**RAVALLI COUNTY
HAMILTON, MONTANA**

FINANCIAL & COMPLIANCE REPORTS

FOR THE YEAR ENDED JUNE 30, 2018
(With Independent Auditor's Reports Thereon)

RAVALLI COUNTY
 Hamilton, Montana
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 For the Fiscal Year Ended June 30, 2018

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RAVALLI COUNTY

Hamilton, Montana

Elected Officials

Fiscal Year Ended June 30, 2018

Board of County Commissioners.....	Greg Chilcott, Chair Jeff Burrows Ray Hawk Chris Hoffman Doug Schallenberger
Attorney/Auditor.....	William Fulbright
Clerk and Recorder.....	Regina Plettenberg
Clerk of District Court.....	Paige Trautwein
Justice of the Peace.....	Jim Bailey
Justice of the Peace.....	Jennifer Ray
Public Administrator.....	Jennifer Lint
County Superintendent of Schools.....	Regina Plettenberg
Sheriff/Coroner.....	Steve Holton
Treasurer.....	Dan Whitesitt



MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The management of Ravalli County offers this discussion and analysis to provide an overview of the County's financial activities for the fiscal year ended June 30, 2018. To enhance understanding of the County's financial performance, please read it along with the County's financial statements.

FINANCIAL HIGHLIGHTS

Major financial highlights for fiscal year 2018 included:

- In 2006, the taxpayers approved the issuance of Open Space Bonds for a total of \$10,000,000 to secure conservation easements through the Open Lands Bonds Program (OLBP). Through the end of FY 2017, the OLBP has contributed \$3,708,608 towards conservation easement costs. To fund these costs, the County has issued two Open Space bonds: the 2010 Open Space Bond (\$2,200,000) issue and the 2014 Open Space Bond (\$2,440,000) issue. During FY 2018, two open lands projects were approved and closed for a total of \$415,000 – Sixty-one Bar Ranch (\$295,000) and Auch Angus Ranch (\$115,000).
- The federal government reauthorized the Payment-in-Lieu of Taxes (PILT) program and the Secure Rural Schools (SRS) program. The PILT reauthorization generated \$3,015,000 in revenue that is discretionary support for County operations, and SRS brought in \$564,000 of support for roads. These two programs are continually under threat of being reduced or unfunded by the federal government on an annual basis.
- During FY 2018, the Sheriff's Office began the Jail Diversion and 24/7 Misdemeanor Probation program. This program administers remote alcohol & drug use monitoring in connection with the 24/7 Program. The 24/7 Program consists of a 24-hour and seven-days-a-week sobriety program in which a participant submits to the testing of certain bodily substances in order to determine the presence of alcohol, marijuana, or any controlled substance in the participant's body. The fund also administers the Jail Diversion program which monitors electronic devices on participants in the program. The County is able to monitor offenders and track the effect on the detention center inmate population. The program brought in \$165,000 in revenues in 9 months of operation with \$143,000 of related operating expenses.
- During FY 2018, the County received \$204,000 from the Federal Aviation Administration (FAA) for the Airport that includes installing an updated weather reporting system (AWOS III) and for reconstruction of the hangar access taxiway (Phase II).

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the County as a whole with more detailed information for certain County funds. The *Statement of Net Position* and the *Statement of Activities* provide information about the activities of the County as a whole and present a long-term view of the County's finances (they include capital assets and long-term liabilities).

Management’s Discussion and Analysis (continued)

The fund financial statements present a short-term view of the County’s activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the County’s General fund and certain other funds. There is also summarized financial information about the external investment pool, individual investment accounts, and agency funds for which the County acts as a trustee.

THE COUNTY AS A WHOLE

The County’s government-wide financial statements provide readers with a comprehensive view of the County’s finances similar to financial statements for a private-sector company. One key question to ask about the County’s finances is, “How did the County perform financially as a result of the year’s activities?” The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the *accrual basis* of accounting (and report depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies. The *accrual basis* of accounting includes all of the year’s revenues and expenses regardless of when the cash is received or paid.

The change in net position (the difference between total assets and total liabilities) over time is one indicator of whether the County’s financial health is improving or deteriorating. However, other non-financial factors need to be considered in making an assessment of the County’s health. Changes in population, State funding, the economy, the County’s tax base, and the condition of County capital assets are non-financial factors that should be evaluated to assess the overall health of the County.

Changes in the County’s net position (rounded to the nearest \$1,000) were as follows:

Net Position	Governmental Activities		Change Increase (Decrease)
	<u>June 30,2018</u>	<u>June 30,2017</u>	
Current and other assets	23,897,000	20,662,000	3,235,000
Capital assets	28,107,000	29,890,000	(1,782,000)
Total assets	52,005,000	50,552,000	1,453,000
Total deferred outflows of resources	4,317,000	4,497,000	(180,000)
Long-term debt outstanding	6,143,000	6,789,000	(646,000)
Other liabilities	13,452,000	15,827,000	(2,373,000)
Total liabilities	19,595,000	22,616,000	(3,021,000)
Total deferred inflows of resources	3,989,000	1,300,000	2,689,000

Management's Discussion and Analysis (continued)

Net Position:

Net investments in capital assets	25,572,000	26,914,000	(1,342,000)
Restricted	7,115,000	6,673,000	(679,000)
Unrestricted (deficit)	51,000	(2,454,000)	3,116,000
Total net position	32,738,000	31,133,000	1,094,000

The increase in current assets is due to the County's continued commitment to build adequate Capital Reserve Funds and operating reserve funds. Beginning in FY 2012, the County made a concentrated effort to reserve for future capital purchases within the Capital Reserve Funds, thus saving the County potential interest expense costs on borrowing money. In FY 2018, these capital reserve funds had a net increase of \$1,883,000 from the previous fiscal year. Also in FY 2012, the County began rebuilding the operating reserves on all of the operational funds of the County. These operating reserves had dramatically decreased in the past decade because of increasing costs, declining revenues and the economic downturn. In FY 2018, cash operating reserves increased \$1,065,000 from the previous fiscal year. Cash operating reserves are crucial to the County's economic health because of the timing of property tax collections. Property tax revenues are due to the County in two payments for the fiscal year. The County's fiscal year begins on July 1. The first half of property taxes are not due until November 30, five months after the year has begun. The second half is due by May 31, one month before the fiscal year ends on June 30. Therefore, cash at the end of a fiscal year has to carry the County through the first five months of the next fiscal year. The County is diligent in maintaining cash operating reserves so we can stay current on payment with all expenses.

Capital assets had an overall decrease in FY 2018 due to the recording of depreciation and the purchase of assets. Total depreciation for the year was \$2,802,000. Purchases on non-infrastructure assets were \$482,000. Building and land improvements increased \$141,000 and \$72,000 respectively. Bridge inventory increased by \$65,000. The County also has one construction project in process that was \$263,000 in 2018. Several assets were disposed of during the fiscal year for a net decrease of \$4,000.

Total liabilities decreased by \$3,021,000. This was mainly due to the decrease in the pension liability (\$2,523,000 due to implementation of GASB Statement No. 68, *Accounting and Annual Financial Reporting for Pensions*. See Note 10 for information regarding the County's pension plans). The liabilities were decreased by principal payments made on debt of \$646,000 and adjustments to the OPEB liability and settlements payable of \$126,000 and \$81,000. The compensated absences liability increased by 127,000. Accounts payable increased by \$204,000 due to a payable in the Public Safety capital reserve fund for new software. Wages payable increased by \$22,000 due to COLA and longevity increases in FY 2018.

Total deferred outflows of resources and total deferred inflows of resources increased due to the previously mentioned adoption of GASB Statement No. 68, *Accounting and Annual Financial Reporting for Pensions* (see Note 10).

Net investments in capital assets decreased due to depreciation expense on infrastructure as discussed previously. The unrestricted net position increased due to principal payments made

Management's Discussion and Analysis (continued)

on long-term debt which decreased the County's overall debt balance and also because of the decrease in other liabilities as discussed in the paragraph above (pension liability).

Changes in the County's revenues (rounded to the nearest \$1,000) were as follows:

Changes in Net Position	Governmental Activities		Change Increase (Decrease)
	June 30,2018	June 30,2017	
Revenues			
Program revenues (by major source):			
Charges for services	2,372,000	2,316,000	56,000
Operating grants and contributions	1,058,000	827,000	374,000
Capital grants and contributions	206,000	34,000	28,000
General revenues (by major source):			
Property taxes for general purposes	12,227,000	11,603,000	624,000
Local option tax	2,154,000	1,984,000	170,000
Unrestricted Federal/State shared revenues	6,026,000	4,521,000	1,505,000
Unrestricted investment earnings	187,000	112,000	75,000
Contributions & Donations	150,000	78,000	73,000
Miscellaneous	277,000	341,000	(64,000)
Gain (Loss) on sale of capital assets	41,000	(9,000)	50,000
Total revenues	24,698,000	21,730,000	2,968,000

Charges for services revenue increased in the public safety function by \$186,000 because of the County's new Jail Diversion & 24/7 Misdemeanor program. Charges for services in the culture and recreation function decreased by \$66,000 in the Fair fund due to inclement weather during the August 2017 Ravalli County Fair. There were various small decreases across other functions in charges for services to net this to a \$56,000 increase.

Operating grants and contributions revenue increased mainly due to the recognition of on-behalf revenue that the state pays to PERS for the County's coal tax allocation in the amount of \$158,000.

Capital grants and contributions revenue increased due to a Federal Aviation Administration grants in the amount of \$204,000.

Management's Discussion and Analysis (continued)

Property tax revenues increased due to the natural progression in the tax levy as allowed by State statute with inflationary values and growth.

Unrestricted Federal/State shared revenues increased by \$639,000 due to the reauthorization of PILT by the federal government which also affected the Secure Rural Schools road allocation that increased by \$546,000. The Big Sky Trust fund authorized by the State of Montana increased \$127,000 due to approved programs while the new State program for Gas Tax Special Road Allocation received revenues of \$101,000.

Contributions and donations revenues increased by \$61,000 due to additional contributions from Emma's House to support the Emma's House director and \$11,000 for contributions to the Mud Run for Weed Education.

Miscellaneous revenues decreased due to \$7,000 more received in FY 2017 for hangar development at the Ravalli County Airport and \$28,000 received in FY 2017 from the U.S. Forest Service (USFS) to pay for expenses related to a new generator installed at the County-owned USFS building at the Airport. Miscellaneous revenues were also larger during FY 2017 in the Public Safety fund (\$21,000) and the Airport fund (\$13,000) due to the Summer/Fall 2016 fire season payments from the USFS.

Gain (loss) on capital assets increased due to sales of assets at public auction in FY 2018 for Search & Rescue (\$3,400), Drug Forfeitures (\$9,200), Public Safety (\$6,200), and Road (\$22,300).

Changes in the County's expenses (rounded to the nearest \$1,000) were as follows:

Changes in Net Position	Activities		Change Increase (Decrease)
	<u>June 30,2018</u>	<u>June 30,2017</u>	
Program expenses			
General government	6,136,000	5,799,000	337,000
Public safety	7,651,000	7,017,000	634,000
Public works	5,889,000	5,975,000	(86,000)
Public health	1,040,000	987,000	53,000
Social and economic services	446,000	545,000	(99,000)
Culture and recreation	627,000	664,000	(37,000)
Housing and community development	249,000	102,000	147,000
Conservation of natural resources	424,000	351,000	73,000
Debt service - interest	230,000	230,000	0

Management’s Discussion and Analysis (continued)

Miscellaneous	497,000	445,000	52,000
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Total expenses	23,188,000	22,116,000	1,072,000
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Increase (decrease) in Net Position	1,475,000	(386,000)	1,861,000
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A **program expense** is a group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible. Expenditures within financial reporting are reported at this level.

General Government - This program expense includes all expenditures for the legislative, executive, and judicial branches of a governmental unit. Legislative and executive expenditures include the cost of providing representation for the County’s citizens while judicial accounts for the costs of providing an impartial court system for civil, criminal and juvenile cases. It includes offices of elected officials such as the Board of County Commissioners, the Clerk & Recorder, the Clerk of District Court, the County Attorney, the Justice Courts and the Treasurer. It also includes Human Resources, Information Technology, Finance, GIS, Facilities and Planning. These expenses increased by \$337,000 due to the yearly COLA/longevity given to employees and the offsetting employer benefits increase as well as the increase in workers’ compensation rates and the PERS rate increases.

Public Safety - This program expense includes expenses related to the protection of person and property. It includes the office of the County Sheriff as well as Emergency Management, Juvenile Detention, 911 Dispatch, DUI Task Force and Search & Rescue. These expenses increased by \$634,000. Approximately \$210,000 can be attributed to the yearly COLA/longevity given to employees and the offsetting employer benefits increase as well as the increase in workers’ compensation rates. The new Jail Diversion & 24/7 Misdemeanor program had expenses of \$236,000. In FY 2018, the company that provided nurses for the detention center did not renew their contract with the County. The County made the decision to hire their own nursing staff. This resulted in an increase in expenses of \$88,000. The public safety fund also made a down payment on a new software program of \$204,000.

Public Works - This program expense includes expenses of the County which provide for services necessary to achieve a satisfactory living environment for the community such as road maintenance and weed control. It includes the Road & Bridge department, the Road Improvement fund (Secure Rural Schools), the Weed Department, and the Airport. These expenses mainly decreased because the Road department purchased vehicles in FY 2017.

Public Health - This program expense includes all expenses involved in the conservation and improvement of public health. It includes Environmental Health, the Public Health Nurse, Mental Health, Animal Protection and Control and other Federal grant programs. These expenses increased mainly because of the annual COLA/longevity increase.

Social and economic - This program expense includes all activities designed to provide social and economic assistance to the County’s citizens. It includes Extension, Senior Citizens, and Valley Veterans. This decreased due to a smaller cash distribution to Aging Services and Valley Veterans.

Culture and recreation - This program expense includes all cultural and recreational activities maintained for the benefit of the County’s citizens and visitors. It includes the Fair, Parks, Old

Management's Discussion and Analysis (continued)

Courthouse, and Community Transportation Enhancement (CTEP) projects. This expense decreased mainly because of there were no CTEP projects during FY 2018 (\$38,000 in FY 2017).

Housing and Community Development - This program expense includes the development of housing or community projects within the County. It includes several Federal and State grant programs. It increased due to more expenses within the Big Sky Trust Fund (\$128,000), and a Community Development Block Grant (\$13,000).

Conservation of Natural Resources - This program expense includes the purchase of conservation easements to protect open spaces within the County and related expenses, and the DNRC Collaborative project. This project is funded by the Montana Department of Natural Resources to review long-term planning and management of forested resources within the County. Expenses for the DNRC Collaborative project increased \$6,000. Open space conservation easements increased due to two purchases in FY 2018, the Sixty-one Bar Ranch (\$295,000) and the Auch Angus Ranch (\$115,000). FY 2017 purchases were \$350,000. Related expenses for the open space program increased \$6,400.

Debt Service - This program expense accounts for interest paid on the County's debt. There was no change.

Miscellaneous - This program expense includes expenditures which cannot be properly classified to the foregoing programs. This expense increased due to the annual increase on the County's property and casualty insurance premiums.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant of the County's funds. Under this reporting model, the County is required to provide detailed information for the "major" funds.

Major funds are defined as the General fund and any other fund where the assets, liabilities, revenues, or expenditures exceed 10% of total governmental fund amounts. For FY 2018, the Road fund, the Public Safety fund, and the Road Capital Reserve Fund exceeded at least one of these thresholds.

The governmental funds provide a short-term view of the County's operations. They are reported using an accounting method called *modified accrual* accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

CAPITAL ASSET AND DEBT ADMINISTRATION

See the footnotes for more information about capital assets and debt administration. The significant changes in capital assets and long-term debt are discussed above.

THE FUTURE OF THE COUNTY

Through diligent planning and goal setting, the County has managed to gain significant ground it had lost from FY 2000 through FY 2008 when the County continued to operate as we did during the 1990's with minimal attention focused on the future. The severe economic downturn in mid-

Management's Discussion and Analysis (continued)

2008 required the County to examine financial policies and procedures in order to sustain services for the County's taxpayers.

Beginning with FY 2009, management focused on sustainability and the capability of the County to be prepared for another economic decline. It has been a gradual but steady process that has yielded an effective capital program (see below) as well as improved operating reserves. The past decade has taught valuable lessons in preparation for the County's future, and in order to continue to serve the citizens of the County with an acceptable level of services, sustainability and resilience, resources must be consistently monitored. The challenging economic issues faced by the County since 2008 have shown us how important it is to maintain a strong financial position through prudent budgeting and management of costs. The County continues to commit itself to exploring more efficient ways to operate essential County programs.

The capital program coincides with a capital budget plan so that we can sustain capital needs during prolonged downward economic times with little or no debt incurred. The County also has a commitment to keep operating reserves between 16% and 33% (the maximum allowed by Montana statute). With the continued threat of reduced federal funding and the persistent increase in expenses such as health care and property insurance, the County will continue to explore and develop strategies for more efficient operations so that we can continue to keep up with demand for services with little, if any, increase in available funds.

Ravalli County is most fortunate to have a qualified pool of leaders, both elected and appointed, overseeing its various departments, as well as a talented and dedicated staff. We continue to be optimistic that the challenges we are continually faced with will be dealt with thoughtfully, efficiently and effectively.

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Doyle & Associates, P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Ravalli County
Hamilton, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ravalli County, Hamilton, 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 the 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 risk 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 of our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ravalli County, Hamilton, Montana as of June 30, 2018, and the respective change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the County adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The County's 2017 financial statements were previously audited by us. We expressed an unmodified audit opinion on those financial statements in our audit report dated December 18, 2018.

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 Other Postemployment Benefits (OPEB) Liability and Related Ratios, and Schedules of County's Proportionate Share of Net Pension Liability and Contributions, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other supplemental information listed in the accompanying table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2019 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Daflo & Associates, P.C.

Lolo, Montana
October 17, 2019

BASIC FINANCIAL STATEMENTS

RAVALLI COUNTY, HAMILTON, MONTANA

STATEMENT OF NET POSITION

JUNE 30, 2018

(With comparative amounts for the year ended June 30, 2017)

	2018	2017
<u>Assets</u>		
<u>Current Assets</u>		
Cash and Investments	\$ 22,076,864	\$ 19,186,237
Taxes and Assessments Receivable - net	763,762	721,810
Due from Other Governments	310,193	-
Other Receivables	711,589	613,728
Prepaid Expenses	34,966	139,609
Total Current Assets	23,897,374	20,661,384
<u>Noncurrent Assets</u>		
Land	4,365,362	4,365,362
Construction in Process	262,504	-
Capital Assets - Net of Depreciation	23,479,399	25,525,106
Total Noncurrent Assets	28,107,265	29,890,468
Total Assets	52,004,639	50,551,852
<u>Deferred Outflows of Resources</u>		
Pension Deferrals	4,305,794	4,497,295
OPEB Deferrals	11,244	-
Total Deferred Outflows of Resources	4,317,038	4,497,295
Total Assets and Deferred Outflows of Resources	56,321,677	55,049,147
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts Payable and Accrued Expenses	952,087	723,645
Operating Debt	210,000	205,000
Capital Debt	450,959	439,617
Compensated Absences	780,063	688,939
Judgments Payable	43,750	81,250
Total Current Liabilities	2,436,859	2,138,451
<u>Non-current Liabilities</u>		
Operating Debt	3,397,319	3,607,278
Capital Debt	2,084,720	2,536,851
Compensated Absences	288,036	251,774
OPEB Liability	178,707	304,456
Pension Liability	11,209,603	13,733,261
Judgments Payable	-	43,750
Total Non-current Liabilities	17,158,385	20,477,370
Total Liabilities	19,595,244	22,615,821
<u>Deferred Inflows of Resources:</u>		
Pension Deferrals	3,611,363	1,118,696
OPEB Deferrals	58,658	-
Grants and Miscellaneous Advances	318,829	181,193
Total Deferred Inflows of Resources	3,988,850	1,299,889
Total Liabilities and Deferred Inflows of Resources	23,584,094	23,915,710
<u>Net Position</u>		
Net Investment in Capital Assets	25,571,586	26,914,000
Restricted	7,114,693	6,672,686
Unrestricted	51,304	(2,453,249)
Total Net Position	\$ 32,737,583	\$ 31,133,437

The accompanying notes are an integral part of these financial statements.

RAVALLI COUNTY, HAMILTON, MONTANA

STATEMENT OF ACTIVITIES FISCAL YEAR ENDING JUNE 30, 2018

(With comparative amounts for the year ended June 30, 2017)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	2018 Total	2017 Total
Governmental Activities:						
General Government	\$ 6,135,746	\$ 1,172,169	\$ 207,867	\$ -	\$ (4,755,710)	\$ (4,582,135)
Public Safety	7,650,754	606,023	140,992	-	(6,903,739)	(6,455,190)
Public Works	5,888,749	281,027	192,639	205,772	(5,209,311)	(5,395,607)
Public Health	1,039,576	8,435	247,684	-	(783,457)	(687,110)
Social and Economic Development	445,557	-	2,114	-	(443,443)	(243,582)
Culture and Recreation	627,332	304,435	13,735	-	(309,162)	(545,113)
Housing/Community Development	249,147	-	245,861	-	(3,286)	(3,601)
Conservation of Natural Resources	423,735	-	6,782	-	(416,953)	(351,309)
Debt Service - Interest	229,845	-	-	-	(229,845)	(230,414)
Miscellaneous	497,144	-	-	-	(497,144)	(445,335)
Totals	23,187,585	2,372,089	1,057,674	205,772	(19,552,050)	(18,939,396)
General Revenues:						
					12,226,794	11,603,493
					2,154,127	1,984,606
					6,026,200	4,520,822
					186,555	111,923
					40,556	(8,647)
					428,195	341,301
Total General Revenues					21,062,427	18,553,498
Change in Net Position					1,510,377	(385,898)
Net Position:						
					31,133,437	31,519,335
					93,769	-
End of the Year					\$ 32,737,583	\$ 31,133,437

The accompanying notes are an integral part of these financial statements.

RAVALLI COUNTY, HAMILTON, MONTANA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Road Fund	Public Safety Fund	Road Capital Reserve Fund		
<u>Assets</u>						
Current Assets:						
Cash and Investments	\$ 4,962,114	\$ 1,103,538	\$ 1,683,120	\$ 3,001,361	\$ 11,326,731	\$ 22,076,864
Property Taxes Receivable	156,984	95,936	163,814	-	347,028	763,762
Due From Other Funds	297,973	-	-	-	-	297,973
Due From Other Governments	310,193	-	-	-	-	310,193
Other Receivables	148,753	400	13,522	-	548,914	711,589
Prepaid Expenditures	-	-	7,560	-	27,407	34,967
Total Current Assets	<u>5,876,017</u>	<u>1,199,874</u>	<u>1,868,016</u>	<u>3,001,361</u>	<u>12,250,080</u>	<u>24,195,348</u>
Noncurrent Assets:						
Noncurrent Portion of Advances to Other Funds	132,073	-	-	-	-	132,073
Total Assets	<u>\$ 6,008,090</u>	<u>\$ 1,199,874</u>	<u>\$ 1,868,016</u>	<u>\$ 3,001,361</u>	<u>\$ 12,250,080</u>	<u>\$ 24,327,421</u>
<u>Liabilities:</u>						
Current Liabilities:						
Accounts Payable and Accrued	\$ 113,438	\$ 87,501	\$ 175,643	\$ 1,613	\$ 573,893	\$ 952,088
Due To Other Funds	-	-	-	-	238,246	238,246
Advances From Other Funds	-	-	-	-	24,000	24,000
Total Current Liabilities	<u>113,438</u>	<u>87,501</u>	<u>175,643</u>	<u>1,613</u>	<u>836,139</u>	<u>1,214,334</u>
Noncurrent Liabilities:						
Noncurrent Portion of Advances from Other Funds	-	-	-	-	167,800	167,800
<u>Deferred Inflows of Resources:</u>						
Taxes, Grants, and Miscellaneous Advances	156,870	135,729	188,814	-	604,537	1,085,950
Total Liabilities and Deferred Inflows	<u>270,308</u>	<u>223,230</u>	<u>364,457</u>	<u>1,613</u>	<u>1,608,476</u>	<u>2,468,084</u>
<u>Fund Balance:</u>						
Non-Spendable	132,073	-	7,560	-	27,407	167,040
Restricted	-	976,644	1,495,999	-	4,031,798	6,504,441
Assigned	-	-	-	2,999,748	6,582,399	9,582,147
Un-Assigned	5,605,709	-	-	-	-	5,605,709
Total Fund Balance	<u>5,737,782</u>	<u>976,644</u>	<u>1,503,559</u>	<u>2,999,748</u>	<u>10,641,604</u>	<u>21,859,337</u>
Total Liabilities and Fund Balance	<u>\$ 6,008,090</u>	<u>\$ 1,199,874</u>	<u>\$ 1,868,016</u>	<u>\$ 3,001,361</u>	<u>\$ 12,250,080</u>	<u>\$ 24,327,421</u>

The accompanying notes are an integral part of these financial statements.

RAVALLI COUNTY, HAMILTON, MONTANA

RECONCILIATION OF BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

Fund balance as reported in the governmental fund statement		\$ 21,859,337
Taxes and assessments receivable that will be collected but are not available to pay for current-period expenditures are deferred inflows of resources in governmental fund financial statements:		763,762
Other deferred inflows in the fund financial statements that are not available to pay for current-period expenditures reported as deferred inflows of resources in governmental fund financial statements:		3,359
Add assets not reported in the governmental funds statements:		
Land	4,365,361	
Construction in Progress	262,504	
Depreciable Capital Assets (net)	23,479,400	28,107,265
Less liabilities not reported in the governmental fund statements:		
Operating Debt	(3,607,319)	
Capital Debt	(2,535,679)	
Compensated Absences	(1,068,099)	
OPEB Liability	(178,707)	
Net Pension Liability	(11,209,603)	(18,599,407)
Certain deferred outflows of resources are applicable to future periods and therefore not reported in the fund financial statements:		
Deferred outflows related to pension plans		4,305,794
Deferred outflows related to OPEB		11,244
Certain deferred inflows of resources are applicable to future periods and therefore not reported in the fund financial statements:		
Deferred inflows related to pension plans		(3,611,363)
Deferred inflows related to OPEB		(58,658)
Judgments payable that are not reported as liabilities in the fund financial statements		(43,750)
Net position as reported in the government-wide statement of net position		\$ 32,737,583

The accompanying notes are an integral part of these financial statements.

RAVALLI COUNTY, HAMILTON, MONTANA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FISCAL YEAR ENDING JUNE 30, 2018

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Road Fund	Public Safety Fund	Road Capital Reserve Fund		
Revenues:						
Property Taxes/Assessments	\$ 4,673,838	\$ 1,564,162	\$ 2,649,104	\$ -	\$ 5,451,866	\$ 14,338,970
Licenses and Permits	149,624	148,005	37,055	-	4,150	338,834
Intergovernmental	3,693,743	778,802	213,794	-	2,624,600	7,310,939
Charges for Services	549,035	3,213	235,374	-	851,342	1,638,964
Fines and Forfeitures	280,676	-	1,395	-	123,884	405,955
Miscellaneous	8,153	1,605	34,312	11,202	369,300	424,572
Investment Earnings	113,273	-	6,847	16,189	50,246	186,555
Total Revenues	9,468,342	2,495,787	3,177,881	27,391	9,475,388	24,644,789
Expenditures:						
General Government	3,815,045	-	-	-	1,793,023	5,608,068
Public Safety	131,564	-	5,523,602	-	1,686,825	7,341,991
Public Works	29,559	2,208,913	-	27,243	1,570,412	3,836,127
Public Health	407,507	-	-	-	605,842	1,013,349
Social and Economic Services	45,947	-	-	-	392,209	438,156
Culture and Recreation	2,546	-	-	-	556,068	558,614
Housing and Community Development	1,045	-	-	-	245,010	246,055
Conservation and Natural Resources	-	-	-	-	423,735	423,735
Debt Service						
Principal	-	-	-	-	645,748	645,748
Interest	-	-	-	-	229,845	229,845
Capital Outlay	-	-	-	28,266	993,986	1,022,252
Miscellaneous	-	-	-	-	497,144	497,144
Total Expenditures	4,433,213	2,208,913	5,523,602	55,509	9,639,847	21,861,084
Excess (Deficiency) of Revenues over Expenditures	5,035,129	286,874	(2,345,721)	(28,118)	(164,459)	2,783,705
Other Sources (Uses) of Funds:						
Proceeds from sale of capital assets	-	-	-	22,350	21,906	44,256
Transfers	(4,112,864)	(263,792)	2,397,715	1,110,656	868,285	-
Total Other Financing Sources (Uses)	(4,112,864)	(263,792)	2,397,715	1,133,006	890,191	44,256
Change in Fund Balance	922,265	23,082	51,994	1,104,888	725,732	2,827,961
Fund Balance						
Beginning of the Year	4,815,517	953,562	1,451,565	1,894,860	9,915,872	19,031,376
End of the Year	\$ 5,737,782	\$ 976,644	\$ 1,503,559	\$ 2,999,748	\$ 10,641,604	\$ 21,859,337

The accompanying notes are an integral part of these financial statements.

RAVALLI COUNTY, HAMILTON, MONTANA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FISCAL YEAR ENDING JUNE 30, 2018

Changes in fund balances as reported in the governmental funds statement	\$ 2,827,961
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	1,022,252
Depreciation Expense	(2,801,756)
Gain or loss on the sale or disposal of capital assets is recognized in the Statement of Activities. The fund financial statements only recognize the proceeds from the sale of capital assets:	
Gain (loss) on the disposal of capital assets	40,556
Proceeds from the sale of capital assets	(44,256)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund financial statements:	
Taxes and assessment receivables (change in deferred revenue)	41,952
On behalf State contributions that reduce pension liability in the measurement period	(29,304)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
Long-term debt principal payments	645,748
Judgment payable payments	81,250
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund financial statements:	
Change in compensated absence liability	(127,386)
Change in other post employment benefits	(15,464)
Change in pension accruals	(131,176)
Changes in net position on the statement of activities	<u>\$ 1,510,377</u>

The accompanying notes are an integral part of these financial statements.

RAVALLI COUNTY, HAMILTON, MONTANA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
AND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

FIDUCIARY NET POSITION

	External Investment Pool	Private Purpose Trusts	Agency Funds
ASSETS:			
Cash and Investments	\$ 37,951,609	\$ 21,192	\$ 4,532,567
Property Taxes Receivable	1,605,552	-	586,329
Due from Employees and Retirees	-	15,238	-
Due from Others	-	-	72,864
Total Assets	39,557,161	36,430	5,191,760
LIABILITIES			
Accounts Payable	-	-	602,942
Due to Employee HRA/FSA Medical	-	21,430	-
Due to Other Governments	1,605,552	15,000	4,588,818
Total Liabilities	1,605,552	36,430	5,191,760
NET POSITION:			
Held in Trust for Pool Participants	\$ 37,951,609	\$ -	\$ -

CHANGE IN FIDUCIARY NET POSITION

ADDITIONS:

Contributions and Investment Earnings	\$ 124,854,008	\$ 645,449
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DISTRIBUTIONS

111,061,386	645,449
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CHANGE IN NET POSITION HELD IN TRUST

13,792,622	-
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NET POSITION

Beginning of the Year	24,158,987	-
End of the Year	\$ 37,951,609	\$ -

The accompanying notes are an integral part of these financial statements.

RAVALLI COUNTY, HAMILTON, MONTANA
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JUNE 30, 2018

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RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The financial statements of Ravalli County, Hamilton, Montana have been prepared in conformity with generally accepted accounting principles as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounting and reporting framework and the significant accounting principles and practices of the County are discussed in the sections of this Note. The remaining Notes are organized to provide explanations, including required disclosures, of the County's financial activities for the fiscal year ended June 30, 2018.

New Accounting Pronouncements

For the fiscal year ended June 30, 2018, Ravalli County implemented the following Governmental Accounting Standards Board (GASB) pronouncements:

- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 85, Omnibus. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other OPEB).

B. Reporting Entity

Ravalli County is governed by an elected five-member Board of County Commissioners and is considered an independent governmental organization. The accompanying financial statements include the activities of the County controlled by the County Commissioners. Ravalli County has no component units.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net position and the statement of activities show information about the overall financial position and activities of the County with the exception of the funds held by the County in

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the County are generally financed through property taxes and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxers are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met. Eliminations have been made to minimize the double counting of internal activities.

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.

Program revenues include fees for services (primarily charges for services) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues. The County generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted components of net position are available.

Fund Financial Statements

These statements provide information about the County's funds, including a separate statement for the County's fiduciary funds. The emphasis of fund financial statements is on major governmental funds. 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.

Governmental Funds

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end (generally within 60 days) are recognized as revenue. Most property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred revenues are recorded as deferred inflows of resources in the governmental funds for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. 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.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Under the terms of the County's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the County applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

U.S. generally accepted accounting principles requires that the general fund be reported as a major fund and that all other governmental funds whose assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures exceed 10% or more of the total for all government funds also be reported as major funds. Accordingly, the County reports the following major governmental funds:

General Fund. This is the County's primary operating fund which accounts for all financial resources of the County except those required to be accounted for in other funds. The PILT (Payment in Lieu of Taxes) and local options funds are combined with the County's general fund for reporting purposes.

Road Fund. This fund is used to account for the tax collections, charges for service, grant, and general revenues and related expenses for construction, maintenance, or improvement of County roads outside of incorporated cities and towns.

Public Safety Fund. This fund accounts for tax collections levied for the purpose of providing for the public safety of citizens. The tax monies must be used to support County law enforcement services and to maintain the County detention center.

Road Capital Reserve Fund. This fund is used by the Road Department as a place to reserve monies for future equipment costs or special projects.

Fiduciary Funds

Fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting and consist of the following:

External Investment Pool. This pool consists of funds deposited in the County's investment pool which belong to other participating local governments and are reported separately from the County's invested funds.

Private Purpose Trust. This fund consists of the self-administered County Health Savings Account. The County contracts with a third party to process the claims, however the County administers the Health Savings Account cash funds.

Agency Funds. These funds consist of cash held for other governments that do not participate in the County's investment pool and property taxes receivable belonging to other governments. Cash amounts consist primarily of property tax collections and other funds collected by the County on behalf of other governments that are remitted to the other governments soon after the end of the month. The County manages all of the property taxes levied in the County.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

D. Cash and Investments

Bank deposits and investments are combined to form an investment pool, which is managed by the County Treasurer. Investments of pooled cash, which are authorized by state law, consist primarily of demand deposits, non-negotiable certificates of deposit, bank repurchase agreements, government agency securities and notes, and investments in the Montana Short-Term Investment Pool (STIP). The County reports most investments at fair value. Certain minor investments and bank deposits are reported at cost or amortized cost which approximates fair value.

Legally separate entities that are not part of the County reporting entity are permitted to participate in the investment pool, and those entities' portion of the investment pool is reported in an investment trust fund. The investment pool is managed in accordance with the County's stated investment policy.

Investment income includes realized gains and losses and the change in fair value of investments. Investment income on pooled investments is allocated to participating external entities on the basis of end of the month balances. The County's share of pooled investment income not related to specific investments is allocated to the general fund.

The County issues warrants in payment of its obligations. When warrants are presented to the County Treasurer, the County issues a check to pay the warrants.

E. Property Taxes

Property tax levies are approved on or before the first Thursday after the first Tuesday in September or within 30 calendar days of receiving certified taxable values from the Department of Revenue. Real property (and certain attached personal property) taxes are billed in October and are due in equal amounts 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. Personal property taxes (other than those billed with real estate) are generally billed in May or June and are normally due 30 days after billing.

Taxable valuations, mill values, and mill levies for November 2017 property tax billings were as follows:

	<u>Taxable Valuation</u>	<u>Value of Mill</u>	<u>Mills Levied</u>
County-wide levies	\$ 79,505,053	\$ 79,461	129.37
Unincorporated areas only	\$ 66,032,589	\$ 66,015	23.67
Open Lands	\$ 78,203,177	\$ 78,159	4.16

State law limits the number of mills the County can levy to the amount of property tax dollars levied in the prior fiscal year plus amounts related to the taxable value for the annexation of real property, new construction and improvements, debt service, and certain other exceptions.

Additionally, the mill levy limits can be exceeded for one year in the event that an emergency levy is required.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

F. Inventories and Prepaid Items

Inventories of supplies and other expendable items are expensed at the time of purchase in the governmental fund types. Prepaid expenses represent payments to vendors that benefit future reporting periods and are reported on the consumption basis.

G. Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets used in the governmental fund types are recorded as expenditures in the governmental funds and capitalized in the Statement of Net Position. All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date received. County policy has set the capitalization threshold for reporting capital assets at \$5,000. The costs of normal maintenance and repairs that do not add value of the asset, or materially extend the assets' useful life, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of all governmental fund capital assets, except land and construction in progress, is charged as an expense to the proper function in the Statement of Activity, but not in the governmental fund statements in accordance with generally accepted accounting principles. Accumulated depreciation is reported on the government-wide Statement of Net Position.

Depreciation on assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Land Improvements.....	10 – 50 years
Buildings and Improvements.....	5 – 50 years
Machinery and Equipment.....	5 – 40 years
Roads.....	5 – 20 years
Bridges.....	50 years

GASB Statement 51 requires governments to record the value of easements it owns. Based on Montana statute, the County concluded that the estimated historical value of easements which Ravalli County would own, are not material and accordingly, did not record the value of easements. In most instances, the easements are recorded on the property without transfer of ownership.

H. Compensated Absences

County employees earn vacation and sick leave as required by State law. Up to two years of accumulated vacation leave and 25% of accumulated sick leave is payable to the employee on termination. The amount reported as compensated absences payable is based on the termination benefits.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

I. Pensions

The Public Employees Retirement System (PERS) and the Sheriff's Retirement System (SRS) prepare their financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability (NPL), deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by PERS and SRS.

For this purpose, PERS and SRS member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. PERS and SRS adhere to all applicable Government Accounting Standards Board (GASB) statements.

J. Comparative Amounts

The government-wide financial statements include prior-year comparative totals and are not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, these totals should be read in conjunction with the government-wide financial statements for the year ended June 30, 2017 from which they have been derived. Certain 2017 amounts have been restated to comply with 2018 classifications.

2. CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2018 as follows:

Cash on Hand.....	\$	4,000
Repurchase Agreement (Sweep Account).....		8,083,387
Cash and Deposits.....		426,398
Certificates of Deposit.....		5,286,643
U.S. Government Obligations.....		15,781,804
State Short-term Investment Pool (STIP).....		35,000,000
Total.....	\$	<u>64,582,232</u>

The ownership of cash and investments was as follows at June 30, 2018:

County Government Funds.....	\$	22,076,864
Fiduciary.....		<u>42,505,368</u>
Total cash at County.....	\$	<u>64,582,232</u>

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Custodial Credit Risk

Custodial Credit Risk for deposits and repurchase agreement account is the risk that in the event of bank failure, the County's deposits may not be returned or the County will not be able to recover collateral securities in the possession of an outside party. The County's policy requires all deposits be insured by an agency of the United States Government and deposits in excess of insurance require pledged securities in compliance with section 7-6-207 of the Montana Code Annotated (MCA), which required the County obtain securities for the uninsured portion of the deposits equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total asset ratio of 6% or more or securities equal to 100% of uninsured deposits of the institution in which the deposits are made has a net worth to total asset ratio of less than 6%. State statute does not specify in whose custody or name the collateral is to be held. Third party safekeeping of collateral is mandatory and pledged securities are valued at market rather than face value. All of the County's cash and investments except STIP are either insured or collateralized as of June 30, 2018.

Credit Risk

Montana State law authorizes the County to invest in State Short-term Investment Pool (STIP); repurchase agreements; registered warrants of the County or of municipalities or school districts located in the County; U.S government treasury bills, notes, bonds, and other U.S. Treasury obligations such as state and local government series; general obligations of certain agencies of the United States such as Federal Home Loan Bank; and U.S. Government security money market funds if the fund meets certain conditions. The County complies with Montana State law which minimizes the County's credit risk.

Interest Rate Risk

In accordance with the County's investment policy, the County manages exposure to interest rate risk by limiting the weighted average maturity of its investment portfolio to less than five years.

External Investment Pool

The County invests in the Short-term Investment Pool (STIP) managed by the State of Montana Board of Investments. The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. Local governments may voluntarily participate in STIP.

STIP invests in short-term, highly liquid investments and the County reports these investments as cash equivalents since they are sufficiently liquid as to permit withdrawal of cash at any time without prior notice or penalty. STIP portfolio is reported on the Net Asset Value (NAV) beginning with fiscal year ending June 30, 2016. Audited financial statements for the State of Montana's Board of Investments are available at 2401 Colonial Drive, 3rd Floor, Helena, MT 59620.

Fair Value Measurements

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

The County has the following recurring fair value measurements as of June 30, 2018:

- U.S. Government Obligations of \$15,781,804 are valued using a matrix pricing model (Level 2 inputs).

3. PROPERTY TAXES RECEIVABLE

Changes in property taxes receivable were as follows:

Balance - June 30, 2017.....	\$	738,873
Allowance for Uncollectibles.....		(17,063)
Net Property Taxes Receivable.....		721,810
Taxes Levied.....		12,167,753
Collections.....		(12,108,449)
Balance - June 30, 2018.....		781,114
Allowance for Uncollectibles.....		(17,352)
Net Property Taxes Receivable.....	\$	763,762

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Capital assets not subject to depreciation:				
Land	\$ 4,365,362	\$ -	\$ -	\$ 4,365,362
Construction in progress	-	262,504	-	262,504
Capital assets subject to depreciation:				
Improvements	1,602,689	71,716	-	1,674,405
Buildings	16,409,009	140,781	-	16,549,790
Machinery and Equipment	11,487,800	481,977	(121,326)	11,848,451
Roads	109,595,920	-	-	109,595,920
Bridges	3,157,703	65,274	-	3,222,977
Total	146,618,483	1,022,252	(121,326)	147,519,409
Accumulated Depreciation:				
Improvements	1,020,771	69,627	-	1,090,398
Buildings	7,184,578	422,098	-	7,606,676
Machinery and Equipment	6,948,262	665,998	(117,627)	7,496,633
Roads	99,723,126	1,604,975	-	101,328,101
Bridges	1,851,278	39,058	-	1,890,336
Total	116,728,015	2,801,756	(117,627)	119,412,144
Capital Assets - Net	\$ 29,890,468	\$ (1,779,504)	\$ (3,699)	\$ 28,107,265

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Depreciation expense was charged to functions as follows:

General government.....	\$	343,177
Public safety.....		417,203
Public works.....		1,967,429
Public health.....		13,228
Culture and recreation.....		60,719
Total.....	\$	<u>2,801,756</u>

5. GENERAL LONG-TERM DEBT

Bank Loan – In 2004 and 2005 the County constructed a building at the airport. The County borrowed \$149,997 in fiscal year 2004 and another \$85,911 in 2005. The term of the loan is 20 years and the interest rate was 3.69% as of June 30, 2018. Payments began in February 2005 and continue through January 2025.

General Obligation Bond – In 2005 the County borrowed \$1,800,000 to purchase a building to be used for administrative offices. The term of the loan was 20 years and the interest rate varied from 3.25% - 4.75%. During April 2016 the County refunded its General Obligation Bond, Series 2005 through the Montana Board of Investments Intercap Program. The outstanding balance at the time of refinance was \$905,000. The terms of the Intercap loan are 10 years with a variable rate of interest. Semi-annual payments began August 2016 and continue through February 2026. The estimated interest savings due to the refinance is \$81,000.

Open Space General Obligation Bonds: In May 2010 the County issued bonds for \$2,200,000. The term of the bonds are 20 years with an interest rate that varies from 3.00% - 4.40%. Semiannual payments began January 2011 and continue through July 2029. The bonds maturing on or after July 1, 2020 are subject to redemption on July 1, 2019. In September 2014 the County issued bonds for \$2,547,415 which included a bond premium of \$107,412 that is not included in the following debt maturity schedule. The term of the bonds are 20 years with an interest rate that varies from 2.00% - 4.00%. Semiannual payments began January 2015 and continue through July 2034.

Limited General Obligation Note – In January 2010 the County borrowed \$750,000 to remodel the 911 Center. The term of the limited general obligation note was 20 years and the interest rate varied from 3.5% to 5.5%. Semiannual payments of \$17,500 began February 2010. During April 2016 the County refunded its General Obligation Bond Series 2010. The bond was refinanced through the Montana Board of Investments through its Intercap Program. The outstanding balance at the date of refinance was \$380,000. The terms of the new Intercap loan are 10 years with a variable rate of interest. Semi-annual payments began August 2016 and continue through February 2026. The estimated interest savings due to the refinance is \$56,000.

Settlement Payable – On May 21, 2014, the County received notice that the lawsuit with Big Sky Development was settled and the County owed \$675,000. The settlement requires the County to pay \$250,000 in fiscal year 2014 and 2015 and \$43,750 in fiscal year 2016, 2017, 2018, and 2019. The County decided to run a judgment levy for three years at \$225,000 per year. They did this for one year on the 2014 property tax bills, but then decided to take the levy off and fund the remaining \$450,000 from the General Fund.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Settlement Payable – On April 5, 2013, the County received notice that the lawsuit with Morado Mountain Estates was settled and the County owed \$300,000. The settlement requires the County to pay \$80,000 in fiscal year 2013, \$70,000 in fiscal year 2014, and \$37,500 in fiscal years 2015, 2016, 2017, and 2018. The County has decided to pay this settlement from the general fund.

Capital Lease – The County entered into an agreement for energy retrofitting services at the five County buildings. The lease requires 30 semiannual payments of \$92,676 plus interest beginning October 5, 2008 through April 4, 2023.

Changes in general long-term debt were as follows:

	Balance 6/30/2017	Principal Payments	Additions and Other Changes	Balance 6/30/2018	Amount due in 2019
Intercap Notes Payable:					
Justice Center Remodel	\$ 46,120	\$ (22,586)	\$ -	\$ 23,534	\$ 23,534
Search & Rescue Building	157,479	(44,130)	-	113,349	44,994
Trade Center Building Loan	372,072	(36,159)	-	335,913	36,870
Administration Building	816,445	(85,724)	-	730,721	87,057
911 Remodel	342,816	(35,994)	-	306,822	36,554
Total Intercap Notes Payables:	1,734,932	(224,593)	-	1,510,339	229,009
Bank Loans:					
Airport Building Loan	115,004	(14,429)	-	100,575	13,915
General Obligation Bonds:					
Series 2010 - Open Space	1,565,000	(105,000)	-	1,460,000	110,000
Series 2014 - Open Space	2,247,412	(100,000)	-	2,147,412	100,000
Limited General Obligation Bonds:					
Series 2010 - 911 Center Remodel	90,000	(36,000)	-	54,000	36,000
Capital lease:					
Energy Performance Contract	983,619	(148,589)	-	835,030	154,415
Note payable:					
Server	52,779	(17,044)	-	35,735	17,620
Settlements Payable	125,000	(81,250)	-	43,750	43,750
Other Post Employment Benefits (OPEB)	304,456	-	(125,749)	178,707	-
Compensated Absences	940,713	-	127,386	1,068,099	-
Net Pension Liability	13,733,291	-	(2,523,688)	11,209,603	-
Total	\$ 21,892,206	\$ (726,905)	\$ (2,522,051)	\$ 18,643,250	\$ 704,709

Intercap Notes Payable – from the State of Montana Board of Investments. All of the Intercap loans have semi-annual payments. The interest rate on these loans is variable, based on the interest cost of the underlying Montana State bonds. The interest rates at June 30, 2018 were 2.50%.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

The terms of the Intercap Notes Payable are as follows:

Year Issued	Purpose	Term	Due Date	Original Amount	Balance 6/30/2018
2008	Justice Center Remodel	10 Years	2/15/2019	\$ 196,364	23,534
2010	Search & Rescue Building	10 Years	8/15/2020	\$ 425,000	113,349
2011	Trade Center Building	15 Years	8/15/2026	\$ 560,000	335,913
2016	Administrative Building	10 Years	2/15/2026	\$ 905,000	730,721
2016	911 Remodel	10 Years	2/15/2026	\$ 380,000	306,822
Total Intercap Loans					\$ 1,510,339

Future Debt Service Payments

Debt service principal and interest payments required on the bonds, loans, and notes payable are as follows:

Year Ended June 30,	Loans and Notes		General Obligation Bonds and Notes		Capital Lease		Combined Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2019	260,544	4,472	246,000	137,136	154,415	30,938	833,505
2020	241,675	3,837	228,000	129,116	160,468	24,884	787,980
2021	203,528	3,152	220,000	122,174	166,759	18,593	734,206
2022	184,494	2,446	225,000	114,280	173,297	12,055	711,572
2023	188,013	1,707	235,000	106,180	180,091	5,261	716,252
2024	191,611	936	245,000	98,274			535,821
2025	188,066	176	250,000	90,055			528,297
2026	173,043		265,000	79,633			517,676
2027	15,675		275,000	68,515			359,190
2028			285,000	56,828			341,828
2029			300,000	44,560			344,560
2030			145,000	31,563			176,563
2031			150,000	25,400			175,400
2032			155,000	19,400			174,400
2033			160,000	13,200			173,200
2034			170,000	6,800			176,800
Total	\$ 1,646,649	\$ 16,726	\$ 3,554,000	\$ 1,143,114	\$ 835,030	\$ 91,731	\$ 7,287,250

The County was in compliance with all significant contractual provisions with respect to long-term debt.

Other Postemployment Benefits (OPEB) – see Note 6.

Compensated Absences – Accumulated vacation leave payable is classified as compensated absences due within one year. Accrued sick leave payable is classified as non-current.

Net Pension Liability - see Note 10.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY

Plan Description: Ravalli County provides a single-employer defined benefit post-employment health care plan that covers eligible retired employees of the County. A former covered employee whose employment with the County terminates due solely to retirement can contribute coverage under the plan as a retiree if they have met one of the following eligibility requirements:

- Attained age 60 plus 5 years of service, or
- Attained age 65, or
- Completed 30 years of service, or
- Attained age 50 plus 5 years of service, or
- Attained any age under 60 and 25 years of service.

Retiree coverage can continue for life. Spouses are not eligible for the retiree health plan, but dependent children are eligible.

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

Benefit Provided: Retirees enrolling in the plan may choose from one of three medical PPO plans. All benefits are fully insured through Pacific Source Health Plans. The table below presents a high-level summary of the in-network medical benefits offered in the 2018 plan year.

	<u>\$550 PPO Plan</u>	<u>\$3,500 PPO Plan</u>	<u>\$5,950 PPO Plan</u>
Medical Deductible (Individual/Family)	\$500/\$1,000	\$3,500/\$7,000	\$5,950/\$11,900
Out-of-Pocket Maximum (Individual/Family)	\$1,500/\$3,000	\$3,500/\$7,000	\$5,950/\$11,900
Coinsurance (In Network/Out of Network)	20%/35%	No coinsurance	No coinsurance
Prescription Deductible	\$200	Medical deductible applies	Medical deductible applies
Prescription Copays (after deductible):			
Tier 1	\$20	No copays	No copays
Tier 2	\$40		
Tier 3	\$60		
Tier 4 Specialty	\$60		

Premium Rates: Retirees pay 100% of the active premium. The County does not make an explicit contribution for retiree coverage. Premiums for the 2018 plan year are shown in the following table:

<u>Coverage Category</u>	<u>\$500 PPO Plan</u>	<u>\$3,500 PPO Plan</u>	<u>\$5,950 PPO Plan</u>
Retiree Only	\$ 788.98	\$ 661.28	\$ 597.58
Retiree + Child(ren)	\$ 1,144.98	\$ 1,096.06	\$ 987.77

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Employees covered by benefit terms: As of June 30, 2018, the number of active and retired employees covered by the plan was as follows. This count does not include employees or retirees who waived coverage:

Inactive employees or beneficiaries currently receiving benefit payments.....	2
Active employees.....	146
Total.....	<u>148</u>

Total OPEB Liability (TOL): The County's total OPEB liability is \$178,707 as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Changes in Total OPEB Liability:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Accrued Actuarial Liability at June 30, 2017	\$ 210,687	\$ -	\$ 210,687
Changes for the year:			
Service cost	\$ 16,786	\$ -	\$ 16,786
Interest (3.45%)	7,269	-	7,269
Difference between expected and actual experience	(69,323)	-	(69,323)
Changes in assumptions	13,288	-	13,288
Changes in benefit terms	-	-	-
Net Changes	(31,980)	-	(31,980)
Balance at June 30, 2018	\$ 178,707	\$ -	\$ 178,707

Changes in Assumptions: The table below shows the assumption changes and their impact on the liability.

Assumption	Description of Change	Impact on Liability
Discount Rate	Increased from 3.13% to 3.45%	\$ (5,139)
	Updated assumptions:	
Participation Rates	Based on recent plan experience	(62,716)
Mortality Rate	Consistent with recent plan valuation	(498)
Termination Rates	Consistent with recent plan valuation	15,539
Retirement Rates	Consistent with recent plan valuation	24,122
Medical Trend	To be consistent with industry benchmarks	(5,273)
Salary Trend	Increased from 3.0% to 3.1%	(929)
Excise Tax	Not previously included	48,182
Total Impact		\$ 13,288

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Sensitivity Analysis:

The following table presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or higher than the current discount rate.

	1% Decrease 2.45%	Discount Rate 3.45%	1% Increase 4.45%
Total OPEB Liability	\$ 195,191	\$ 178,707	\$ 163,515

The following table presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a medical trend rate that is 1 percentage point lower or higher than the current trend rate.

	1% Decrease 5.30%	Trend Rate 6.30%	1% Increase 7.30%
Total OPEB Liability	\$ 156,809	\$ 178,707	\$ 204,931

OPEB Expense and Deferred Outflows and Deferred Inflows:

Changes in the total OPEB liability due to: (1) changes in actuarial assumptions or (2) differences between expected actuarial experience and actual experience are deferred and recognized in the OPEB expense over a closed period equal to the average expected remaining service lives of employees and retirees, starting with the current reporting period. The average remaining service lives as of June 30, 2018 was 6.50 years.

Amounts reported as Deferred Outflows and Inflows of Resources related to OPEB as of June 30, 2018 will be recognized in OPEB Expense as follows:

Year	Actual to Expected Experience (Inflow)	Changes in Assumptions (Outflow)	Combined
2018	\$ (10,665)	\$ 2,044	\$ (8,621)
2019	(10,665)	2,044	(8,621)
2020	(10,665)	2,044	(8,621)
2021	(10,665)	2,044	(8,621)
2022	(10,665)	2,044	(8,621)
2023	(10,665)	2,044	(8,621)
2024	(5,333)	1,024	(4,309)
Total	\$ (69,323)	\$ 13,288	\$ (56,035)

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

With the deferral of these two categories of expenses, the OPEB Expense for the fiscal year ending June 30, 2018 is as follows:

	Net OPEB Liability	Deferred Inflows	Deferred Outflows	OPEB Expense
Beginning balance June 30, 2017	\$ 210,687			
Changes for the year:				
Service cost	16,786			\$ 16,786
Interest	7,269			7,269
Difference between expended and actual experience	(69,323)	\$ 69,323		-
Current year amortization of experience differences	-	(10,665)		(10,665)
Changes in assumptions	13,288		\$ (13,288)	
Current year amortization of assumption changes	-		2,044	2,044
Changes of benefit terms	-			0
Net Change	(31,980)			
Balance at June 30, 2018	178,707	58,658	(11,244)	\$ 15,434

Prior Period Restatement

Due to the implementation of GASB Statement No. 75 for the fiscal year ended June 30, 2018, regarding the accounting and financial reporting for postemployment benefits other than pension (OPEB), the beginning net position for the governmental activities has been restated to reflect the decrease in the OPEB Liability as follows:

Beginning net position, as originally reported	\$ 3,133,407
GASB Statement No. 75 implementation adjustment	93,769
Beginning net position as restated	<u>\$ 3,227,176</u>

7. INTERFUND BALANCES AND TRANSFERS

The County PILT Fund loaned \$238,246 to non-major funds that had cash deficits. The County pays health insurance and other fringe benefits from its operating funds and then transfers monies from levy funds to reimburse the operating funds. The County accounts for the receipt of Federal Payments-in-Lieu-of-Taxes (PILT) revenues in a single fund and then transfers out to various funds based on the budgeted operating needs.

The loan from the PILT Fund to the Emergency Communications Fund of \$158,794 has an annual payment of \$15,880 over 10 years with the final payment due in fiscal year 2023. The balance outstanding at June 30, 2018 is \$74,478.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

The loan from the PILT Fund to the Fair Fund of \$36,000 has annual payments of \$3,600 over ten years with the final payment due in fiscal year 2019. The balance outstanding as of June 30, 2018 is \$3,600.

During fiscal year 2017 the PILT Fund loaned the Parks Fund \$33,000 to payoff the Kurtz Lane debt. The loan is to be paid back with Parks Subdivision income until it is paid in full. The balance at June 30, 2018 was \$24,000.

During fiscal year 2018 the PILT Fund loaned the Jail Diversion & 24/7 Misdemeanor Probation Fund \$93,321 for SCRAM equipment. The loan will be paid back in three annual installments of \$31,107 beginning with fiscal year 2019.

Transfers between the funds were as follows:

Transfers from:	Transfers to:	Amount
General Fund.....	Public Safety Fund.....	\$ 1,998,498
	Road Capital Reserve Fund.....	\$ 175,067
	Non-major Funds.....	2,459,058
Road Fund.....	Road Capital Reserve Fund.....	877,233
	Non-major Funds.....	5,000
Public Safety.....	Non-major Funds.....	302,253
Non-major Funds.....	General Fund.....	1,068,096
	Road Fund.....	618,441
	Public Safety Fund.....	701,470
	Non-major Funds.....	2,463,263
Total Transfers.....		<u>\$ 10,668,379</u>

Interfund balances at June 30, 2018 were as follows:

	*****DUE TO*****	
	<u>PILT Fund</u>	
DUE FROM:		
Non-major Funds	\$	<u>430,046</u>

8. GOVERNMENT-WIDE RESTRICTED NET POSITION

Restricted Net Position – Restricted net position represents resources that were received by the County with an understanding between the County and the provider that the funds would be used for a specific purpose. The Statement of Net Position reports \$7,114,693 of restricted net position, of which \$5,860,420 is restricted for enabling legislation.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

9. GOVERNMENT FUND BALANCE REPORTING

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires classifying fund balances into specifically defined classifications. Restricted fund balances are reported in the aggregate on the face of the balance sheet. Committed and assigned funds must be so designated by the County’s Board of Commissioners and/or assigned by the Chief Financial Officer.

The County spends restricted amounts first. When expenditures are incurred for purposes of which committed, assigned, or unassigned amounts are available, the County spends committed first, then assigned, and finally unassigned funds.

Non-spendable fund balances consist of the following:

Prepays.....	\$ 34,967
Advances to Other Funds.....	132,073
Total Non-spendable Fund Balance.....	167,040

Restricted fund balances consist of the following:

General Government.....	1,019,435
Public Safety.....	2,238,695
Public Works.....	2,165,232
Public Health.....	121,648
Social and Economic.....	253,218
Culture and Recreation.....	186,868
Housing and Community Development.....	8,818
Debt Service.....	510,527
Total Restricted Fund Balance.....	6,504,441

Assigned fund balances consist of the following:

General Government.....	18,928
Capital Projects.....	9,563,219
Total Assigned Fund Balance.....	9,582,147

Unassigned fund balance consist of the following:

General Fund.....	5,605,709
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Total Fund Balances as shown on the Governmental Fund Balance Sheet..... \$ 21,859,337

The County has not established a policy for its use of unrestricted fund balance amounts, and therefore fund balances are reduced in the following order when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balances classifications could be used: committed, assigned, and then unassigned.

The County maintains two major special revenue funds, the Road Fund and Public Safety Fund. GASB Statement No. 54 requires disclosure of revenues for each major special revenue fund. Revenues are as follows:

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

	Road Fund	Public Safety Fund
Property Taxes/Assessments	\$ 1,564,162	\$ 2,649,104
License and Permits	148,005	37,055
Intergovernmental	778,802	213,794
Charges for Services	3,213	235,374
Fines and Forfeitures	-	1,395
Miscellaneous	1,605	34,312
Investment Earnings	-	6,847
Transfers In	618,441	2,699,968
	\$ 3,114,228	\$ 5,877,849

Deficit Fund Balances – One non-major fund had deficit fund balances at June 30, 2018. The Jail Diversion & 24/7 Misdemeanor Probation Fund had a deficit fund balance of \$70,889. The deficit fund balance will be eliminated with program and diversion fees received during fiscal year 2019.

General Fund – For financial reporting purposes, the County has combined the PILT Fund and the Local Option Fund with the General fund as shown in the following table:

	General Fund	Local Option Fund	PILT Fund	Combined
Assets.....	\$ 1,792,473	\$ 434,127	\$ 3,781,490	\$ 6,008,090
Liabilities & Deferred Inflows.....	270,308	-	-	270,308
Fund Balances.....	\$ 1,522,165	\$ 434,127	\$ 3,781,490	\$ 5,737,782
Revenues.....	\$ 4,299,136	\$ 2,154,127	\$ 3,015,079	\$ 9,468,342
Expenses.....	4,433,213	-	-	4,433,213
Excess (Deficiency) of Revenues over Expenses	(134,077)	2,154,127	3,015,079	5,035,129
Other Sources (Uses).....	350,617	(2,083,423)	(2,380,058)	(4,112,864)
Change in Fund Balances.....	216,540	70,704	635,021	922,265
Fund Balances:.....				
Beginning.....	1,305,625	363,423	3,146,469	4,815,517
Ending.....	\$ 1,522,165	\$ 434,127	\$ 3,781,490	\$ 5,737,782

10. RETIREMENT PLANS

Substantially all of the County's full-time employees participate in one of the statewide cost-sharing multiple-employer retirement benefit plans. All plans are administered by the Public Employees' Retirement Board (PERB). The State legislature is the authority that establishes or amends contribution requirements for all plans, and provides cost of living adjustments for defined benefit plans. PERB issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for these plans. The financial report is available from the Montana Public Employees' Retirement Administration (MPERA) at 100 North Park Avenue, Suite 200, P.O. Box 200131, Helena, Montana 59620-0131 or at their website at <http://mpera.mt.gov>.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

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

Contributions to pension plans are required by state statute. Information about each plan is as follows:

Public Employees' Retirement System (PERS)

All eligible new hires are initially members of the PERS-DBRP (Defined Benefit Retirement Plan). New hires have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP (Defined Contribution Retirement Plan) by filing an irrevocable election. Both plans are governed by Title 19, Chapters 2 and 3, Montana Code Annotated (MCA). PERS plans cover eligible state, local government, school district, and university system employees.

PERS-DBRP is a multiple-employer, cost-sharing plan established July 1, 1945. PERS-DBRP provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members and their beneficiaries.

Employees with 5 years of service are eligible to retire at ages shown below. Vested (5 years of service) employees are eligible for disability benefits. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits generally equal the balance in the member's vested account or continuing payments under an annuity contract.

Benefit Calculation

To be eligible for service retirement, a member must meet one of the following requirements:

- If 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,
- Or if hired on or after July 1, 2011:
 - Age 65, with at least 5 years of membership service, or
 - Age 70 and in active service.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

A member's monthly retirement benefit is equal to the membership service factor times the member's highest average compensation times the member's service credit. After completing 12 full months of retirement, the member will receive a guaranteed annual benefit adjustment (GABA) of 0% to 3% depending on their hire date and the amortization period of the plan.

Membership Service

Members earn a full month of membership service for any month in which he/she is reported to PERB by the County. Membership service is used to determine the membership service factor and vesting. One hour reported in a month will result in one month of membership service.

The Membership Service Factor is:

Members hired prior to July 1, 2011:

- 1.7857% for members with less than 25 years of membership service
- 2.0% for members with 25 or more years of membership service, or

Members hired on or after July 1, 2011:

- 1.5% for members with less than 10 years of membership service
- 1.7857% for members with 10 or more but less than 30 years of membership service
- 2.0% for members with 30 or more years of membership service.

Highest Average Compensation (HAC)

HAC is a member's highest average monthly compensation:

- during any consecutive 36 months if hired prior to July 1, 2011
- during any consecutive 60 months of membership service if hired on or after July 1, 2011
- If hired on or after July 1, 2013, a 110% annual cap on compensation earned during each year of the HAC period.

Service Credit

A full month of service credit is earned when 160 hours or more is reported to PERB by the County during any given month. Proportional service credit is awarded unless at least 2080 hours is worked in a year.

Guaranteed Annual Benefit Adjustment (GABA)

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

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.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Sheriff's Retirement System (SRS)

The Sheriff's Retirement System (SRS), administered by the Montana Public Employees Retirement Administration (MPERA), is a multi-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.

Members are eligible to retire and receive pension benefits when he or she has completed 20 years of service, regardless of age or at age 50 with at least 5 years of membership service.

Duty related disability benefits do not require vesting. Members will receive a disability retirement benefit equal to one-half of their Highest Average Compensation (HAC) if they have less than 20 years of membership. Disabled members with more than 20 years of membership service will receive a disability benefit of 2.5% of HAC for each year of service credit.

Non-duty related disability requires vesting. Members receive a disability retirement benefit based on the actuarial equivalent of their accrued service retirement benefit when the disability occurred.

Summary of Benefits

Eligibility for benefit

- 20 years of membership service, regardless of age
- Age 50, 5 years of membership service. The benefit is the actuarial equivalent of the service retirement benefit.

Vesting

- 5 years of membership service for all other rights

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - average monthly compensation during any consecutive 36 months;

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

Compensation Cap

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

Monthly benefit formula

2.5% of FAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

3% for members hired prior to July 1, 2007

1.5% for members hired on or after July 1, 2007

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Contribution Rates and Amounts

	Employee	Employer	State
PERS	7.90%	8.47%	0.10% *
SRS	10.495%	13.115%	

	County			State
	2018	2017	2016	2018
PERS	\$ 493,863	\$ 465,599	\$ 447,400	\$ 128,320
SRS	\$ 360,399	\$ 261,198	\$ 255,788	\$ -

*The State also contributes from the Coal Tax Severance fund.

One hundred percent of required contributions were paid.

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

At June 30, 2018 the County reported a liability for its proportionate share of the net pension liability. The amount recognized by the County as its proportionate share of the net pension liability, the State support, and the total portion of the net pension liability that was associated with the County were as follows:

	PERS	SRS	Total
County's proportionate share of the net pension liability	\$ 8,583,244	\$2,626,359	\$ 11,209,603
State of Montana proportionate share associated with the County	103,830	-	\$ 103,830
Total	\$ 8,687,074	\$2,626,359	\$ 11,313,433

The net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures to roll forward to the measurement date of June 30, 2017. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, including the State, actuarially determined.

	PERS	SRS
Proportionate share of plans' net pension liability	0.4407%	3.4513%

For the year ended June 30, 2018, the County recognized pension expense of \$1,006,734 and grant revenue of \$5,535 for the state of Montana proportionate share of the pension expense associated with the County. Additionally, the County recognized grant revenue of \$122,785 from the Coal Severance Tax Fund.

At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Deferred Outflows of Resources

	PERS	SRS	Total
Difference between expected and actual experience	\$ 211,378	\$ 17,238	\$ 228,616
Change in Assumptions	1,173,240	2,049,676	3,222,916
County contributions subsequent to the measurement date	493,863	360,399	854,262
Total	\$ 1,878,481	\$ 2,427,313	\$ 4,305,794

Deferred Inflows of Resources

	PERS	SRS	Total
Difference between expected and actual experience	\$ 12,424	\$ 8,080	\$ 20,504
Projected investment earnings vs. actual investment earnings	57,646	32,238	89,884
Change in Assumptions	-	3,352,537	3,352,537
Changes in proportion and differences between County contributions and proportionate share of contributions	68,289	80,149	148,438
Total	\$ 138,359	\$ 3,473,004	\$ 3,611,363

The County's contributions subsequent to the measurement date in the amount of \$854,262 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Fiscal Year Ending June 30	PERS	SRS	Total
2018	\$ 304,040	\$ (389,831)	\$ (85,791)
2019	671,173	(231,571)	439,602
2020	522,027	(293,301)	228,726
2021	(182,690)	(411,237)	(593,927)
2022 & Thereafter	-	-	-
Total	\$ 1,314,550	\$ (1,325,940)	\$ (11,390)

Actuarial Assumptions

The total pension liability (TPL) used to calculate the net pension liability (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. 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:

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Investment Return (net of admin expense)	7.65%
Admin Expense as % of Payroll (PERS)	0.26%
Admin Expense as % of Payroll (SRS)	0.21%
General Wage Growth (includes inflation at 2.75%)	3.500%
Merit Increases	0% to 6.3%
Guaranteed annual benefit adjustment (GABA)	0% to 3% **

**based on hire date and PERS funded percentage

The inflation rate and salary increase rates were reduced from 3% to 2.75% , and 4% to 3.5% respectively in this most recent study.

Target Allocations

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plans. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, was 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, 2017, are summarized below.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
	(a)	(b)	(a) x (b)
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	8.00%	4.00%	0.32%
Total	100.00%		4.37%
Inflation			2.75%
Portfolio Return Expectation			7.12%

Discount Rate

The discount rate used to measure the total pension liabilities was 7.65%, down from 7.75% in the prior study. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers would be made based on the Board's funding policy, which established the contractually required rates under the Montana

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Code Annotated. Based on those assumptions, the Plans' fiduciary net positions were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods projected benefit payments to determine the total pension liabilities.

Sensitivity Analysis

The sensitivity of the net pension liability to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The net pension liability was 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 1.00% lower or 1.00% higher than the current rate.

County's proportionate share of the net pension liability	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
PERS	\$ 12,500,761	\$ 8,583,244	\$ 5,294,785
SRS	4,637,517	2,626,359	980,984
Total	\$ 17,138,278	\$ 11,209,603	\$ 6,275,769

Pension Plan Fiduciary Net Position

Detailed information about the Plans' fiduciary net positions is available in the separately issued PERB financial report.

PERS Defined Contribution Plan

The County contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

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

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 Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

At the plan level for the measurement period ended June 30, 2017, the PERS-DCRP the County did not recognize any net pension liability or pension expense for the *defined contribution* plan. Plan level non-vested forfeitures for the 300 employers that have participants in the PERS-DCRP totaled \$396,650.

11. RISK MANAGEMENT

The County faces a number of risks of loss including (1) loss or damage to property, (2) general liability, (3) workers' compensation, and (4) employee medical insurance. There were no significant changes in how the County covered its risks in 2018. The County manages these risks through a combination of commercial insurance and participation in a risk pool.

Commercial insurance coverage is used to manage risk of loss for all activities except workers' compensation claims.

The County covers its workers' compensation risk through participation in the Montana Association of Counties Workers' Compensation Joint Powers Authority (the Authority). The Authority is supervised by a Board of Trustees, which is comprised of seven persons, who are elected by the participant counties in the annual meeting. The Authority is liable for the payment of benefits to employees of member counties under the Workers' Compensation and Occupational Disease Act. The Authority charges the County an annual workers' compensation premium to cover anticipated workers' claims. Audited summary financial information is available for the Authority from the Montana Association of County Officials (MACO).

12. JOINT FUNDING

The County provided \$16,964 to fund the public libraries in the County and \$9,300 to fund the cemeteries in the County.

13. CONTINGENT LIABILITIES

Except for the legal settlements discussed in Note 4 regarding amounts recorded for the Big Sky Development Group and Morado Mountain Estates settlements, none of the open lawsuits and claims against the County are expected to have a significant financial impact on the County's operations. The County is the defendant in various lawsuits and claims, most of which are being handled by the County's insurance carrier.

14. OPEN SPACE BONDS

The County voters approved a \$10,000,000 of Open Space Bonds in November 2006. In May 2010 the County issued Open Space General Obligation Bonds for \$2,200,000 and in September 2014 the County issued Open Space General Obligation Bonds for \$2,547,415. A portion of the \$10,000,000 authorization (\$300,000) was levied in fiscal year 2010 and has been used to pay the cost of Open Lands Projects directly. The total authorization has been reduced by this amount. The County expects to issue the remaining bond authorization over the next 8 years.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

The bonds were issued for the purpose of paying costs of open lands projects approved in accordance with the County's Open Lands Bond Program (OLBP). The proceeds may be used to purchase land and conservation easements and other interest in land from willing landowners for the following purposes: manage growth, preserve open lands, protect water quality, maintain wildlife habitat, protect drinking water sources, pay landowner costs and related transaction costs associated with an approved project, and paying the costs associated with the sale of issuance of bonds. Through the end of fiscal year 2017, the OLBP has contributed \$3,708,608 towards conservation easement costs. During fiscal year 2018 two open land projects were approved and closed for a total of \$415,000.

A conservation easement is a voluntary agreement in which a land owner surrenders the right to develop their property to an agency or organization dedicated to maintaining natural habitats, open spaces, or traditional agriculture. The landowner retains title to the property and can continue to exercise rights to the property that are not included in the agreement such as farming. Ravalli County's OLPB is a funding mechanism that allows a conservation agreement to be made between a private landowner and a private land trust or other conservation organization (sponsoring agencies). After the conservation easement project goes through the County approval process, the land trust or conservation organization monitors and protects the easement restrictions in perpetuity and can take court action if necessary to enforce the agreement.

The easements have no market value as they cannot be sold separate from the related property. Title to the property does not transfer through the easement so the owner can still sell the land, but the easement terms run with the land and are a permanent encumbrance on future owners. Because the conservation easement owned by and registered in the name of the conservation organization, and remains attached to the landowner's property as a deeded restriction, it is not included as an asset of Ravalli County. Ravalli County records all costs associated with OLBP as a "conservation of natural resources" expense.

15. TARGETED ECONOMIC DEVELOPMENT DISTRICT PLAN

Targeted Economic Development District Plan – The County in conjunction with the Ravalli County Economic Authority (RCEDA) is working together in fostering the development of secondary, value adding industries in Ravalli County to promote economic development, to improve area employment opportunities and to expand the community's tax base through the creation of a Targeted Economic Development District (TEDD) including the Ravalli Airport and other adjacent, contiguous areas. Ravalli County intends to use Tax Increment Financing as part of its overall strategy to provide infrastructure in support of value-adding industry per the 2013 Targeted Economic Development District Act, embodied in 7-15-4279, MCA.

16. AIRPORT CAPITAL IMPROVEMENT PLAN

During October 2017 the County approved a five year Airport Capital Improvement Plan (CIP) to acquire land for approaches, expand apron, rehabilitate the taxiway, construction of access roads and buildings. The CIP began during fiscal year 2018 and is scheduled to be completed during fiscal year 2022. The total estimated costs of the CIP is \$3,450,000 to be funded 90% with Federal Aviation Administration grants and the remaining 10% with County local match.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

17. SUBSEQUENT EVENTS

Detention Electronic Security - During July 2019, the Commissioners awarded the Detention Security electronic bid to Anderson Construction for a total of \$767,700.

Montana Board of Investments (MBOI) Intercap Loan Program - Due to increase in interest rates on the MBOI Intercap Loan Program from 1.55% in February 2016 to 3.37% in February 2019, the County paid off all Intercap debt without penalty to MBOI. In March 2019, General Fund operating reserves paid off \$645,328 on the Administration Building loan, \$270,967 on the 911 remodel loan, and \$299,816 on the First Interstate Center at the Fairgrounds loan. Assuming the Intercap rates remained at 3.37% over the life of the loans, the County will save approximately \$162,000 in interest. The Search & Rescue also paid off their Intercap loan that was used to purchase the Search and Rescue building in 2010. The building was within a year of final pay off so final payment was \$68,486.

Federal Aviation Administration (FAA) Grant Agreement – In September 2019, the County entered into an agreement with the FAA for preliminary engineering and design for runway construction. The federal grant amount of \$532,686 is 90% of the allowable costs. The County will match 10% of the costs which is \$59,188.

County Law Enforcement CAD/OMS/RMS Suite – During June 2018, the County entered into a contract with Zuercher Technologies to install a new CAD/OMS/RMS suite to enhance the daily operations for County law enforcement. This system will assist in communications between various County public safety agencies and support operations in the 911 center and detention center. The original contract cost of the system was \$408,118 and it replaces the County's old system. The purchase was mainly funded with Public Safety capital savings reserve funds with another approximate \$37,000 from the City of Hamilton. The Zuercher system went “live” in August 2019.

Open Lands Projects – Three Open Lands projects were completed in December 2018. The three projects were the Curly Ranch for \$125,000, the Griffin Ranch for \$200,000, and the Hancock Ranch for \$100,000. The County expects to issue another Open Lands Bond either at the end of fiscal year 2020 or the beginning of fiscal year 2021.

Road Department Purchase – During June 2019 the Road Department purchased four new John Deere 770G Graders to replace four 1999 model graders purchased in 1999. The cost of the four new graders was \$971,856 with a reduction in the price of \$177,000 for trade-in value of the 1999 graders for a total net purchase price of \$794,856. The new graders were purchased with Road Capital savings reserve funds.

Montana Department of Transportation (MDT) Memorandum of Agreement – In October 2018, the County entered into a Memorandum of Agreement with the Montana Department of Transportation to purchase a flush truck for the County Road Department. MDT will fund 86.58% from federal Congestion Mitigation & Air Quality (CMAQ) funds with the County matching the remaining 13.42%. The total final cost of the flush truck was \$202,829 with the County matching \$26,497 in August 2019.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Roof Replacement County Fairgrounds – The County entered into contracts in April and June 2019 to replace roofs on three buildings at the County Fairgrounds. The contracts were for the beef barn in the amount of \$57,808, the dairy/poultry barn in the amount of \$31,928, and the sheep/swine barn in the amount of \$56,896. The beef barn roof was complete in April 2019 while the other two barns were complete in September 2019.

Heavy Snowfall Damage – The County experienced unusual heavy snowfall over a prolonged period of time in late February and early March 2019. When the snow melted the County experienced an extreme amount of water runoff that caused damaged roads, bridges, and culverts. The degradation to asphalt throughout the County caused an unusual amount of repairs to asphalt in the summer of 2019 for a total of approximately \$670,000. The County is in the process of applying for various grants to replace the Edward Bridge over the East Fork of the Bitterroot River which became impassable after years of corrosion and was closed. A culvert on the Westside Road was not big enough for the snow runoff so the runoff caused major damage to the culvert. The County is in the process of replacing and expanding the culvert for future water runoff. The cost of replacing and expanding the culvert is approximately \$100,000.

Board of Commissioners – The voters of the County reduced the size of the Board of Commissioners from five to three on the June 7, 2016 ballot. The transition from five to three seats occurred on January 1, 2019 after all five commissioners' terms expired on December 31, 2018.

18. RECENT ACCOUNTING PRONOUNCEMENTS

GASB has issued Statement No. 83, Certain Asset Retirement Obligations which is effective for the County beginning in FY 2019. This Statement addresses accounting and financial reporting for certain asset retirement obligations.

GASB has issued Statement No. 84, Fiduciary Activities which is effective for the County beginning in FY 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB has issued Statement No 87, Leases, which is effective for the County beginning in FY 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

GASB has issued Statement No 88, Certain Disclosures Related to Debt, which is effective for the County beginning in FY2019. This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarified which liabilities governments should include when disclosing information related to debt.

GASB has issued Statement No 89, Accounting for Interest Cost Incurred before the End of a Construction Period which is effective for the County beginning in FY2020. This standard provides guidance and consistency on accounting for interest costs incurred prior to construction completion of an asset.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

GASB has issued Statement No 90, Accounting and Financial Reporting for Majority Equity Interests which is effective for the County beginning in FY2019. The objective of this standard is to clarify when a government should report a majority equity interest in a legally separate organization as either a component unit or an investment.

The County has not fully assessed the impact of Statements No. 83, 84, 87, 88, 89 and 90 on its financial position and results of operations, but does not believe the adoption of these statements will have a material effect on its basic financial statements.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

RAVALLI COUNTY, HAMILTON, MONTANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDING JUNE 30, 2018

	-----General Fund-----			-----Road Fund-----		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:						
Property Taxes/Assessments	\$ 4,374,694	\$ 4,374,694	\$ 4,673,838	\$ 1,565,976	\$ 1,565,976	\$ 1,564,162
Licenses and Permits	103,500	103,500	149,624	14,000	139,770	148,005
Intergovernmental	511,817	669,443	3,693,743	777,946	777,946	778,802
Charges for Services	480,210	480,210	549,035	2,720	2,720	3,213
Fines and Forfeitures	209,000	209,977	280,676	-	-	-
Miscellaneous	10,000	10,000	8,152	501	501	1,605
Investment Earnings	50,000	50,000	113,273	-	-	-
Total Revenues	<u>5,739,221</u>	<u>5,897,824</u>	<u>9,468,341</u>	<u>2,361,143</u>	<u>2,486,913</u>	<u>2,495,787</u>
Expenditures:						
General Government	3,815,045	3,908,174	3,815,045	-	-	-
Public Safety	131,563	133,990	131,564	-	-	-
Public Works	29,559	29,559	29,559	2,425,521	2,551,291	2,208,913
Public Health	407,507	458,934	407,507	-	-	-
Social and Economic Services	45,947	54,597	45,947	-	-	-
Culture and Recreation	2,547	2,547	2,546	-	-	-
Housing and Community Development	1,045	1,045	1,045	-	-	-
Miscellaneous	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Total Expenditures	<u>4,433,213</u>	<u>4,588,846</u>	<u>4,433,213</u>	<u>2,425,521</u>	<u>2,551,291</u>	<u>2,208,913</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,306,008</u>	<u>1,308,978</u>	<u>5,035,128</u>	<u>(64,378)</u>	<u>(64,378)</u>	<u>286,874</u>
Other Sources (Uses) of Funds:						
Transfers In	1,978,013	2,005,510	1,978,013	618,441	618,441	618,441
Transfers Out	(6,090,877)	(6,187,905)	(6,090,877)	(882,233)	(882,233)	(882,233)
Total Other Sources (Uses) of Funds	<u>(4,112,864)</u>	<u>(4,182,395)</u>	<u>(4,112,864)</u>	<u>(263,792)</u>	<u>(263,792)</u>	<u>(263,792)</u>
Excess (Deficiency) of Revenues over Expenditures and Other sources (Uses)	<u>(2,806,856)</u>	<u>(2,873,417)</u>	<u>922,264</u>	<u>(328,170)</u>	<u>(328,170)</u>	<u>23,082</u>
Fund Balance						
Beginning of the Year	4,815,518	4,815,518	4,815,518	953,562	953,562	953,562
End of the Year	<u>\$ 2,008,662</u>	<u>\$ 1,942,101</u>	<u>\$ 5,737,782</u>	<u>\$ 625,392</u>	<u>\$ 625,392</u>	<u>\$ 976,644</u>

The accompanying notes are an integral part of this schedule.

RAVALLI COUNTY, HAMILTON, MONTANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDING JUNE 30, 2018

	-----Public Safety Fund-----		
	Original Budget	Final Budget	Actual
Revenues:			
Property Taxes/Assessments	\$ 2,656,377	\$ 2,656,377	\$ 2,649,104
Licenses and Permits	30,000	30,000	37,055
Intergovernmental	213,794	213,794	213,794
Charges for Services	237,650	237,650	235,374
Fines and Forfeitures	300	300	1,395
Miscellaneous	25,100	25,100	34,312
Investment Earnings	3,001	3,001	6,847
Total Revenues	<u>3,166,222</u>	<u>3,166,222</u>	<u>3,177,881</u>
Expenditures:			
General Government	-	-	-
Public Safety	5,788,173	5,788,173	5,523,602
Public Works	-	-	-
Public Health	-	-	-
Social and Economic Services	-	-	-
Culture and Recreation	-	-	-
Miscellaneous	-	-	-
Debt Service	-	-	-
Capital Outlay	-	-	-
Total Expenditures	<u>5,788,173</u>	<u>5,788,173</u>	<u>5,523,602</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,621,951)</u>	<u>(2,621,951)</u>	<u>(2,345,721)</u>
Other Sources (Uses) of Funds:			
Proceeds from sale of capital assets	-	-	-
Transfers In	2,699,968	2,699,968	2,699,968
Transfers Out	(302,253)	(302,253)	(302,253)
Total Other Sources (Uses) of Funds	<u>2,397,715</u>	<u>2,397,715</u>	<u>2,397,715</u>
Excess (Deficiency) of Revenues over Expenditures and Other sources (Uses)	(224,236)	(224,236)	51,994
Fund Balance			
Beginning of the Year	1,451,565	1,451,565	1,451,565
End of the Year	<u>\$ 1,227,329</u>	<u>\$ 1,227,329</u>	<u>\$ 1,503,559</u>

The accompanying notes are an integral part of this schedule.

RAVALLI COUNTY, HAMILTON, MONTANA

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2018

State law requires the County to prepare budgets for all funds. Budgets are prepared on the modified accrual basis. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. Amendments to the budget can be made for unanticipated state and federal revenue with the approval of the County Commissioners.

The Board approves the original budgets on or before the first Thursday after the first Tuesday in September or within 30 calendar days of receiving certified taxable values from the Department of Revenue.

The County budgets also include encumbrances, which represent commitments to expend funds under current budget appropriations. All appropriations lapse at the end of the fiscal year except for accounts payable and encumbrances. The County did not have any encumbrances as of June 30, 2018.

General Fund Budget – Intergovernmental revenue for the General Fund includes payment-in-lieu of taxes (PILT) revenue in the amount of \$3,015,079 that is not included in the General Fund budget.

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RAVALLI COUNTY, HAMILTON, MONTANA

SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS FOR THE LAST TEN YEARS*

June 30, 2018

		<u>2018</u>
Total OPEB Liability		
Service cost	\$	16,786
Interest cost		7,269
Changes in benefit terms		-
Difference between expected and actual experience		(69,323)
Change of assumptions		13,288
Benefit payments		-
Net changes in OPEB liability		<u>(31,980)</u>
 Total OPEB liability, beginning of year		 <u>210,687</u>
 Total OPEB liability, end of year	 \$	 <u><u>178,707</u></u>
 Covered employee payroll	 \$	 <u><u>6,157,986</u></u>
 District's total OPEB liability as a percentage of covered-employee payroll		 <u><u>2.90%</u></u>

*The amount presented above for the fiscal year was determined as of June 30. The schedule is intended to present information for 10 years, additional years will be displayed as they become available.

RAVALLI COUNTY, HAMILTON, MONTANA

MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

**SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

As of Measurement Date	2018	2017	2016	2015
County's proportion of the net pension liability	0.44070%	0.44570%	0.43871%	0.45221%
County's proportionate share of the net pension liability associated with the County	\$ 8,583,244	\$ 7,591,663	\$ 6,132,665	\$ 5,634,587
State of Montana's proportionate share of the net pension liability associated with the County	103,830	92,761	75,329	68,807
Total	\$ 8,687,074	\$ 7,684,424	\$ 6,207,994	\$ 5,703,394
County's covered payroll	\$ 5,786,737	\$ 5,466,988	\$ 5,119,885	\$ 5,119,011
County's proportionate share of the net pension liability as a percentage of covered payroll	148.33%	138.86%	119.78%	110.07%
Plan fiduciary net position as a percentage of the total pension liability	73.75%	74.71%	78.40%	79.90%

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

SCHEDULE OF THE COUNTY'S PENSION PLAN CONTRIBUTION

As of Report Date	2018	2017	2016	2015
Contractually required contributions	\$ 489,117	\$ 457,595	\$ 446,229	\$ 421,899
Contributions in relation to the contractually required contributions	489,117	457,595	446,229	421,899
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
County's covered payroll	\$ 5,786,737	\$ 5,466,988	\$ 5,338,600	\$ 5,119,885
Contributions as a percentage of covered payroll	8.452%	8.370%	8.359%	8.240%

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

RAVALLI COUNTY, HAMILTON, MONTANA

Notes to Required Supplementary Information – Public Employees’ Retirement System For the Year Ended June 30, 2018

Changes of Benefit Terms

The following changes to the plan provision 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 in the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts in the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - refund of member’s contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and,
 - GABA starts again in the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
 - member receives same retirement benefit as prior to return to service;
 - member receives second retirement benefit for second period of service

RAVALLI COUNTY, HAMILTON, MONTANA

Notes to Required Supplementary Information – Public Employees’ Retirement System For the Year Ended June 30, 2018

based on laws in effect at second retirement; and

- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

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

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

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.

RAVALLI COUNTY, HAMILTON, MONTANA

Notes to Required Supplementary Information – Public Employees’ Retirement System For the Year Ended June 30, 2018

Family Law Order

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 Contributions (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 - \$32.277 million
- 2) FY2019 - 32.6 million
- 3) Beginning July 1, 2019 through at least June 30, 2025, 101% of the contributions 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

RAVALLI COUNTY, HAMILTON, MONTANA

Notes to Required Supplementary Information – Public Employees’ Retirement System 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 are from the June 2010 Experience Study:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes Inflation	
Merit salary increases	0% to 4.80%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expenses as % of Payroll	0.26%

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.

RAVALLI COUNTY, HAMILTON, MONTANA

MONTANA SHERIFFS' RETIREMENT SYSTEM

**SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

As of measurement date	2018	2017	2016	2015
County's proportion of the net pension liability	3.4513%	3.4960%	3.5033%	3.5678%
County's proportionate share of the net pension liability associated with the County	\$ 2,626,359	\$ 6,141,628	\$ 3,377,095	\$ 1,484,821
Total	\$ 2,626,359	\$ 6,141,628	\$ 3,377,095	\$ 1,484,821
County's covered payroll	\$ 2,582,285	\$ 2,467,914	\$ 2,383,806	\$ 2,307,404
County's proportionate share of the net pension liability as a percentage of its covered payroll	101.71%	248.860%	141.668%	64.35%
Plan fiduciary net position as a percentage of the total pension liability	81.30%	63.00%	75.40%	87.20%

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

SCHEDULE OF THE COUNTY'S PENSION PLAN CONTRIBUTION

As of reporting date	2018	2017	2016	2015
Contractually required contributions	\$ 360,399	\$ 261,198	\$ 255,788	\$ 241,810
Contributions in relation to the contractually required contributions	360,399	261,198	255,788	241,810
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
County's covered payroll	\$ 2,747,993	\$ 2,582,285	\$ 2,467,914	\$ 2,383,806
Contributions as a percentage of covered payroll	13.115%	10.115%	10.365%	10.144%

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

RAVALLI COUNTY, HAMILTON, MONTANA

Notes to Required Supplementary Information – Pension Information Sheriffs’ Retirement System For the Year Ended June 30, 2018

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.
- 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.

RAVALLI COUNTY, HAMILTON, MONTANA

Notes to Required Supplementary Information – Pension Information Sheriffs’ Retirement System
For the Year Ended June 30, 2018

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 Bill383, 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.

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 increase	0% to 6.30%
Asset valuation method	Four-year smoothed market
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay, open
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected 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	0.21%

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.

OTHER SUPPLEMENTARY INFORMATION

RAVALLI COUNTY, HAMILTON, MONTANA

**OTHER SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

Property Tax Valuations

The following table shows the market valuations and taxable valuations of real and personal property located within the County for fiscal years 2003 through 2018.

Year Ended June 30,	Market Valuation	Percentage of Change	Taxable Valuation	Taxable Valuation as a % of Market Valuation
2018	\$ 5,264,603,461	6.22%	\$ 79,505,053	1.5%
2017	\$ 4,956,204,825	1.05%	\$ 75,330,069	1.5%
2016	\$ 4,904,914,885	55.48%	\$ 73,991,532	1.5%
2015	\$ 3,154,773,739	1.38%	\$ 79,404,569	2.5%
2014	\$ 3,111,742,504	3.9%	\$ 81,040,547	2.6%
2013	\$ 2,994,093,144	6.4%	\$ 80,819,909	2.7%
2012	\$ 2,814,762,707	5.5%	\$ 78,582,775	2.8%
2011	\$ 2,667,398,298	7.8%	\$ 76,705,742	2.9%
2010	\$ 2,474,802,033	5.2%	\$ 73,405,230	3.0%
2009	\$ 2,352,315,027	-11.2%	\$ 72,755,893	3.1%
2008	\$ 2,650,195,732	7.7%	\$ 69,311,577	2.6%
2007	\$ 2,461,126,992	29.3%	\$ 64,468,316	2.6%
2006	\$ 1,903,779,821	7.1%	\$ 62,244,507	3.3%
2005	\$ 1,778,179,540	6.5%	\$ 59,052,008	3.3%
2004	\$ 1,668,941,960	5.9%	\$ 56,565,329	3.4%
2003	\$ 1,575,822,877	-4.8%	\$ 54,321,506	3.1%

Tax Levies

The following table shows the mill rates per \$1,000 of taxable value of property located in the County for the tax years shown. Property within the County is assessed with the appropriate city, county road, school district, fire district, and park district levies depending upon location.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
State University	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Statewide School Equalization	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00
Countywide School Levy	90.12	88.45	86.83	89.52	87.76	88.04	93.12	85.38	89.61	87.53	82.73
Ravalli County General Levy	100.94	104.24	112.00	112.27	110.79	110.84	112.16	116.75	124.98	130.09	129.17
Ravalli County Open Lands Levy					2.32	2.36	2.05	4.28	4.67	4.55	4.36
Ravalli County Road Levy	19.32	19.32	20.50	21.24	21.59	21.84	22.01	22.15	23.98	24.28	23.67
Total	256.38	258.01	265.33	269.03	268.46	269.08	275.34	274.55	289.24	292.45	285.93

RAVALLI COUNTY, HAMILTON, MONTANA

**OTHER SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

Tax Collections

Set forth in the following table is the real and personal property tax levies and collections for the County for the fiscal year ending June 30, 2006 through 2018.

Year Ended June 30,	Total Tax Levy	Current Property Tax Collections	Percentage of Levy Collected	Total Property Tax Collections *	Percentage of Levy Collected
2018	\$ 12,167,753	\$ 12,108,449	99.51%	\$ 12,085,848	99.33%
2017	\$ 11,645,259	\$ 11,426,289	98.12%	\$ 11,530,670	99.02%
2016	\$ 11,004,896	\$ 10,623,801	96.54%	\$ 11,310,653	102.78%
2015	\$ 11,028,764	\$ 10,525,944	95.44%	\$ 11,102,773	100.67%
2014	\$ 10,587,661	\$ 10,168,054	96.04%	\$ 10,572,682	99.86%
2013	\$ 10,526,765	\$ 10,061,439	95.58%	\$ 10,673,582	101.39%
2012	\$ 10,216,475	\$ 9,702,143	94.97%	\$ 10,423,165	102.02%
2011	\$ 9,738,035	\$ 9,246,271	94.95%	\$ 10,013,359	102.83%
2010	\$ 9,103,999	\$ 8,606,754	94.54%	\$ 9,217,397	101.25%
2009	\$ 8,486,586	\$ 8,013,364	94.42%	\$ 8,617,243	101.54%
2008	\$ 8,094,535	\$ 7,601,846	93.91%	\$ 8,170,216	100.93%
2007	\$ 7,289,231	\$ 6,877,243	94.35%	\$ 7,187,307	98.60%
2006	\$ 6,444,808	\$ 5,973,166	92.68%	\$ 6,477,688	100.51%

* Total tax collection amounts include interest collected on delinquent taxes.

Major Taxpayers

The following table lists the largest taxpayers within the County for fiscal year 2018 in declining order of taxable valuation.

Taxpayer	Industry	Taxable Value	% of County's Total Taxable Value
Northwestern Energy	Utility	\$ 6,417,777	56.31%
GlaxoSmithKline	Medical Research	1,699,461	14.91%
Verizon Wireless	Telecommunications	729,286	6.40%
Montana Rail Link	Railroad	740,060	6.49%
Ravalli County Electric Coop Inc.	Utility	727,849	6.39%
Centurylink Inc.	Telecommunications	360,887	3.17%
Charter Communications Inc.	Telecommunications	282,883	2.48%
Stock Farm Club	Hospitality	197,758	1.74%
Double Fork LLC	Private Livestock Producer	159,578	1.40%
CG Bitterroot Inn LLC	Hospitality	82,402	0.72%
Total		\$ 11,397,941	100.00%

* * * * *

SINGLE AUDIT SECTION

RAVALLI COUNTY, HAMILTON, MONTANA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Federal Grantor/Pass Through Grantor and Program Title	Federal CFDA Number	Identification Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
State Administered - Passed Through:			
Montana Department of Administration:			
Forest Reserve	10.665	N/A	\$ 871,275
Montana Department of Health & Human Services:			
Women, Infants & Children (WIC)	10.557	18075210150	96,036
Women, Infants & Children (WIC)	10.557	17075210150	44,495
WIC Farmers Market Grant	10.557	16075210860	448
Montana Department of Agriculture:			
Bitterroot Blueweed 2016	10.680	MDA 2016-705	1,130
Total U.S. Department of Agriculture			<u>1,013,384</u>
<u>U.S. Department of Housing and Urban Development</u>			
State Administered - Passed Through:			
Montana Department of Commerce			
Community Development Block Grant -			
Preliminary Engineering Report- County wastewater syste	14.228	MT-CDBG-16PL-17	13,333
Total U.S. Department of Housing and Urban Development			<u>13,333</u>
<u>U.S. Department of Interior</u>			
Direct Programs:			
Lee Metcalf Cooperative Agreement	15.652	F10AC00580	3,988
U.S. Department of Fish & Wildlife	15.659	n/a	23,344
Total U.S. Department of Interior			<u>27,332</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Office of Justice Programs:			
VEST Grant	16.607	n/a	1,691
Justice Assistance Grant	16.738	16-G08-92173	4,126
State Administered - Passed Through:			
Montana Department of Justice:			
Victim/Witness Program (Board of Crime Control)	16.575	15-V01-91787	77,929
Victim/Witness Program (Board of Crime Control)	16.575	15-V44-92296	14,606
Total U.S. Department of Justice			<u>98,352</u>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Federal Aviation Administration			
Airport Improvement Program	20.106	AIP 3-30-0037-014-2017	201,663
Total U.S. Department of Transportation			<u>201,663</u>
<u>U.S. Department of Health and Human Services</u>			
Direct Program:			
State Administered - Passed Through:			
Montana Department of Public Health and Human Services:			
Childhood Immunization Grant	93.268	18-07-4-31-137-0	18,029
Title IV-E Attorney reimbursement	93.658	1-810302402-Z4	12,020
Maternal and Child Health Services	93.994	18-07-5-01-041-0	37,975
Total U.S. Department of Health and Human Services			<u>68,024</u>

Continued on next page.

The accompanying notes are an integral part of this schedule.

RAVALLI COUNTY, HAMILTON, MONTANA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

<u>Federal Grantor/Pass Through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Identification Number</u>	<u>Federal Expenditures</u>
<u>Centers for Disease Control and Prevention</u>			
State Administered - Passed Through:			
Montana Department of Public Health and Human Services:			
Emergency Preparedness Grant PHEP	93.074	17-07-6-11-042-0	41,711
Emergency Preparedness Grant PHEP	93.074	16-07-6-11-042-0	6,671
Total Centers for Disease Control and Prevention			<u>48,382</u>
<u>U.S. Department of Homeland Security</u>			
State Administered - Passed Through:			
Montana Department of Military Affairs:			
FEMA	97.047	PDMC-PL-08-MT-2015-004	2,000
Emergency Management Performance Grant	97.042	EMD-2017-EP-0003	30,561
Emergency Management Performance Grant	97.042	EMD-2016-EP-0002	9,611
Homeland Security Grant	97.067	EMW-2017-SS-00009	109,968
Total U.S. Department of Homeland Security			<u>152,140</u>
Total Federal Expenditures			<u>\$ 1,622,610</u>

The accompanying notes are an integral part of this schedule.

RAVALLI COUNTY, HAMILTON, MONTANA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

1. **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Ravalli County under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Ravalli County, it is not intended to and does not represent the financial position and change in net position of Ravalli County.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies used in preparing the Schedule are the same as those used in the preparation of the governmental fund financial statements as described in Note 1. C. to the financial statements. Federal payments-in-lieu-of-taxes (PILT) are not considered to be federal awards.

N/A = Not Applicable or Not Available

3. **10% DE MINIMIS INDIRECT COST**

The County has elected not to use the de minimis ten percent indirect cost rate.

4. **SUB-RECIPIENTS**

Of the federal expenditures presented in the schedule, the County provided no federal awards to sub-recipients.

5. **MATCHING CONTRIBUTIONS**

The Schedule includes only federal expenditures. The County also had local matching contributions and expenditures of the following amounts in fiscal year 2018:

- \$4,382 for the VEST Grant (CFDA No. 16.607)
- \$7,410 for the Victim/Witness Program (Board of Crime Control) administered through the Montana Department of Justice (CFDA No. 16.575)
- \$22,408 for the Federal Aviation Administration – Taxi-line and Beacon Construction (CFDA No. 20.106)

* * * * *

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

Board of County Commissioners
Ravalli County
Hamilton, Montana

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ravalli County, Hamilton, 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 October 17, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questions costs as item **2018-1**.

Ravalli County's Response to Finding

Ravalli County's response to the finding identified in our audit is described in the Schedule of Findings and Questioned Costs. Ravalli County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Daflo & Associates, P.C.

Lolo, Montana
October 17, 2019

Doyle & Associates, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners
Ravalli County
Hamilton, Montana

Report on Compliance for Each Major Federal Program

We have audited Ravalli County, Hamilton, Montana's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended June 30, 2018. Ravalli County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Ravalli County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance).. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ravalli County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ravalli County's compliance.

Opinion on Each Major Federal Program

In our opinion, Ravalli County, Hamilton, Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Ravalli County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ravalli County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ravalli County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2018-1** to be a significant deficiency.

Ravalli County's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Ravalli County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dayle & Associates, P.C.

Lolo, Montana
October 17, 2019

RAVALLI COUNTY, HAMILTON, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal control over federal awards:

- Material weakness identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes No

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance? Yes X No

Identified major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Federal Forest Reserve Schools and Roads Grant
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINDINGS IN RELATION TO THE AUDIT OF THE FINANCIAL STATEMENTS

There were no findings required to be reported.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2018-1 – LATE REPORT SUBMISSION

Condition: The County was subject to a single audit for the fiscal year ended June 30, 2018. Uniform Guidance requires the single audit to be complete and the data collection form and audit reporting package submitted to the Federal Audit Clearinghouse the earlier of 30 calendar days after receipt of the auditor’s reports or nine months after the end of the audit period. Ravalli County did not submit the data collection form and reporting package by the required deadline of March 31, 2019 which is nine months after the fiscal year ended June 30, 2018.

Criteria: Uniform Guidance regulations, 2 CFR Section 200.512, require the audit be complete and the data collection form and reporting package submitted to the Federal Audit Clearinghouse with the earlier of 30 days after receipt of the auditor’s reports or nine months after the end of the audit period.

Cause: Management has established a well-defined process for financial close and reporting. This process takes time and due to implementation of new accounting principles as well as the loss of a key employee of the Finance/Human Resources Department there was a delay of other critical duties, such as financial close and reporting. However, management performed their due diligence to ensure the financial close and reporting function was complete. In addition, during 2018 our audit firm experienced a cyber attack which resulted in a substantial amount of time devoted by the audit firm to address the attack and implications.

Effect: The County was out of compliance with Uniform Guidance regulations, 2 CFR Section 200.512.

Recommendation: We want to commend management on taking the time necessary to ensure new accounting principles are implemented and the care and due diligence in performing the County’s financial close and reporting. We recommend that interim audit procedures be performed prior to financial close and that management work closely with auditors to ensure timely submission of the audit report in the future. We, as the County’s auditors, also understand the implication of our cyber attack on the audit schedule and we took the necessary steps to ensure legal compliance with respect to the investigation and response to our cyber attack, which took time.

Management’s Response: The Finance/Human Resources Department experienced the sudden release of a key employee and as a result a large amount of time by other department employees were allocated to cover the duties of that employee’s position which resulted in a delay in the performance of other critical duties, such as financial reporting. The Finance/Human Resources Department has a total of five employees, so being down 20% of our workforce put additional strain on time. The position is still vacant, but very close to being filled. We will do our very best to be compliant with the fiscal year 2019 audit deadline.

SUMMARY OF PRIOR AUDIT FINDINGS

There were no findings required to be reported.

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