CARBON COUNTY
RED LODGE, MONTANA

FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CARBON COUNTY

ORGANIZATION

June 30, 2016

BOARD OF COUNTY COMMISSIONERS

John Prinkki	Presiding Officer
Douglas Tucker	Commissioner
John Grewell	Commissioner

ELECTED OFFICIALS

Marcia Henigman	Clerk and Recorder
Jane Swanson-Webb	County Treasurer/Superintendent
Josh McQuillan	County Sheriff/Coroner
Alex Nixon	County Attorney
Rochelle Loyning	Clerk of District Court
Kevin Nichols	Justice of the Peace

OLNESS & ASSOCIATES, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Carbon County
Red Lodge, 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 Carbon County, Montana (the government) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions

Management has not recorded the other post-employment benefit (OPEB) liability and related expense in the governmental activities. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase liabilities, decrease net position and change expenses in the governmental activities. The amount by which this departure would affect liabilities, net position and expenses has not been determined.

Because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities, we were unable to form an opinion regarding the amounts at which inventory was recorded in the governmental activities, the road fund and the bridge fund.

Qualified Opinions

In our opinion, except for the effects of the matter described in the first paragraph under the heading "Basis for Qualified Opinions" and except for the possible effects of the matter discussed in the second paragraph under the heading "Basis for Qualified Opinions", the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the road fund and the bridge fund of the government, as of June 30, 2016, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund (excluding the road and bridge funds) and the aggregate remaining fund information of the government as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 72, Fair Value Measurement and Application. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 79, Certain External Investment Pools and Pool Participants. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension plan information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

Olness & Associates, PC

Billings, Montana
March 21, 2017

As management of Carbon County, a political subdivision of the state of Montana, we offer readers of the attached Carbon County financial statements this narrative. This discussion and analysis of the financial performance of Carbon County provides an overview of the government's financial activities and financial position for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with our financial statements.

FINANCIAL HIGHLIGHTS

- Net position of our governmental activities decreased by $139,840.
- During the year, our government had expenses that were $1,987,393 more than the $7,639,251 generated in tax and other general revenues.
- Total cost of all of programs increased $529,138.
- Total governmental revenues were $9,486,804, a decrease of 4% over the prior year, while governmental expenditures increased to $9,626,644, an increase of 6% over the prior year.
- The General fund reported a decrease this year of $134,094 in fund balance.
- There were no General fund budget amendments this year. Carbon County continues to keep its capital equipment, buildings, roads, and bridges in good condition and up to date. We remain debt free.

USING THIS ANNUAL REPORT

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Carbon County. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

One of the most important questions asked about Carbon County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position (page 9) and the Statement of Activities (page 10) report information about Carbon County as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements (Statement of Net Position and Statement of Activities) report net position and changes in it. You can think of net position as one way to measure the County's financial health, or financial position. Over time, increases or decreases in net position is one indicator of whether the County's financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's property tax base and the condition of the capital assets (county roads and bridges), to assess the overall health of Carbon County.

The Statement of Net Position and the Statement of Activities, include governmental activities consisting of public safety, public works, culture and recreation, and general administration. Property taxes, local option vehicle taxes, and state and federal grants finance most of these activities.

Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Carbon County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The fund financial statements (pages 11 and 13) provide detailed information about the most significant funds – not the County as a whole. Some funds are required to be established by State law and/or bond covenants. Also, the Board of County Commissioners establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. Carbon County utilizes the following funds:

Governmental funds – Basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's recent financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Carbon County describes the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations (pages 12 and 14, respectively).

Carbon County maintains individual governmental funds, and adopts an annual appropriated budget for them. The general, road, bridge, public safety and PILT funds are all considered to be major funds. Other governmental funds are combined into a single aggregate presentation titled total nonmajor funds. Information for the major funds is reported separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a comparative basis with the annually appropriated budget, both original and final, to demonstrate compliance with the budgets. This information is reported as required supplementary information.

Fiduciary Funds
Fiduciary funds are used to account for resources held for the benefit of parties and entities outside the government of Carbon County. Fiduciary funds use the accrual basis of accounting. Carbon County excludes these activities from the other financial statements because we cannot use these assets to finance the County's operations. Carbon County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

NOTES TO BASIC FINANCIAL STATEMENT

The notes provide additional information that is essential to a full understanding of the data and reports presented in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 17 of this report.

THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, net position was $12,490,352, as of June 30, 2016.

Net position decreased by $139,840 or 1%.

Of the County's total net position, our net investment in capital assets accounts for $11,278,399 or 90% of the total. Capital assets reflect the County's investments in land, buildings, improvements, infrastructure and machinery and equipment. Carbon County uses these capital assets to provide services to citizens and the community: consequently these assets are not available for future spending.

Unrestricted net position amounted to a deficit balance of $2,653,153. The net position deficit occurred because GASB Statement No.'s 68 and 71 were implemented during fiscal year 2015.

A recap of the County's net position and changes in net position follows:

Carbon County's Schedule of Net Position

	2016	2015	Change
Current and other assets	$ 5,479,104	$ 6,384,016	$ (904,912)
Capital assets	11,278,399	10,793,094	485,305
Total assets	16,757,503	17,177,110	(419,607)
Deferred outflows-pensions	614,558	263,874	350,684
Other liabilities	16,718	134,351	(117,633)
Long-term liabilities	4,187,076	3,618,113	568,963
Total liabilities	4,203,794	3,752,464	451,330
Deferred inflows-pensions	677,915	1,192,679	(514,764)
Net position (deficit):			
Net investment in capital assets	11,278,399	10,793,094	485,305
Restricted	3,865,106	4,626,187	(761,081)
Unrestricted (deficit)	(2,653,153)	(2,789,089)	135,936
	$ 12,490,352	$ 12,630,192	$ (139,840)

Carbon County's Schedule of Changes in Net Position

	2016	2015	Change
Revenues:			
Program revenues:			
Charges for services	$ 931,401	$ 689,659	$ 241,742
Operating grants and contributions	740,992	677,130	63,862
Capital grants and contributions	175,160	309,658	(134,498)
General revenues:			
Taxes	5,095,865	5,082,660	13,205
Intergovernmental	2,313,435	2,511,905	(198,470)
Interest	45,077	79,701	(34,624)
Miscellaneous	48,082	81,649	(33,567)
Gain on disposal of capital assets	136,792	455,724	(318,932)
Total revenues	9,486,804	9,888,086	(401,282)
Expenses:			
General government	2,471,980	2,587,462	(115,482)
Public safety	2,647,249	2,127,853	519,396
Public works	3,525,423	3,550,527	(25,104)
Public health	319,190	214,052	105,138
Social and economic services	141,038	129,940	11,098
Culture and recreation	354,305	356,173	(1,868)
Housing and community development	26,965	5,564	21,401
Other current charges	140,494	125,935	14,559
Total expenses	9,626,644	9,097,506	529,138
Change in net position	(139,840)	790,580	(930,420)
Net position, beginning	12,630,192	15,855,746	(3,225,554)
Prior period adjustments	-	(4,016,134)	4,016,134
Net position, ending	$ 12,490,352	$ 12,630,192	$ (139,840)

FUND FINANCIAL STATEMENT ANALYSIS

The fund financial statements provide detailed information about the major (most significant) funds. The general fund is always reported as a major fund. Governments may choose to report other governmental funds as major funds, even though they do not meet the qualifying test. To be reported as a major fund, a fund must meet the following criteria:

> Total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures of an individual governmental fund are at least 10 percent of the corresponding element total for all funds.

As of June 30, 2016, Carbon County's governmental funds reported combined fund balances of $5,342,188, a decrease of $796,900 from the prior year. $1,203,187 is unassigned. The remaining $4,139,001 is classified as non-spendable, restricted or committed.

The general fund is the primary operating fund of Carbon County. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. As of June 30, 2016, the general fund fund balance was $1,203,187, a decrease from the prior year of $134,094. Available fund balance was used to fund current year operations.

The road fund accounts for resources accumulated and payments made for the maintenance, repair, and construction of county-owned roads. At the end of the fiscal year, the fund balance of the road fund was $1,216,742, a decrease of $121,974 over the prior year. Available fund balance was used to fund current year operations.

The bridge fund accounts for resources accumulated and payments made for the maintenance, repair and construction of county-owned bridges. At year-end, the bridge fund fund balance was $651,690, a decrease of $18,130 over the prior year.

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services. Fund balance of the public safety fund was $662,657, a decrease of $270,639 over the prior year. Available fund balance was used to fund current year operations.

The PILT (payments in lieu of taxes) fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Expenditures made from the fund are at the discretion of the Board of County Commissioners. During fiscal year 2016, resources from the PILT fund were transferred to fund other fund's budgets. Overall fund balance increased $125,071. The increase occurred because additional PILT revenues were received in excess of the amounts budgeted.

General Fund Budgetary Highlights.

There were no General fund budget amendments this year. General fund expenditures were $281,659 less than the amount budgeted. Revenues received were $118,627 more than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Carbon County's net investment in capital assets as of June 30, 2016 was $11,278,399. This investment in capital assets includes land, buildings/improvements, machinery and equipment, and infrastructure. During fiscal year 2016, significant capital additions included numerous bridge projects, airport lighting, 911 tower site upgrades and road and sheriff equipment and vehicles.

Long-term Debt

Compensated absences are a liability of the County for unpaid vacation and sick leave and compensatory time earned by year-end. The amount of the liability generally increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. The amount of this liability on June 30, 2016 was $508,078. Additionally, the net pension liability required by GASB Statement 68 is also included in the government-wide financial statements

THE GOVERNMENT'S FUTURE

Carbon County's financial status remains solid. Cash reserves for all funds were reduced by .7% to 29.30%; reserves for the Bridge fund did not include Treasure State Endowment Program grant funds. Reserves were set below the maximum level of 33% allowed by Montana State Law to finance the remodel of the court house and old jail and to account for reduced revenues from Federal Mineral Royalties and Oil and Gas.

Our county-wide taxable valuation for fiscal year 2016 decreased by 1.6% and our rural taxable valuation for road purposes decreased by 1.4%. The revenues from our PILT, Federal Mineral Royalties, and Oil & Gas Production programs decreased in total by $190,319 from the previous year. Although PILT revenues increased, Oil and Gas revenues decreased by $333,335 and Federal Mineral Royalties decreased by $84,300. These funds are very valuable and help offset the cost of search and rescue operations and ambulance services and increases in public safety expenses, salaries/benefits, and road and bridge maintenance and other operating costs. There is always a demand for increased services, while we continue to provide maintenance and upkeep on our existing assets.

In preparation for budget year 2016-2017, we kept our mills at the maximum level allowed by state statue, in order to cover the increasing costs of running a county government. We continue to make contributions to the Building, Communications, and Airport Capital Improvement Funds so capital improvements can be funded over multiple years, rather than relying on individual funds cash balances to finance projects. As the state and cities continue to cut back on their funding, there is increased pressure for more financial support from the county to keep existing programs functioning and growing. The county cannot fill all of these wants and wishes. The county will prioritize wants and needs, comparing the costs of services we provide with the benefits derived from those services.

We are aware of the state government passing on increased demands to the county governments. Counties have to be fiscally responsible to county taxpayers and protect financial sources and ability to serve the county citizens.

We continue to study bridges and replace them as needed and funding allows. In fiscal year 2017, Carbon County will replace the Red Lodge Creek Road Bridge with a Treasure State Endowment Program (TSEP) grant. In fiscal year 2018, our TSEP grant will fund replacement of the Homestead Road Bridge; grant match funds for this project will be supplied by the State Off-System Bridge program.

In the summer of 2016, Riverside Construction completed the reconstruction of the West Fork Road. The County also completed a chip seal project on the West Fork Road, creating a nice driving surface for access to Red Lodge Mountain this winter.

The Montana Department of Transportation will continue construction on the Red Lodge Northwest Project on Highway 78 and the US 212/310 Realignment project between Rockvale and Laurel. The realignment will impact a number of roads in the County and the Joliet road Crew has realigned Farewell road to accommodate increased traffic flow once the new highway is completed.

Carbon County is also working to secure easements on the Railbed road so the Forest Service can improve the road and increase access to public lands in the Pryor Mountains.

The Mud Springs Wind project is on hold while EverPower negotiates the Power Purchase Agreement with Pacific Corp.; to that end they have filed a complaint with the Wyoming Public Service Commission. EverPower was granted a New and Expanding Industry Tax Abatement in December 2016; the resolutions contained financial triggers for the tax abatement to go into effect and requires EverPower to forego any tax appeal process with the Montana Department of Revenue. The project will consist of three 80 MW phases located in the Sage Creek valley and a 230 kV transmission line that will continue into Wyoming to connect with an existing PacificCorp transmission line. The project is expected to result in a significant increase of the County's taxable valuation.

The Carbon County Planning Board will begin updating Subdivision Regulations in the spring of 2017. The Planning Board will be updating the Regulations to accommodate changes in State law and to address fire protection regulations. The Planning Board has been in discussion with the Disaster and Emergency Services Coordinator and the County Fire Council to better understand the fire protection needs for local fire departments.

CARBON COUNTY
STATEMENT OF NET POSITION
June 30, 2016

ASSETS	
Cash and equivalents	$ 2,544,540
Investments	2,164,142
Receivables:	
Taxes and assessments	120,198
Governments	542,813
Inventories	85,395
Prepaids	22,016
Capital assets:	
Land and construction in progress	367,895
Capital assets, net of accumulated depreciation	10,910,504
Total assets	16,757,503
DEFERRED OUTFLOWS OF RESOURCES	
Pension plans	614,558
Total deferred outflows of resources	614,558
LIABILITIES	
Accounts payable-vendors	16,718
Long-term liabilities:	
Due within one year:	
Compensated absences:	50,808
Due in more than one year:	
Compensated absences:	457,270
Net pension liability	3,678,998
Total liabilities	4,203,794
DEFERRED INFLOWS OF RESOURCES	
Pension plans	677,915
Total deferred inflows of resources	677,915
NET POSITION (DEFICIT)	
Net investment in capital assets	11,278,399
Restricted for:	
General government	375,429
Public safety	809,750
Public works	2,384,185
Public health	33,689
Social and economic	48,816
Culture and recreation	117,382
Housing and community development	3,040
Capital projects	92,815
Unrestricted (deficit)	(2,653,153)
Total net position	$ 12,490,352

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
General government	$ 2,471,980	$ 282,931	$ 33,311	$ -	$ (2,155,738)
Public safety	2,647,249	199,276	164,448	-	(2,283,525)
Public works	3,525,423	431,210	220,272	175,160	(2,698,781)
Public health	319,190	16,374	116,549	-	(186,267)
Social and economic services	141,038	1,610	820	-	(138,608)
Culture and recreation	354,305	-	205,592	-	(148,713)
Housing and community development	26,965	-	-	-	(26,965)
Other current charges	140,494	-	-	-	(140,494)
Total governmental activities	9,626,644	931,401	740,992	175,160	(7,779,091)
	General revenues:				
	Property taxes				5,095,865
	Intergovernmental				2,313,435
	Investment earnings				45,077
	Miscellaneous				48,082
	Gain on disposal of capital assets				136,792
	Total general revenues				7,639,251
	Change in net position				(139,840)
	Net position - beginning				12,630,192
	Net position - ending				$ 12,490,352

See notes to basic financial statements.

CARBON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General	Road	Bridge	Public Safety	PILT	Total Nonmajor Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	$ 642,003	$ 520,934	$ 248,855	$ 363,688	$ 196,823	$ 572,237	$ 2,544,540
Investments	546,026	443,056	211,653	309,319	169,249	484,839	2,164,142
Receivables:							
Taxes and assessments	26,033	22,992	14,819	29,494	-	26,860	120,198
Governments	17,423	200,000	161,599	-	-	163,791	542,813
Inventories	-	55,812	29,583	-	-	-	85,395
Prepaid items	-	-	-	-	-	22,016	22,016
Total assets	$ 1,231,485	$ 1,242,794	$ 666,509	$ 702,501	$ 366,072	$ 1,269,743	$ 5,479,104
LIABILITIES							
Accounts payable-vendors	$ 2,265	$ 3,060	$ -	$ 10,350	$ -	$ 1,043	$ 16,718
Total liabilities	2,265	3,060	-	10,350	-	1,043	16,718
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - taxes and assessments	26,033	22,992	14,819	29,494	-	26,860	120,198
Total deferred inflows of resources	26,033	22,992	14,819	29,494	-	26,860	120,198
FUND BALANCES							
Nonspendable:							
Prepaids	-	-	-	-	-	22,016	22,016
Inventory	-	55,812	29,583	-	-	-	85,395
Restricted for:							
General government	-	-	-	-	-	371,646	371,646
Public safety	-	-	-	662,657	-	84,611	747,268
Public works	-	1,160,930	622,107	-	-	473,642	2,256,679
Public health	-	-	-	-	-	33,599	33,599
Social and economic services	-	-	-	-	-	47,543	47,543
Culture and recreation	-	-	-	-	-	110,940	110,940
Housing and community development	-	-	-	-	-	3,040	3,040
Capital projects	-	-	-	-	-	92,815	92,815
Committed for:							
General government	-	-	-	-	366,072	1,988	368,060
Unassigned	1,203,187	-	-	-	-	-	1,203,187
Total fund balances	1,203,187	1,216,742	651,690	662,657	366,072	1,241,840	5,342,188
Total liabilities, deferred inflows resources and fund balances	$ 1,231,485	$ 1,242,794	$ 666,509	$ 702,501	$ 366,072	$ 1,269,743	$ 5,479,104

See notes to basic financial statements.

CARBON COUNTY

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

June 30, 2016

Total fund balances, governmental funds	$ 5,342,188
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	11,278,399
Deferred inflows of resources related to taxes and assessments are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	120,198
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	614,558
Deferred inflows of resources related to pensions	(677,915)
Some liabilities (such as compensated absences and the net pension liability) are not due and payable in the current period and, therefore, are not reported in the funds.	(4,187,076)
Net position of governmental activities	$ 12,490,352

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General	Road	Bridge	Public Safety	PILT	Total Nonmajor Funds	Total Governmental Funds
REVENUES							
Taxes/assessments	$ 1,609,476	$ 1,015,269	$ 597,701	$ 1,189,723	$ -	$ 939,993	$ 5,352,162
Fines and forfeitures	58,970	-	-	-	-	12,923	71,893
Licenses and permits	29,117	64,550	-	6,360	-	-	100,027
Intergovernmental	340,047	518,004	212,869	101,713	1,035,675	1,021,279	3,229,587
Charges for services	247,840	-	9,650	106,193	-	129,880	493,563
Investment earnings	37,001	6,607	-	-	1,038	431	45,077
Miscellaneous	30,153	3,381	-	3,218	10	11,320	48,082
Total revenues	2,352,604	1,607,811	820,220	1,407,207	1,036,723	2,115,826	9,340,391
EXPENDITURES							
Current:							
General government	2,168,918	-	-	-	669	294,523	2,464,110
Public safety	139,630	-	-	1,751,090	45,160	528,723	2,464,603
Public works	34,872	1,697,222	798,397	-	-	440,349	2,970,840
Public health	200,015	-	-	-	-	118,426	318,441
Social and economic services	49,969	-	-	-	-	90,995	140,964
Culture and recreation	92	-	-	-	-	343,632	343,724
Housing and community development	-	-	-	-	-	26,965	26,965
Other current charges	151,493	-	-	-	-	-	151,493
Capital outlay	84,986	397,018	355,884	166,928	146,050	134,139	1,285,005
Total expenditures	2,829,975	2,094,240	1,154,281	1,918,018	191,879	1,977,752	10,166,145
Excess (deficiency) of revenues over expenditures	(477,371)	(486,429)	(334,061)	(510,811)	844,844	138,074	(825,754)
OTHER FINANCING SOURCES (USES)							
Insurance recoveries	24,474	-	-	-	-	-	24,474
Sale of capital assets	-	350	-	4,030	-	-	4,380
Transfers in	318,803	364,105	315,931	236,142	-	234,273	1,469,254
Transfers out	-	-	-	-	(719,773)	(749,481)	(1,469,254)
Total other financing sources (uses)	343,277	364,455	315,931	240,172	(719,773)	(515,208)	28,854
Net change in fund balances	(134,094)	(121,974)	(18,130)	(270,639)	125,071	(377,134)	(796,900)
Fund balances - beginning	1,337,281	1,338,716	669,820	933,296	241,001	1,618,974	6,139,088
Fund balances - ending	$ 1,203,187	$ 1,216,742	$ 651,690	$ 662,657	$ 366,072	$ 1,241,840	$ 5,342,188

See notes to basic financial statements.

CARBON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	$ (796,900)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.	
This is the amount by which capital outlay ($1,285,005) exceeded depreciation ($932,112) in the current period.	352,893
The net effect of various transactions involving capital assets (i.e., sales, donations, insurance and trade-ins) is to increase net position.	132,412
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.	9,621
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits is reported as pension expense.	148,561
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 the governmental funds:	
Compensated absences	13,573
Change in net position of governmental activities	$ (139,840)

CARBON COUNTY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ 5,275,261	$ 987,488
Investments	4,486,632	-
Taxes and assessments receivable	-	357,958
Total assets	9,761,893	$ 1,345,446
LIABILITIES		
Accounts payable	-	$ 38,787
Due to special districts	-	863,556
Due to state	-	79,640
Due to schools	-	203,906
Due to cities/towns	-	159,557
Total liabilities	-	$ 1,345,446
NET POSITION		
Held in trust for external investment pool participants	$ 9,761,893	

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2016

	External Investment Trust Fund
ADDITIONS	
Contributions	$ 7,052,720
Investment earnings:	
Interest	71,177
Total net investment earnings	71,177
Total additions	7,123,897
DEDUCTIONS	
Distributions to participants	7,315,752
Total deductions	7,315,752
Change in net position	(191,855)
Net position - beginning	9,953,748
Net position - ending	$ 9,761,893

See notes to basic financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government adopted the provisions of the following GASB statements:

GASB Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP).

GASB Statement No. 79, Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants.

The government's significant accounting policies are described below.

Reporting Entity

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue funds are reported as major.

The road fund accounts for resources accumulated from property taxes and state entitlement and payments made for the maintenance, repair and construction of county-owned roads.

The bridge fund accounts for resources accumulated from property taxes, grants and state entitlement and payments made for the maintenance, repair and construction of county-owned bridges.

The public safety fund accounts for resources accumulated from property taxes, state entitlement and charges for services and payments made for providing law enforcement and public safety services.

The PILT fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Payments made from the fund are at the discretion of the Board of County Commissioners.

Additionally, the government reports the following fund types:

The government's investment trust fund accounts for the external portion of the cash management pool, which represents resources that belong to legally separate entities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance

Cash and Investments

The County maintains and controls an investment pool consisting of funds belonging to the government and also of funds held by the County Treasurer belonging to legally separate entities, such as school districts, fire and water districts and other special districts. The investment pool is managed by the County Treasurer and overseen by the Board of County Commissioners. The investment pool is not registered with the SEC. The County Treasurer is responsible for setting the investment policies for the pool, reviewing and monitoring investments to ensure the County's investment policies are met and ensuring investments are in compliance with State statute.

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 63% of the investment pool belongs to these districts.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is an investment program managed and administered under the direction of the Montana Board of Investments (MBOI) as authorized by the Unified Investment Program. The STIP portfolio is reported at fair value versus amortized cost.

The pool unit value is fixed at $1 for purchases and redemptions. Income is automatically reinvested in additional units. The government did not provide or obtain any legally binding guarantees to support the value of the units. The pool does not include any involuntary participants.

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. The government had no nonrecurring fair value measurements. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

Investment income from the pool is allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of each month. The net change in fair value of the pool is also allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of the year.

The government does not charge an administrative fee to participants in the pool.

Receivables

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

Inventories and Prepaid Items

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported **in the** government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is determined as of the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	30
Building and improvements	15-155
Machinery and equipment	5-39

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Deferred Outflows/Inflows of Resources

The government reports decreases in net position that relate to a future period(s) as deferred outflows of resources in a separate section of its statement of net position. Deferred outflows of resources are related to the government's pension plans and consist of differences between expected and actual results, changes in actuarial assumptions, differences between actual and expected contributions and contributions made to the pension plans subsequent to the measurement date. No deferred outflows of resources affect the governmental funds financial statements in the current year.

The government's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the government's statement of net position for actual pension plan investment earnings in excess of the expected amounts and differences between actual and expected contributions included in determining pension expense. In the governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The government will not recognize the related revenues until they are available under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

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

Net Position

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

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

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

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

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

Fund Balance

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

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

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

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

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

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

The governing body has by resolution authorized the Commissioner's administrative assistant and/or Board of County Commissioners to assign fund balance. There was no assigned fund balance in the general fund.

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

Use of Estimates

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

NOTE 2. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

The government's cash, cash equivalents and investments are reported as follows:

Governmental activities	$ 4,708,682
Fiduciary funds	10,749,381
	$ 15,458,063

Total carrying value of cash, cash equivalents and investments as of June 30, 2016, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	$ 2,500	$ -	$ 2,500
Cash in banks:			
Demand deposits	7,034,061	-	7,034,061
Time deposits	-	5,900,774	5,900,774
Savings deposits	192,334	-	192,334
Brokers:			
U.S. Government securities	-	750,000	750,000
Short-term Investment Program (STIP)	1,573,394	-	1,573,394
	$ 8,802,289	$ 6,650,774	$ 15,453,063

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2016, $8,361,292 of the government's bank balance of $14,776,126 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank's trust department not in the government's name	$ 8,361,292

State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2016, exceeded the amount required by state statute.

Fair value measurements are as follows at June 30, 2016:

		Fair Value Measurements Using		
Investments	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government securities	$ 749,650	$ 749,650	$ -	$ -
State Short-Term Investment Program (STIP)	1,576,651			
	$ 2,326,301			

Securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. The government had no investments categorized as Level 2 or 3 inputs.

The STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". This pool is managed to preserve principal, while obtaining money market type returns and 24-hour liquidity. Funds may be invested for one or more days and redeemed with one business days' notice. The government's STIP ownership is represented by shares. Share prices are fixed at $1.00 per share for transactional purposes. The STIP investment portfolio consists of securities with maximum maturity of 2 years or less. The portfolio is reported at fair value for financial reporting purposes. STIP income is distributed on the first calendar day of each month. Shareholders have the option to automatically reinvest their distribution income in additional shares.

Interest Rate Risk. The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Credit Risk. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). The STIP portfolio is reported on at fair value versus amortized cost. The government has no investment policy that would further limit its investment choices. The Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

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

	Custodial Credit Risk Category			Carrying	Fair
	1	2	3	Amount	Value
U.S. Government securities	$ 500,000	$ -	$ 250,000	$ 750,000	$ 749,650
	$ 500,000	$ -	$ 250,000	750,000	749,650
Uncategorized:					
STIP				1,573,394	1,576,651
				$ 2,323,394	$ 2,326,301

Following is the condensed schedule of changes in net position and net position for the investment pool for the year ended June 30, 2016:

	Internal	External	Total
Net position - beginning of year	$ 7,038,922	$ 9,953,748	$ 16,992,670
Contributions from participants	5,162,769	7,052,720	12,215,489
Investment earnings	45,077	71,177	116,254
Distributions to participants	(6,550,598)	(7,315,752)	(13,866,350)
Net position - end of year	$ 5,696,170	$ 9,761,893	$ 15,458,063

Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated				
Land	$ 173,317	$ -	$ -	$ 173,317
Construction-in-progress	336,530	120,000	(261,952)	194,578
Total capital assets, not being depreciated	509,847	120,000	(261,952)	367,895
Capital assets, being depreciated				
Buildings/improvements	4,058,482	110,534	-	4,169,016
Machinery and equipment	8,450,480	1,111,732	(379,866)	9,182,346
Infrastructure	4,071,788	338,191	-	4,409,979
Total capital assets, being depreciated	16,580,750	1,560,457	(379,866)	17,761,341
Less accumulated depreciation for:				
Buildings/improvements	(1,023,801)	(109,918)	-	(1,133,719)
Machinery and equipment	(4,485,345)	(682,789)	378,778	(4,789,356)
Infrastructure	(788,357)	(139,405)	-	(927,762)
Total accumulated depreciation	(6,297,503)	(932,112)	378,778	(6,850,837)
Total capital assets, being depreciated, net	10,283,247	628,345	(1,088)	10,910,504
Capital assets, net	$ 10,793,094	$ 748,345	$ (263,040)	$ 11,278,399

Depreciation expense was charged as follows:

General government	$ 73,794
Public safety	192,039
Public works	653,794
Social and economic services	1,888
Culture and recreation	10,597
Total depreciation	$ 932,112

Transfers

Interfund transfers consisted of the following:

	Transfers In	Transfers Out	Total
General	$ 318,803	$ -	$ 318,803
Road	364,105	-	364,105
Bridge	315,931	-	315,931
Public Safety	236,142	-	236,142
PILT	-	(719,773)	(719,773)
Nonmajor governmental funds	234,273	(749,481)	(515,208)
	$ 1,469,254	$ (1,469,254)	$ -

Transfers are made to fund operations of various governmental activities and to fund future capital improvements.

Long-Term Debt

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Compensated absences	$ 521,651	$ -	$ (13,573)	$ 508,078	$ 50,808

Compensated absences are generally liquidated from the fund in which the employee is paid.

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in a state-wide public risk pool, MACO, for workers' compensation coverage. The government pays monthly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. The government also participates in MACO's Joint Powers Insurance Authority which offers insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

Jointly Governed Organization

The County participates with the City of Red Lodge and the Town of Bridger in a Joint Airport. The organization is authorized by Part 2, Chapter 10, Title 67, MCA. The Airport Board consists of seven members; three from the City and Town; three from the County and one appointed by the Airport Board

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Retirement Plans

Plan Description

The Public Employees Retirement System (PERS) Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 and 3, MCA) The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the PERS web site at mpera.mt.gov.

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

Pension Benefits

Public Employees Retirement System

Plan members hired prior to July 1, 2011 are eligible to retire at age 60 with 5 years of membership service, age 65 regardless of years of membership service or any age with 30 years of membership service. Benefits are calculated as follows: 1) if less than 25 years of membership service, 1.785% of the member's highest average compensation (HAC) multiplied by years of service credit or 2) if 25 years of membership service or more, 2% of HAC multiplied by years of service credit.

Plan members hired on or after July 1, 2011 are eligible to retire at age 65 with 5 years of membership service or age 70 regardless of years of membership service. Benefits are calculated as follows: 1) if less than 10 years of membership service, 1.5% of the member's HAC multiplied by years of service credit, 2) if between 10 and 30 years of membership service,1.785 of HAC multiplied by years of service credit, or 3) if 30 years of membership service or more, 2% of HAC multiplied by years of service credit.

Plan members hired prior to July 1, 2011 are eligible for early retirement at age 50 with 5 years of membership service or any age under age 60 with 25 years of membership service. Plan members hired on or after July 1, 2011 are eligible for early retirement at age 55 with 5 years of membership service. Benefits are actuarially reduced.

For members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 1). 3% for members hired prior to July1, 2007, 2). 1.5% for members hired between July 1, 2007 and June 30, 2013 or, 3). Members hired on or after July1, 2013: a). 1.5% for each year PERS is funded at or above 90%; b). 1.5% is reduced by .1% for each 2% PERS is funded below 90%; and c). 0% whenever the amortization period for PERS is 40 years or more.

Sheriff's Retirement System

SRS provides retirement, disability and death benefits. Members with 20 years of membership service are eligible to retire. Retirement benefits are determined as 2.5 percent of the member's highest average compensation (HAC) multiplied by years of service credit. For plan members hired prior to July 1, 2011, HAC is determined during any consecutive 36 months. For plan members hired on or after July 1, 2011, HAC is determined during any consecutive 60 months. For plan members hired on or after July 1, 2013, HAC is determined on 110% annual cap on compensation. Members age 50 with 5 years of membership service are eligible for early retirement. Retirement benefits are determined using HAC and years of service credit at early retirement, reduced to the actuarial equivalent.

5 years of membership service is required for a non-duty disability and any membership service for a duty-related disability. Disability benefits for a non-duty-related disability are calculated as the actuarial equivalent of the accrued normal retirement benefit available at the time of disability or for a duty-related disability (a) if less than 20 years of membership service: 50% of HAC, or (b) if 20 years or more of membership service: 2.5% of HAC multiplied by years of service credit.

The non-duty-related death benefit is either a lump-sum payment of the member's accumulated contributions or a monthly survivor benefit equal to 2.5% of HAC for each year of service credit actuarially reduced from age 60 or from the date when 20 years of membership service would have been completed, whichever provides the greater benefit. The duty-related death benefit is either a lump-sum payment of the member's accumulated contributions or a monthly survivor benefit to the designated beneficiary equal to the greater of (a) 50% of HAC or (b) 2.5% of HAC for each year of service credit actuarially reduced from age 60 or from the date when 20 years of membership service would have been completed, whichever provides the greater benefit. A beneficiary may elect to receive the present value of the benefit as a single lump sum. For retired members without a contingent annuitant, a payment will be made to the designated beneficiary equal to the accumulated contributions reduced by any retirement benefits already paid.

A member who leaves service may withdraw contributions made. Upon receipt of a refund of contributions, a member's vested right to a monthly benefit is forfeited.

For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to a maximum of 1.5% for members hired on or after July 1, 2007 and 3% for members hired prior to July 1, 2007.

Member and Employer Contributions

Public Employees Retirement System
All members contribute 7.9% of their compensation. Interest is credited to member accounts at the rates determined by the Board. All member contributions will be decreased to 6.9% on January 1 following the actuary valuation results that project the amortization period to drop below 25 years. Member contributions are made through an "employer pick-up" arrangement that results in deferral of taxes on the contributions.

Employers contribute 7.9% of each member's compensation. This was temporarily increased from 6.9% on July 1, 2013. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. The State's General Fund contributes an additional .37% of earned compensation. Effective July 1, 2013, contributions are also made to the system from the Coal Tax Fund. Beginning July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

Sheriff's Retirement System
Members contribute 9.245% of their compensation. Interest is credited at rates determined by the Board. Member contributions are made through an "employer pick-up" arrangement that results in deferral of taxes on the contributions.

Employers contribute 10.115% of each member's compensation. The rate increased from 9.535% to 9.825% on July 1, 2007 and to 10.115% on July 1, 2009. These increased contributions as of 2009 of 0.58% will terminate if an actuarial valuation shows that the period required to amortize the system's unfunded liabilities is less than 25 years, and that the termination of those increases would not cause the amortization to increase beyond 25 years.

Beginning July 1, 2013, employers of retirees who return to work in a position working less than 480 hours contribute 10.115% of the working retiree's compensation.

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

At June 30, 2016, the government recorded a liability of $2,854,942 (PERS) and $824,056 (SRS) for its proportionate share of the net pension liability.

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

	Net Pension Liability June 30, 2016 PERS	SRS
Employer proportionate share	$ 2,854,942	$ 824,056
State of Montana proportionate share associated with employer	35,068	-
Total	$ 2,890,010	$ 824,056

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The government's proportion of the net pension liability was based on the government's contributions received by PERS, and SRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all PERS and SRS participating employers. At June 30, 2016, the government's proportion was .2042 and .8548 percent for PERS and SRS, respectively.

For the year ended June 30, 2016, the government recognized $95,380 (PERS) and $61,154 (SRS) for its proportionate share of the pension expense. The government also recognized grant revenue of $70,695 (PERS) for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the government. Total pension expense recognized was $166,075 and $61,154 for PERS and SRS, respectively.

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

	PERS		SRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 17,273	$ -	$ 1,389
Changes in assumptions	-	-	306,732	302,505
Net difference between projected and actual earnings on pension plan investments	-	241,701	-	56,438
Changes in the employer's proportion and differences between employer's contributions and the employer's proportionate contributions	1,630	58,609	1,101	-
Employer contributions subsequent to measurement date	236,865	-	68,230	-
	$ 238,495	$ 317,583	$ 376,063	$ 360,332

Amounts reported as deferred outflows of resources related to pensions resulting from the government's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	PERS	SRS
2017	$ (126,123)	$ (23,121)
2018	(126,123)	(23,121)
2019	(126,570)	(23,121)
2020	62,862	16,077
2021	-	788

Actuarial Assumptions

For each of the retirement plans, the total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PERS	SRS
Investment rate of return, net of investment and administrative expenses	7.75%	7.75%
Salary increases	4.00%	4.00%
Inflation	3.00%	3.00%

Mortality rates for the PERS and SRS retirement plans are based on the RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

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

	PERS		SRS	
Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	2.0%	-0.25%	2.0%	-0.25%
Domestic equity	36.0%	4.55%	36.0%	4.55%
Foreign equity	18.0%	6.10%	18.0%	6.10%
Fixed income	24.0%	1.25%	24.0%	1.25%
Private equity	12.0%	8.00%	12.0%	8.00%
Real estate	8.0%	4.25%	8.0%	4.25%
	100.0%		100.0%	

Discount Rate

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

Sheriff's Retirement System (SRS)
The discount rate used to measure the TPL was 6.86%, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members after 2057. Therefore, the portion of future projected benefit payments after 2057 are discounted at the municipal bond index rate.

Sensitivity Analysis

The following presents the employer's PERS proportionate share net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability-PERS	$ 4,401,702	$ 2,854,942	$ 1,548,738

The following presents the employer's SRS proportionate share net pension liability calculated using the discount rate of 6.86%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (5.86%) or 1.00% higher (7.86%) than the current rate.

	1% Decrease (5.86%)	Current Discount Rate (6.86%)	1% Increase (7.86%)
Net pension liability-SRS	$ 1,323,379	$ 824,056	$ 414,732

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 74, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 75, Statement 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, Tax Abatement Disclosures. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants. The requirements of paragraphs 18, 19, 23–26, and 40 are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts				
	Original	Final	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
REVENUES					
Taxes/assessments	$ 1,534,676	$ 1,534,676	$ 1,609,476	$ -	$ 1,609,476
Fines and forfeitures	60,000	60,000	58,970	-	58,970
Licenses and permits	16,100	16,100	29,117	-	29,117
Intergovernmental	260,037	260,037	269,352	70,695	340,047
Charges for services	222,469	222,469	247,840	-	247,840
Investment earnings	32,000	32,000	37,001	-	37,001
Miscellaneous	38,000	38,000	30,153	-	30,153
Total revenues	2,163,282	2,163,282	2,281,909	70,695	2,352,604
EXPENDITURES					
Current:					
General government	2,321,020	2,321,020	2,135,607	33,311	2,168,918
Public safety	163,105	163,105	129,217	10,413	139,630
Public works	20,000	20,000	10,100	24,772	34,872
Public health	231,500	231,500	198,728	1,287	200,015
Social and economic services	51,464	51,464	49,149	820	49,969
Culture and recreation	-	-	-	92	92
Other current charges	140,850	140,850	151,493	-	151,493
Capital outlay	113,000	113,000	84,986	-	84,986
Total expenditures	3,040,939	3,040,939	2,759,280	70,695	2,829,975
Excess (deficiency) of revenues over expenditures	(877,657)	(877,657)	(477,371)	-	(477,371)
OTHER FINANCING SOURCES					
Insurance recoveries	13,475	13,475	24,474	-	24,474
Transfers in	437,150	437,150	318,803	-	318,803
Total other financing sources	450,625	450,625	343,277	-	343,277
Net change in fund balance	$ (427,032)	$ (427,032)	(134,094)	-	(134,094)
Fund balance - beginning			1,337,281	-	1,337,281
Fund balance - ending			$ 1,203,187	$ -	$ 1,203,187

See notes to required supplementary information-budgetary comparison information.

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Road Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		
	Original	Final	Actual Amounts
REVENUES			
Taxes/assessments	$ 1,017,488	$ 1,017,488	$ 1,015,269
Licenses and permits	67,000	67,000	64,550
Intergovernmental	521,802	521,802	518,004
Investment earnings	4,200	4,200	6,607
Miscellaneous	15,000	15,000	3,381
Total revenues	1,625,490	1,625,490	1,607,811
EXPENDITURES			
Current:			
Public works	1,801,200	1,801,200	1,697,222
Capital outlay	704,000	704,000	397,018
Total expenditures	2,505,200	2,505,200	2,094,240
Excess (deficiency) of revenues over expenditures	(879,710)	(879,710)	(486,429)
OTHER FINANCING SOURCES			
Sale of capital assets	-	-	350
Transfers in	411,672	411,672	364,105
Total other financing sources	411,672	411,672	364,455
Net change in fund balance	$ (468,038)	$ (468,038)	(121,974)
Fund balance - beginning			1,338,716
Fund balance - ending			$ 1,216,742

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Bridge Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		
	Original	Final	Actual Amounts
REVENUES			
Taxes/assessments	$ 600,899	$ 600,899	$ 597,701
Intergovernmental	198,278	198,278	212,869
Charges for services	1,000	1,000	9,650
Miscellaneous	3,000	3,000	-
Total revenues	803,177	803,177	820,220
EXPENDITURES			
Current:			
Public works	1,095,200	1,095,200	798,397
Capital outlay	327,000	327,000	355,884
Total expenditures	1,422,200	1,422,200	1,154,281
Excess (deficiency) of revenues over expenditures	(619,023)	(619,023)	(334,061)
OTHER FINANCING SOURCES			
Transfers in	386,358	386,358	315,931
Total other financing sources	386,358	386,358	315,931
Net change in fund balance	$ (232,665)	$ (232,665)	(18,130)
Fund balance - beginning			669,820
Fund balance - ending			$ 651,690

See notes to required supplementary information-budgetary comparison information.

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Public Safety Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		
	Original	Final	Actual Amounts
REVENUES			
Taxes/assessments	$ 1,195,997	$ 1,195,997	$ 1,189,723
Licenses and permits	6,500	6,500	6,360
Intergovernmental	159,855	159,855	101,713
Charges for services	62,500	62,500	106,193
Miscellaneous	10,000	10,000	3,218
Total revenues	1,434,852	1,434,852	1,407,207
EXPENDITURES			
Current:			
Public safety	1,850,116	1,850,116	1,751,090
Capital outlay	183,600	183,600	166,928
Total expenditures	2,033,716	2,033,716	1,918,018
Excess (deficiency) of revenues over expenditures	(598,864)	(598,864)	(510,811)
OTHER FINANCING SOURCES			
Sale of capital assets	-	-	4,030
Transfers in	275,683	275,683	236,142
Total other financing sources	275,683	275,683	240,172
Net change in fund balance	$ (323,181)	$ (323,181)	(270,639)
Fund balance - beginning			933,296
Fund balance - ending			$ 662,657

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PILT Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual
	Original	Final	Amounts
REVENUES			
Intergovernmental	$ 717,280	$ 717,280	$ 1,035,675
Investment earnings	-	-	1,038
Miscellaneous	-	-	10
Total revenues	717,280	717,280	1,036,723
EXPENDITURES:			
Current:			
General government	670	670	669
Public safety	69,400	69,400	45,160
Capital outlay	243,500	243,500	146,050
Total expenditures	313,570	313,570	191,879
Excess (deficiency) of revenues over expenditures	403,710	403,710	844,844
OTHER FINANCING USES			
Transfers out	(719,773)	(719,773)	(719,773)
Total other financing uses	(719,773)	(719,773)	(719,773)
Net change in fund balance	$ (316,063)	$ (316,063)	125,071
Fund balance - beginning			241,001
Fund balance - ending			$ 366,072

See notes to required supplementary information - budgetary comparison information.

BUDGETARY INFORMATION

Money may not be disbursed, expended or obligated except pursuant to an appropriation for which working capital is or will be available. The final budget is legally enacted by the governing body by the first Thursday after the first Tuesday in September or within 30 calendar days of receiving certified taxable values from the department of revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

The differences between budget and GAAP revenues and expenditures are due to recording the on-behalf state support revenue and expenditures for PERS and SRS.

CARBON COUNTY
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES AND SHERIFF'S RETIREMENT SYSTEMS OF MONTANA
For the Year Ended June 30, 2016

Public Employees Retirement System:	2016	2015
Contractually required contributions	$ 236,865	$ 207,452
Contributions in relation to the contractually required contributions	236,865	207,452
Contribution deficiency (excess)	$ -	$ -
Pensionable payroll	$ 2,734,189	$ 2,383,462
Contributions as a percentage of pensionable payroll	8.66%	8.70%

Sheriff's Retirement System:	2016	2015
Contractually required contributions	$ 68,230	$ 59,005
Contributions in relation to the contractually required contributions	68,230	59,005
Contribution deficiency (excess)	$ -	$ -
Pensionable payroll	$ 658,298	$ 581,680
Contributions as a percentage of pensionable payroll	10.36%	10.14%

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

CARBON COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES AND SHERIFF'S RETIREMENT SYSTEMS OF MONTANA
For the Year Ended June 30, 2016

Public Employees Retirement System:	2016	2015
Employer's proportion of the net pension liability	0.2042%	0.2092%
Employer's proportionate share of the net pension liability associated with the employer	$ 2,854,942	$ 2,606,889
State of Montana's proportionate share of the net pension liability associated with the employer	35,068	31,834
Total	$ 2,890,010	$ 2,638,723
Pensionable payroll	$ 2,383,462	$ 2,368,353
Employer's proportionate share of the net pension liability as a percentage of its pensionable payroll	119.78%	110.07%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.90%

Sheriff's Retirement System:	2016	2015
Employer's proportion of the net pension liability	0.8548%	0.8535%
Employer's proportionate share of the net pension liability associated with the employer	$ 824,056	$ 355,222
State of Montana's proportionate share of the net pension liability associated with the employer	-	-
Total	$ 824,056	$ 355,222
Pensionable payroll	$ 581,680	$ 552,013
Employer's proportionate share of the net pension liability as a percentage of its pensionable payroll	141.67%	64.35%
Plan fiduciary net position as a percentage of the total pension liability	75.40%	87.20%

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

Public Employees Retirement System

Changes of Benefit Terms:

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

2013 Legislative Changes:

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

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

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

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

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454 Guaranteed Annual Benefit Adjustment (GABA) - for PERS. After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

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

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 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.

Changes in actuarial assumptions and other inputs:

None

Sheriff's Retirement System

Changes of Benefit Terms:

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

2013 Legislative Changes:

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

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

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

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

2015 Legislative Changes:

None

Changes in actuarial assumptions and other inputs:

Method and assumptions used in calculations of actuarially determined contributions:

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

- SRS discount rate used to measure the TPL - 6.86 percent, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%.

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

- Admin expense as % of payroll - 0.17%
- SRS discount rate used to measure the TPL - 7.75 percent, which is the assumed long-term expected rate of return on System's investments.

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

- SRS discount rate used to measure the TPL - 6.68 percent, which is a blend of the assumed long-term expected rate of return of 7.82% on System's investments and a municipal bond index rate of 4.27%.

	PERS	SRS
Acturial cost method	Entry age	Entry age
Amortization method	Level percentage of pay, open	Level percentage of pay, open
Remaining amortization period	30 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Inflation	3.00%	3.00%
Salary increases	4%	4%
Investment rate of return	7.75%, net of pension plan investment expense and including inflation	7.75%, net of pension plan investment expense and including inflation

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

To the Board of County Commissioners
Carbon County
Red Lodge, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated March 21, 2017. The report included explanatory paragraphs to describe changes in accounting principles. Also, the report on the governmental activities and the road and bridge funds was qualified because we did not observe year-end inventory counts and the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Additionally, the report on the governmental activities was qualified because management has not recorded the other post-employment benefit (OPEB) liability and related expense.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. (findings 2016-001 through 2016-003)

Compliance and Other Matters

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

The Government's Response to Findings

The government's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The government'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.

Olness & Associates, PC

Billings, Montana
March 21, 2017

2016-001. SEGREGATION OF DUTIES

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Client Response: Segregation of duties is an area that Carbon County is continually trying to improve on. Accounts payable, payroll and tax reconciliation are segregated. Management will continue to monitor this area and implement effective controls.

2016-002. AUDITOR PREPARED FINANCIAL STATEMENTS

Criteria: As part of its internal control structure, it is the government's responsibility to prepare its financial statements in accordance with generally accepted accounting principles (GAAP).

Condition: The government does not have the expertise to prepare or evaluate the selection and application of accounting principles and resulting disclosures and presentations within the auditor prepared financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common for a small organization to rely on the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: While it may not be cost effective to do so, we recommend the government consider hiring a qualified person to evaluate the auditor prepared financial statements.

Client Response: Carbon County employees and management have the necessary qualifications and training to fulfill their assigned daily functions, but do not have the skills and knowledge to apply Generally Accepted Accounting Principles (GAAP) in relation to the preparation of the financial statement. The cost verses the benefits of hiring qualified staff to prepare GAAP financial statements and footnote disclosures is not cost effective. The County does not have the money or space for such a staff; our resources are limited.

2016-003. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post-employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2016.

Effect: The governmental activities liabilities are understated, net position is overstated and total expenses would change.

Recommendation: The government should engage an actuarial firm to determine the OPEB liability and related expense.

Response: Carbon County talked to actuarial firms regarding an actuarial valuation for the OPEB-GASB No. 45. The quote we received was $1,900. The Commissioners decided that the amount of liability Carbon County would incur from this valuation and the expense involved in determining that liability, would not be worth the cost and not reflect true accuracy.

CARBON COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

2015-001. FINANCIAL STATEMENT PREPARATION

Status: This finding is unresolved and is repeated as finding 2016-002 for the year ended June 30, 2016.

2015-002. OTHER POST-EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Status: This finding is unresolved and is repeated as finding 2016-003 for the year ended June 30, 2016.

2015-003. SEGREGATION OF DUTIES

Status: This finding is unresolved and is repeated as finding 2016-001 for the year ended June 30, 2016.

2015-004. TIME CLOCK SYSTEM

Status: This finding has been resolved.

2015-005. COMPETITIVE BIDDING

Status: This finding has been resolved.

2015-006. STATE PREVAILING WAGE RATES

Status: This finding has been resolved.