Note 1. Summary of Significant Accounting Policies

The financial statements of Yellowstone County (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. These and other changes are reflected in the accompanying financial statements (including notes to financial statements), except the County plans to retroactively report infrastructure (assets acquired prior to July 1, 2002) in the fiscal year ending June 30, 2007.

A. Reporting Entity

Yellowstone County's financial statements include those separate governmental entities that are controlled or are dependent on the County. The determination to include separate governmental entities is based on the criteria of GASB Statement No. 14. GASB Statement No. 14 defines the reporting entity as the County and those component units for which the County is financially accountable. To be financially accountable, a voting majority of the organization's board must be appointed by the County, and either a) the County must be able to impose its will, or b) the County may potentially benefit financially or be financially responsible for the organization. The County does not report any separate government entities as component units.

B. Fund Accounting

The County uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts.
Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all financial activities of the general government not recorded in another fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Fiduciary funds include all trust and agency funds which account for assets held by the County as a trustee or as an agent for individuals, other governmental units and/or other funds. The investment trust fund accounts for the external portion of the County's investment pool, which is invested for County school districts, special districts, and the protest tax fund. These districts have all agreed to voluntarily participate in the investment pool. Agency funds generally are used to account for funds being held on an interim basis on behalf of others as their agent. Such funds are custodial in nature since all assets are due to individuals or entities at some future time.

Note 1. Summary of Significant Accounting Policies, continued

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. . Interfund activity constituting reimbursements for expenditures or expenses previously recorded in another fund, for the most part, has been removed from these statements. This avoids reporting the same expenditure or expense twice and eliminates the associated reimbursement revenue. *Governmental-activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Nonmajor funds are aggregated and presented in a single column. The internal service funds are aggregated in a single column on the face of the proprietary fund statement.

D. 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 proprietary fund and 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 revenues in the year for which 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*. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred as under accrual accounting. Principal and interest on long-term debt, as well as expenditures related to compensated absences, are recorded as fund liabilities when payment is due.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Proprietary funds apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins. The County has not adopted paragraph 7 of GASB#20 regarding the application of FASB pronouncements after November 30, 1989. The accrual basis of accounting is utilized by proprietary funds and the investment trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Agency funds are custodial in nature and do not involve measurement of results of operations.

Note 1. Summary of Significant Accounting Policies, continued

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

The County reports deferred revenue on its governmental funds' balance sheets. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. The County reports uncollected property tax revenues as deferred revenue for governmental funds.

Those revenues susceptible to accrual are interest revenue, grant revenues, and charges for services. Changes in the fair value of investments are recognized in revenue at the end of each year. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *road fund* accounts for the construction, maintenance, and improvements of public roads outside incorporated areas.

The *property and liability insurance fund* accounts for the collection of levied taxes used to pay property and casualty insurance and the establishment of reserves for the self-funded liability program.

The *public safety fund* accounts for the levy and expenditures of the Sheriff's Department, including the Yellowstone County Detention Facility.

The *RSID bond fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt issued for rural special improvement districts.

The c*apital improvement fund* accounts for the accumulation and expenditure of resources for major capital expenditures, construction, or improvements.

The government reports the following major fund proprietary funds:

The *refuse disposal fund* accounts for the funding and costs associated with County charges and services provided to County residents to have access to garbage disposal.

The *METRA fund* accounts for the operations of the Montana Exposition, Trade, and Recreation Arena (METRA), which reports all activities and events held in the 10,000 seat arena and other event facilities and grounds.

Note 1. Summary of Significant Accounting Policies, continued

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Additionally, the government reports the following fund types:

Internal service funds account for the County's self-insured health insurance plan, motor pool, and telephone services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges for property and liability insurance. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fiduciary fund types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The County's agency funds include cash and property tax receivables for county school districts and other county special districts. They also include property tax receivables levied by Yellowstone County on behalf of the State of Montana and the Cities of Billings, Laurel, and Broadview. Cash collections on those property tax receivables are distributed to associated taxing jurisdictions in the month subsequent to collection.

Amounts to be reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the METRA enterprise fund and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Note 1. Summary of Significant Accounting Policies, continued

F. Assets, Liabilities, and Net Assets or Equity

1. Cash and Demand Investments, and Cash Investments

Cash resources, to the extent available, of the individual funds are combined to form a cash pool, which is managed by the County Finance Director. The cash pool is not registered with the Securities and Exchange Commission as an investment company and is not subject to regulatory oversight. Investments of the pooled cash, which are authorized by state law, consist primarily of repurchase agreements, the State of Montana's Short Term Investment Pool (STIP), and securities of the U. S. Government or its agencies and are carried at fair value. The fair value of investments is determined annually, and is based on fair value. The method used to determine the values of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of withdrawal. Bank deposits include demand deposits and overnight repurchase agreements in County banks. Interest income earned as a result of pooling and changes in the fair value of investments are distributed to the appropriate funds as designated by state law utilizing a formula based on the applicable cash balance participation of each fund. The general fund receives interest revenue from those funds not specifically designated by state law to receive interest.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2005 to support the value of shares in the pool.

The County issues warrants in payment of its obligations. Cash balances are reported net of outstanding warrants.

For purposes of the statement of cash flows, the County considers all highly liquid debt instruments with an original maturity of three months or less, including restricted investments, as cash equivalents.

2. Restricted Cash and Demand Investments

Restricted cash and demand investments represent resources set aside for capital improvements, advances, notes payable repayment, and unforeseeable repairs improvements.

3. Receivables and Payables

All trade, special assessment, and property tax receivables are shown net of an allowance for uncollectibles. As of June 30, 2005, the allowances were as follows:

	Allowance Amount
Accounts Receivable	$ 64,112
Property taxes	166,900
Delinquent special assessments	13,300
Deferred special assessments	74,300
Total uncollectible allowance	$ 318,612

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Note 1. Summary of Significant Accounting Policies, continued

4. Inventories

In the proprietary funds, inventories are recorded at the lower of cost (first-in, first-out method) or market, and are recorded as expenses when consumed. In the funds, reported inventories are recorded at average cost, and are recorded as expenditures when consumed.

5. Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. The governmental fund financial statements may include expenditures for minor capital assets valued between $500 and $5,000 that the County has budgeted as capital in order to provide fixed asset control of these items, however, these items are not being reported or depreciated as capital assets on the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure assets reported as of June 30, 2005 include only those assets acquired since July 1, 2002 and do not include any retroactive reporting of capital infrastructure assets acquired before July 1, 2002, since the value of those assets have not been determined.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Major outlays for capital assets and improvements are capitalized as projects are constructed. If material, interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building Improvements	20
Public Domain Infrastructure	50
System Infrastructure	30
Vehicles	5
Office Equipment	5
Computer Equipment	5

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets.

The County's collection of donated artifacts and art held at the Yellowstone County Museum are not capitalized or depreciated.

6. Self-Insurance Accruals

The County provides for an estimated accrual for incurred claims at year end in the Property and Liability Insurance Fund for liability claims and the Health Insurance Fund for unpaid health claims.

7. Due to Other Taxing Districts

This account represents cash, tax receivables, and other assets held by the County for other taxing jurisdictions. Cash received by the County for the State of Montana, multi-jurisdictional service districts, and cities and towns located in Yellowstone County is distributed in the month following collection.

8. Compensated Absences

Vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability of the governmental fund that will pay it in the fund financial statements. Amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as a long-term liability in the government-wide financial statements. Vested or accumulated vacation and sick leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The nonvested portion of sick leave is 75% of the accrued sick leave times the rate of pay.

All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements

9. Long-term Obligations

In the government-wide financial statements, and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

11. Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets does not include either capitalized assets or the related debt for Rural Special Improvement Districts (RSIDs). Infrastructure improvements built and maintained through RSIDs are the financial responsibility of the benefited property owners and are not the responsibility of the County other than in a fiduciary capacity. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations by other governments.

Note 2. Reconciliation Comparative of Government-wide and Fund Financial Statements

A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

A separate report has been included in basic financial statements to explain the differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets.

B. Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

A separate report has been included in basic financial statements to explain the differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities.

Note 3. Stewardship, compliance, and accountability

Budgets are adopted on a basis consistent with a modified accrual basis of accounting. Annual legal budgets are adopted for the general, special revenue, debt service, and capital projects funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

The level of budgetary control (that is the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. Individual fund budgets are the same as appropriation amounts. Unexpended appropriations lapse at the end of the year.

Budget amendments can be made at any time during the year by resolution after holding public hearings. Supplemental appropriations were made for unanticipated state and federal grants awarded during the year. The effect of the budget amendments other than those for federal and state grants during fiscal year 2005 was nominal. Reported budget amounts represent the original adopted budget as amended.

Note 4. Cash and Demand Investments, and Cash Investments

The County maintains a cash and investment pool for all funds under the control of the County Treasurer. The nonpooled investments represent those investments held for other individuals or districts to be utilized for a specific purpose or capital project. The County's investments are categorized below to give an indication of the level of risk assumed by the County at June 30, 2005 All investments meet collateral requirements specified by State Law.

Investments are categorized into these three categories of credit risk:
(1) Insured or registered, or securities held by the County or its agent in the County's name.
(2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the County 's name.
(3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the County's name.

At year end, the County's pooled investment balances were as follows:

	Category			Reported Amount/
	1	2	3	Fair Value
Cash investments - U.S. Government Securities	$ 42,822,857	$ 0	$ 0	$ 42,822,857
Cash in overnight repurchase agreements	0	0	3,626,542	3,626,542
Cash on hand and demand deposits	151,667	0	1,290,463	1,442,130
Total	$ 42,974,524	$ 0	$ 4,917,005	$ 47,891,529
Investments Not Subject to Categories:				
State Treasurer's Investment Pool (STIP)				32,500,000
Less outstanding warrants				(9,793,552)
Total Pooled Investments				$ 70,597,977

At year end, the County's nonpooled investment balances were as follows:

	Category			Reported Amount/
	1	2	3	Fair Value
Cash investments - U.S. Government Securities	$ 12,705,150	$ 0	$ 0	$ 12,705,150
Cash on hand and demand deposits	100,000	0	63,936	163,936
Total	$ 12,805,150	$ 0	$ 63,936	$ 12,869,086
Investments Not Subject to Categories:				
State Treasurer's Investment Pool (STIP)				8,174,241
Total Nonpooled Investments				$ 21,043,327
Total Investments				$ 91,641,304

Note 4. Cash and Demand Investments, and Cash Investments, continued

Due to higher cash flows at certain times during the year, the County's investment in overnight repurchase agreements for which the underlying securities were held by the dealer increased significantly. As a result, the amounts that were in category 3 at those times were substantially higher than at year end.

The total cash reported at June 30, 2005, is detailed as follows:

	Total	Statement of Net Assets	Fiduciary Net Assets
Cash and demand investments, pooled	$ 27,775,120	$ 10,626,797	$ 17,148,323
Restricted cash held in trust, nonpooled	163,936	112,674	51,262
Restricted cash and demand investments for capital, nonpooled	8,174,241	0	8,174,241
Total cash and demand investments	36,113,297	10,739,471	25,373,826
Cash investments, pooled	42,822,857	16,370,170	26,452,687
Restricted cash investments for capital, nonpooled	12,705,150	0	12,705,150
Total Investments	$91,641,304	$ 27,109,641	$ 64,531,663

Cash on hand	$ 28,326
Cash in pooled bank deposits and other bank deposits	1,577,739
Cash in overnight repurchase agreements	3,626,542
Cash in State Treasurer's Investment Pool	40,674,241
Outstanding warrants	(9,793,552)
Total cash and demand investments	36,113,296
Cash investments	55,528,008
Total Investments	$91,641,304

Cash and demand investments, and cash investments- pooled	$70,597,977
Cash and demand investments, and cash investments- nonpooled	21,043,327
Total Investments	$ 91,641,304

Note 4. Cash and Demand Investments, and Cash Investments, continued

Cash on hand - represents two types of cash items: petty cash and change funds on hand - $28,090 ; cash received after last bank deposit - $236.

Cash in bank deposits and other bank deposits – Cash in bank deposits represents cash on deposit in local bank accounts used for pooled banking operations of the County - $1,413,803; other bank deposits represents cash held in trust for other individuals in which any interest earnings are not distributed to the investment pool - $163,936

Cash in overnight repurchase agreements – represents cash invested on a daily basis by the County's primary bank. Invested funds represent the nightly balance of collected funds in the County's main depository bank account. The overnight repurchase agreement has the funds redeposited into the County's main bank account the next business day. The invested funds are collateralized by permissible U.S. government securities that have a value of at least 102% of the investment value.

Cash in State Treasurer's Investment Pool (STIP)

STIP is considered an external investment pool. STIP is also classified as a "2a-7 like" pool. A "2a-7-like" pool is an external investment pool that is not registered with the Securities and Exchange Commission as an investment fund, but has a policy that it will and does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The County's investment position in STIP is determined by the pool's share price, which is dollar denominated.

The STIP portfolio includes, but is not limited to, "variable rate" and "asset-backed" securities to provide diversification and a competitive rate of return. These securities are described below:

Asset-backed Securities are debt securities collateralized by a pool of mortgages and non-mortgage assets, such as trade and loan receivables, equipment leases, and credit cards, etc. pledged by the issuer. Asset-backed securities have one or more forms of credit enhancement to raise the quality of the security. Examples of credit enhancement include, but are not limited to, letter of credit, reserve fund, or senior/subordinate arrangements.

Variable Rate (Floating-Rate) Securities provide many advantages of short-term bonds because they are designed to minimize the investor's interest rate risk. As with variable rate loans issued by banks, the interest rate paid by the issuer of these securities is reset periodically depending on market conditions. The value of these securities will usually remain at or near par because their interest rates are reset to maintain a current market yield. STIP's variable rate securities float to either the prime rate or the London Interbank Offering Rate (LIBOR), which is similar to the European federal funds rate.

Outstanding warrants - represents issued and outstanding warrants and checks of the County and school districts

Cash investments - represents investments held by the County Treasurer with maturity dates exceeding 1 day.

At June 30, 2005, pooled cash investment items were:

Investment Type	Yield	Maturity Date	Credit Risk Rating Moodys – S&P	Fair Value
Federal Farm Credit	2.08%	6 months	AAA – AAA	$ 1,983,760
Federal Home Loan Mortgage Corporation	2.57 – 4.01%	6 months – 3.5 years	AAA – AAA	5,971,200 *
Federal Home Loan Bank	2.55 – 3.30%	1 – 3.8 years	AAA – AAA	32,668,560 *
Federal National Mortgage Association	3.013%	10 months	AAA – AAA	2,199,337
Total U.S. government agency securities				$42,822,857

* - represents 5% or more of total cash investments

Note 4. Cash and Demand Investments, and Cash Investments, continued

At June 30, 2005, nonpooled cash investment items were:

Investment Type	Yield	Maturity Date	Credit Risk Rating Moodys – S&P	Fair Value
Federal Home Loan Mortgage Corporation	3.485 – 3.752%	8 months – 1.5 years	AAA – AAA	$ 3,760,660 *
Federal Home Loan Bank	3.62 – 3.67%	12 – 14 months	AAA – AAA	2,990,480 *
Federal National Mortgage Association	3.072 - 3.597%	2 - 13 months	AAA – AAA	5,954,010 *
Total U.S. government agency securities				$ 12,705,150

* - represents 5% or more of total cash investments

The following represents a condensed statement of net assets and changes in net assets for the cash and investment pool as of June 30, 2005:

Condensed Statement of Net Assets	
Cash and demand investments, pooled	$27,775,120
Cash investments, pooled	42,822,857
Restricted cash and demand investments, nonpooled	8,338,177
Restricted cash investments, nonpooled	12,705,150
Accrued interest receivable	360,998
Net assets held in trust for all pool participants	**$ 92,002,302**
Equity of internal pool participants	$ 52,386,379
Equity of external pool participants	39,615,923
Total equity	**$ 92,002,302**

Condensed Statement of Changes in Net Assets	
Net assets at July 1, 2004	$ 78,690,920
Net changes in investments by pool participants	13,179,995
Market value adjustment of cash investments	131,387
Net assets at June 30, 2005	**$ 92,002,302**

Note 5. Receivables

Receivables as of year end for the government's individual major funds; and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	MAJOR GOVERNMENTAL FUNDS						Other	MAJOR ENTERPRISE FUNDS				
	General	Road	Liability & Property Insurance	Public Safety - Sheriff	R.S.I.D. Bond Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Refuse Disposal	METRA	Internal Service Funds	Fiducuiary Funds	Total
Receivables:												
Property taxes	$270,802	$122,267	$33,863	$287,860	$ 0	$ 0	$406,975	$ 0	$49,967	$ 0	$5,526,602	$6,698,336
Accounts	201,165	0	0	338,417	0	0	714,188	0	19,014	2,664	0	1,275,448
Delinquent assessments	13,413	0	0	0	14,852	0	8,809	51,252	0	0	878,135	966,461
Deferred assessments	0	0	0	0	1,485,662	0	0	0	0	0	6,916	1,492,578
Accrued interest	60,567	0	7,664	0	513	13,023	7,257	0	1,399	3,406	267,169	360,998
Gross receivables	**545,947**	**122,267**	**41,527**	**626,277**	**1,501,027**	**13,023**	**1,137,229**	**51,252**	**70,380**	**6,070**	**6,678,822**	**10,793,821**
Less allowances for uncollectible accounts	(39,400)	(18,200)	(4,800)	(70,900)	(76,500)	0	(86,472)	(7,700)	(14,640)	0	0	(318,612)
Net total receivables	**$ 506,547**	**$ 104,067**	**$ 36,727**	**$555,377**	**$1,424,527**	**$ 13,023**	**$ 1,050,757**	**$ 43,552**	**$ 55,740**	**$ 6,070**	**$ 6,678,822**	**$ 10,475,209**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* were as follows:

	Unavailable	Unearned	Total
Delinquent property taxes receivable (governmental funds)	**$ 961,967**	**$ 0**	**$ 961,967**
Special assessments receivable (governmental funds)	**31,474**	**0**	**31,474**
Special assessments not yet billed (governmental funds)	**1,411,362**	**0**	**1,411,362**
METRA receipts for fiscal year 2006 events (enterprise fund)	**0**	**79,221**	**79,221**
Total Deferred Revenue	**$2,404,803**	**$ 79,221**	**$ 2,484,024**

The delinquent taxes receivable accounts represent the past five years of uncollected tax levies. The allowance for uncollectibles is estimated based on delinquent tax collection history. All net property taxes and special assessments receivables are offset by deferred revenue in the governmental fund types.

The 2004 real property taxes and the 2004 special assessments were levied and became receivables in October 2004. The semi-annual installments were due in November 2004 and May 2005. As of December 1, 2004, and June 1, 2005, uncollected real property taxes and special assessments became delinquent and all uncollected amounts as of June 30, 2005, have been reported as deferred revenue. Delinquent taxes become a lien on the property on June 1 and after 3 years the County exercises the lien and takes title to the property. Personal property taxes were levied throughout the year and became a receivable when levied. Personal property taxes are due 30 days from the levy date. Amounts not collected as of June 30, 2005, have been reported as deferred revenue. There was no significant land held for resale as of June 30, 2005.

Note 6. Interfund Receivables, Payables and Transfers

Interfund Receivables and Payables

Due from/to Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Permissive Medical Levy Fund	$ 62,474

Interfund transfers

Transfers in

	MAJOR GOVERNMENTAL FUNDS						Other	MAJOR		
			Liability &	Public	R.S.I.D.	Capital	Nonmajor	ENTERPRISE	Internal	
			Property	Safety -	Bond	Improvement	Governmental	FUND	Service	
	General	Road	Insurance	Sheriff	Fund	Fund	Funds	METRA	Funds	Total
Transfers out:										
General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 250,000	$ 1,112,178	$ 0	$ 0	$ 1,362,178
Road Fund	0	0	0	0	0	200,000	30,000	0	0	230,000
Public Safety - Sheriff Fund	54,220	0	0	0	0	250,000	25,000	0	0	329,220
Capital Improvement Fund	0	0	0	0	0	0	15,000	155,700	0	170,700
Nonmajor Governmental Funds	199,322	57,945	6,216	191,911	19,974	89,296	683,708	39,585	995,915	2,283,872
Major Enterprise Fund – Refuse Disposal Fund	23,500	0	0	0	0	0	0	0	0	23,500
Total transfers	**$ 277,042**	**$ 57,945**	**$ 6,216**	**$ 191,911**	**$19,974**	**$ 789,296**	**$ 1,865,886**	**$ 195,285**	**$ 995,915**	**$ 4,399,470**

Note 7. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2005 was as follows:

Governmental-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 1,132,792	$ 0	$ 0	$ 1,132,792
Construction in Progress	78,240	459,828	(71,240)	466,828
Total Capital Assets, Not Being Depreciated	1,211,032	459,828	(71,240)	1,599,620
Capital Assets, Being Depreciated:				
Buildings	24,547,813	195,873	0	24,743,686
Improvements Other Than Buildings	1,143,590	83,572	0	1,227,162
Machinery and Equipment	12,858,292	1,030,766	(102,063)	13,786,995
Infrastructure	1,666,601	651,324	0	2,317,925
Total Assets Being Depreciated	40,216,296	1,961,535	(102,063)	42,075,768
Less Accumulated Depreciation For:				
Buildings	11,971,793	607,541	0	12,579,334
Improvements Other Than Buildings	693,637	52,887	0	746,524
Machinery and Equipment	7,376,542	1,165,185	(81,577)	8,460,150
Infrastructure	317,247	91,046	0	408,293
Total Accumulated Depreciation	20,359,219	1,916,659	(81,577)	22,194,301
Total Capital Assets, Being Depreciated, Net	19,857,077	44,876	(20,486)	19,881,467
Governmental Activities Capital Assets, Net	$ 21,068,109	$504,704	$ (91,726)	21,481,087

Note 7. Capital Assets, continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 368,574	$ 0	$ 0	$ 368,574
Construction in progress	16,514	0	(16,514)	0
Capital Assets, Being Depreciated:				
Buildings	21,698,068	43,588	(0)	21,741,656
Improvements Other Than Buildings	2,614,568	23,780	(0)	2,638,348
Machinery and Equipment	1,170,659	66,491	(17,139)	1,220,011
Total Capital Assets, Being Depreciated	25,483,295	133,859	(17,139)	25,600,015
Less Accumulated Depreciation For:				
Buildings	9,657,118	623,304	(0)	10,280,422
Improvements Other Than Building	1,838,525	130,826	(0)	1,969,351
Machinery and Equipment	916,917	45,957	(17,139)	945,735
Total Accumulated Depreciation	12,412,560	800,087	(17,139)	13,195,508
Total Capital Assets, Being Depreciated, Net	13,070,735	(666,228)	(0)	12,404,507
Business-type Activities Capital Assets, Net	$13,455,823	$(666,228)	$(16,514)	$12,773,081

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General Government	$ 403,122
Public Safety	947,464
Public Works	455,556
Public Health	9,278
Social and Economic	19,999
Culture and Recreation	81,240
Conservation of Natural Resources	0
Total Depreciation Expense – Government Activities	1,916,659
Business-type Activities	
METRA	800,087
Total Depreciation Expense – Primary Government	$ 2,716,746

Note 8. Long-Term Debt

General Obligation Bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental-type activities. The capital assets acquired with the general obligation debt were donated to METRA, which is a business-type activity, however METRA is not responsible for servicing the debt. Debt service is the responsibility of the governmental debt service fund which levies annual tax revenues to service the debt.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. General obligation bonds currently outstanding are as follows:

	Interest Rate	Amount
Governmental -type Activities- 2001 General Obligation Refunding Bonds (nontaxable – refunded 1994 METRA Expansion Bonds due after June1, 2004), 3.00 - 4.15% due June 1, 2014, payable in annual principal installments of $570,000 to $765,000, callable on or after June 1, 2008	3.00 – 4.15%	$ 5,925,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending	Governmental -type Activities		
June 30,	Principal	Interest	Total
2006	$ 570,000	$ 217,858	$ 787,858
2007	590,000	200,757	790,757
2008	610,000	181,878	791,878
2009	625,000	160,833	785,833
2010	655,000	138,332	793,332
2011-2014	2,875,000	295,440	3,170,440
Total	$ 5,925,000	$ 1,195,098	$ 7,120,098

Note 8. Long-Term Debt, continued

Rural Special Improvement District Bonds

The County issued $1,148,000 of special assessment debt in fiscal year 2005 to provide funds for the construction of streets in residential developments. These bonds will be repaid from amounts levied against the property owners benefited by this construction.

Rural special improvement district bonds are payable from special assessments levied against the properties of the respective districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par value plus accrued interest, if the related special assessments are collected.

The County has a secondary responsibility on the special assessment bonds issued for the various rural special improvement districts (R.S.I.D.) to the extent of availability of cash in the R.S.I.D. Revolving Fund. State law provides for and the County uses an R.S.I.D. Revolving Fund to accumulate resources for such debt service payment. Law allows for a special property tax levy as long as the balance in this fund is less than 5% of the principal amount of outstanding R.S.I.D. bonds. No tax levy for this fund was assessed for fiscal year ended June 30, 2005. The R.S.I.D. Revolving Fund has no unfunded commitment to the R.S.I.D. bond fund as of June 30, 2005. The R.S.I.D. Revolving Fund would be committed to the R.S.I.D. Bond Fund as a result of lost revenues due to unpaid assessments from properties taken by tax title. The amount of the liability can fluctuate based on future tax deed losses, collections of penalties and interest on delinquent assessments, proceeds from unsold tax deed properties and other circumstances. The R.S.I.D. Revolving Fund, which has a fund balance of $237,613 at June 30, 2005 is treated as a debt service fund.

The outstanding rural special improvement district bonded indebtedness of the County was as follows:

Rural Special Improvement District Number	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2005
632	8.38%	09/15/86	03/14/06	758,000	$ 23,907
633	8.38%	09/15/86	03/14/06	482,500	15,608
643	5.12%	06/01/96	07/01/06	108,500	10,000
663	7.25%	06/30/98	07/01/08	43,116	3,000
665	6.80%	08/03/99	08/03/09	32,940	9,000
668	5.83%	06/15/00	06/15/15	750,000	290,000
674	5.70%	08/31/00	08/31/08	58,192	6,000
679	5.70%	09/01/01	08/01/13	82,000	34,000
682	6.00%	08/01/02	08/01/17	174,000	90,000
691	4.90%	10/01/03	08/01/13	49,000	28,000
715	4.19%	08/01/04	08/01/19	410,000	395,000
717	4.93%	06/01/05	08/01/20	738,000	738,000
Various matured bonds	0%	Various	Matured	Various	7,225
Outstanding rural special improvement district bonds, June 30, 2005					1,649,740
Less called and matured bonds					(7,225)
Uncalled rural special improvement district bonds, June 30, 2005					**$ 1,642,515**

Note 8. Long-Term Debt, continued

Rural Special Improvement District Bonds, continued

Annual debt service requirements to maturity for special assessment bonds are as follows:

Debt Service Requirements

Year Ending June 30,	Governmental-type Activities Principal	Interest	Total
2006	$ 102,740	$ 81,915	$ 184,655
2007	86,000	75,605	161,605
2008	89,000	71,622	160,622
2009	88,000	67,237	155,237
2010	85,000	64,068	149,068
2011-2015	558,000	254,916	812,916
2016-2020	586,000	87,128	673,128
2021	55,000	2,713	57,713
Total	$1,649,740	$ 705,204	$ 2,354,944

Notes Payable

Notes payable are long-term obligations which are financed through the current operating budget of the respective funds.

At June 30, 2005 the outstanding notes payable of the County were as follows:

Governmental-type activity	
5.85% note payable of the General Fund, due in annual payments of $13,503 to November 2007.	$ 36,195
Variable interest (3.80% as of June 30, 2005 with an annual rate change in February) notes payable of the Junk Vehicle Fund, due in semi-annual principal installments of $4,233 to $4,522, to August 2008	30,753
	$ 66,948
Business-type activity	
Variable interest (3.80% as of June 30, 2005 with an annual rate change in February) notes payable of the METRA Fund, due in semi-annual principal installments of $15,016 to $53,716, to August 2010	481,275
Interest free note payable of the METRA Fund, due in annual payments of $7,500 to August 2006	15,000
Total METRA notes payable	496,275
Total notes payable	**$ 563,223**

Debt Service Requirements

Year Ending June 30,	Governmental-type Activities Notes Payable Principal	Interest	Total	Business-type Activities Notes Payable Principal	Interest	Total	Total Notes Payable Principal	Interest	Total
2006	$ 19,903	$ 3,205	$ 23,108	$102,288	$ 17,386	$119,674	$ 122,191	$ 20,591	$ 142,782
2007	20,801	2,213	23,014	106,021	13,759	119,780	126,822	15,972	142,794
2008	21,744	1,174	22,918	102,405	9,978	112,383	124,149	11,152	135,301
2009	4,500	86	4,586	106,431	6,050	112,481	110,931	6,136	117,067
2010	0	0	0	64,114	2,070	66,184	64,114	2,070	66,184
2011	0	0	0	15,016	285	15,301	15,016	285	15,301
Total	$ 66,948	$ 6,678	$ 73,626	$ 496,275	$ 49,528	$ 545,803	$ 563,223	$ 56,206	$ 619,429

Note 8. Long-Term Debt, continued

Changes in Long-Term Liabilities

	Year Ended June 30, 2005				
	Beginning Balance	Additions	Reductions	Principal Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds	$ 6,480,000	$ 0	$ 555,000	$ 5,925,000	$ 570,000
Special assessment debt with government commitment	683,926	1,148,000	189,411	1,642,515	102,740
Notes Payable	46,952	35,000	15,004	66,948	19,903
Claims and Judgments	475,000	0	0	475,000	250,000
Compensated Absences	1,615,980	325,100	0	1,941,080	485,787
Governmental Activity Long-term Liabilities	**$ 9,301,858**	**$ 1,508,100**	**$ 759,415**	**$ 10,050,543**	**$1,428,430**
Business-type Activities:					
Notes Payable	$ 594,929	$ 0	$ 98,654	$ 496,275	$ 102,288
Compensated Absences	168,187	5,920	0	174,107	43,527
Business-type Activities Long-term Liabilities	**$ 763,116**	**$ 5,920**	**$ 98,654**	**$ 670,382**	**$ 145,815**

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, internal service funds compensated absences of $3,149 are included in the above amounts.

Summary of Debt Maturities

Annual debt service principal and interest payments required on outstanding debt at June 30, 2005, are as follows:

	Type of Debt		
Year Ending June 30,	General Obligation Bonds	Rural Special Improvement Bonds	Notes Payable*
2006	$ 787,858	$ 184,655	$ 133,177
2007	790,757	161,605	133,283
2008	791,878	160,622	125,886
2009	785,833	155,237	112,481
2010	793,332	149,068	66,184
2011-2015	3,170,440	812,916	15,301
2016-2020	0	673,128	0
2021-2025	0	57,713	0
	$ 7,120,098	$ 2,354,944	$ 586,312

* Debt service requirements are projected, since the interest rate on these notes changes annually. Debt service requirements for fiscal year 2005 and later are based on current interest rate of 3.80%.

Note 9. Risk Management

The County faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e. errors and omissions, d) environmental damage, e) workers' compensation, i.e. employee injuries, and f) medical insurance costs of employees. A variety of methods is used manage these risks.

Liability and Property Insurance

The County is self-insured on liability and property claims. As of year end, the County has reserved $475,000 for outstanding liability claims. Reinsurance for liability claims is purchased from a third party risk retention group. Coverage history is as follows:

	Deductible	Limit per occurrence	Annual aggregate
Claims outstanding prior to October 4, 1998	$ 250,000	$ 1,500,000	$ 3,000,000
October 4, 1998 to October 4, 2002	$ 100,000	$ 1,500,000	$ 3,000,000
October 4, 2002 to October 4, 2003	$ 200,000	$ 1,500,000	$ 3,000,000
October 4, 2003 to October 4, 2004	$ 250,000	$ 1,500,000	$ 3,000,000
October 4, 2004 to January 4, 2005	$ 500,000	$ 1,500,000	$ 3,000,000
January 4, 2005 to June 30, 2005	$ 250,000	$ 1,500,000	$ 3,000,000

The County also utilizes a separate premises liability policy with no deductible for the METRA buildings and grounds.

County buildings and their contents are covered by property and casualty insurance with a $50,000 deductible. The County at June 30, 2005, had unreserved fund balance in its Property and Liability Insurance Fund totaling $2,015,172. Levels of property insurance have not changed materially from the prior year. The County has included in its property insurance policy $250,000 of fine arts insurance. This level of insurance is probably insufficient to cover a major loss of artifacts and art held at the Yellowstone County Museum. The County is considering obtaining additional fine arts insurance or transferring the collection to a museum foundation that would administer the collection.

Liability settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

Worker's Compensation

The County has elected to participate in the Montana Association of Counties Workers' Compensation Trust (the Trust). The Trust was organized to provide workers' compensation coverage to participating counties. The County pays annual premiums to the Trust for its workers' compensation coverage and for its portion of the debt service for the bonds sold by the Trust to provide aggregate excess coverage, provide resources for previously unfunded liabilities, and establish initial insurance reserves. The Trust has obtained reinsurance through commercial companies for claims in excess of $1,000,000 per occurrence. The Trust's governing body is comprised of nine county commissioners elected at the annual county commissioner's convention. The governing body has the authority to determine management and set operational policies.

Financial statements for the Trust are available from the Montana Association of Counties, located in Helena, Montana.

Employee health insurance is discussed in note 10B.

Note 10. Employee Benefits

A. Compensated Absences

All full-time County employees accumulate vacation and sick leave hours for later use or for payment upon termination, death or retirement. Employees earn annual vacation leave at the rate of 15 days per year for the first 10 years of employment up to a maximum of 24 days per year after 20 years. There is no requirement that annual vacation leave be taken, but the maximum permissible accumulation is twice the current annualized rate as of December 31 of each year. At termination employees are paid for any accumulated annual vacation leave.

Employees earn sick leave at the rate of 12 days per year. There is no limit on the accumulation of sick leave. At termination employees are paid for 25% of accumulated sick leave. The liability for vested accumulated annual vacation and sick leave at June 30, 2005, is $2,115,187. The unvested 75% of accumulated sick pay benefits, which totaled $2,038,217 at June 30, 2005, has not been recorded as a liability.

B. Health Insurance

The County has a self-funded health care benefit plan for its employees. The County has contracted with a private insurance carrier to provide the aggregate stop loss coverage, and claims processing. The County contributes a monthly amount for each full-time employee for health and dental insurance benefits. Employees may elect to include coverage of their dependents, at the employees' expense. Revenues to the plan from the various funds and employees are recorded as health insurance premiums in the Health Insurance Fund, an internal service fund. The fund records health care costs as expenses when claims are incurred. The fund establishes claims liabilities, including incurred but not reported (IBNR) claims based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends and any other factors that modify past experience. Claims liabilities include only specific, incremental claim adjustment expenses. The liability recorded for the IBNR is $300,000 and $134,817 is recorded for health and drug claims incurred in fiscal year 2005 but paid in July 2005.

Following is a summary of the changes in the balance of claim liabilities during the last three fiscal years:

Fiscal Year	Beginning of fiscal-year liability	Estimated Incurred claims	Claims paid, net of expected reimbursements	End of fiscal-year liability
2002-2003	$ 450,089	$ 3,519,243	$ 3,579,959	$ 389,373
2003-2004	$ 389,373	$ 4,177,705	$ 4,190,959	$ 376,119
2004-2005	$ 376,119	$ 3,772,479	$ 3,713,781	$ 434,817

Yellowstone County's maximum exposure for the health plan period ended June 30, 2005 was limited by aggregate stop loss insurance coverage to approximately $4.96 million. Claims paid during fiscal year 2005 that were subject to the aggregate stop loss coverage were $3.79 million. Effective in fiscal year 2003, the County elected to utilize the permissive medical levy. This levy may be utilized to fund medical inflation costs of the employer. The permissive medical levy transferred $994,655 to the health insurance fund in fiscal year 2005.

Results of operations for fiscal year ended:	June 30, 2004	June 30, 2005
Health insurance premiums	$ 3,364,100	$ 3,794,157
Health claims	(4,177,705)	(3,772,479)
Administrative expenses	(297,459)	(311,287)
Interest revenue	12,416	29,960
Interfund transfer In	637,552	994,655
Net income (loss)	(461,096)	735,006
Net assets, beginning of fiscal year	804,886	343,790
Net assets, end of fiscal year	**$ 343,790**	**$ 1,078,796**

Note 10. Employee Benefits, continued

B. Health Insurance, continued

In addition to providing health benefits for existing employees, the County also allows retired and COBRA (1985 Consolidated Omnibus Budget Reconciliation Act) employees, and their families, to participate in the plan at the former employees' expense. As of June 30, 2005, there are 115 former employees covered under the health plan. The County also allows participation in the plan for employees and dependents of the City/County Health Department and the Big Sky Economic Development Authority. Employees of the City/County Health Department were grandfathered at County employee rates, while the Big Sky Economic Development Authority pays County rates plus an administrative cost. The economic impact of the extension of benefits to these other participating entities and former employees cannot be separated from the County's cost to cover active employees. Premiums for employee paid coverage and retiree coverage increased 14.8% during fiscal year 2005. The funding for the employer portion of coverage increased 15.0%. The most significant change to health plan benefits during fiscal year 2005 was to increase the annual medical deductible by $200 per covered individual on January 1, 2005.

C. Life Insurance and Long Term Disability

All County employees covered by health insurance are also covered by life insurance. The County also covers permanent part-time employees that do not elect health insurance. The County pays the cost of life insurance for coverage at 100% of the prior year's salary rounded to the highest $1000. All full-time employees are covered to a maximum of $50,000. Supplemental life insurance is optionally available at the employee's cost up to three times the employee's employer paid coverage. The County has contracted with a private insurance carrier to provide the life insurance coverage.

Effective March 1, 2005 the County pays for third-party long term disability insurance at an insured level of 60% of monthly pre-disability base pay for employees. Eligibility for long term disability is the same as life insurance eligibility.

D. Deferred Compensation Plans

The County offers its employees various deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all County employees, permit them to defer a portion of their salary until future years. Participation in the plans is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The County has three deferred compensation plans and each plan allows several investment options. The choice of plan and investment options is made by the employee.

Plan assets are maintained in an exclusive trust for the benefit of participants and their beneficiaries. Accordingly, plan assets are not reported in the County's financial statements.

Note 11. Pension and Retirement Fund Commitments

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Board (PERB).

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits for employees with less than 25 years of membership service are determined by taking 1/56 times the number of years of service times the final average salary. Monthly retirement benefits for employees with 25 years or more of membership service are determined by taking 1/50 times the number of years of service times the final average salary. A guaranteed annual benefit adjustment (GABA) of 1.5% is provided each January for benefit recipients if they have been receiving a benefit for at least 36 months. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

Note 11. Pension and Retirement Fund Commitments, continued

The State legislature has the authority to establish and amend contribution rates to the plan. Plan members are required to contribute 6.9% of compensation. Local government employers are required to contribute 6.8% of members' compensation and the State of Montana was required to contribute 0.1% of members' compensation on behalf of local government entities. One hundred percent of the required County and employee contributions were made for the current and each of the two preceding years. Required contributions were made as follows:

Fiscal Year	County Contribution	Employee Contribution	State of Montana Contribution
2002-2003	$864,384	$877,095	$12,711
2003-2004	$911,121	$924,520	$13,399
2004-2005	$927,784	$941,461	$13,677

During fiscal year 2003, the Public Employees' Retirement Board began offering a Defined Contribution Retirement Plan (DCRP) option. Members had until June 30, 2003 or 12 months from date of employment to elect coverage in the DCRP. Members not electing the DCRP remain in the defined benefit plan.

The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year end. It is available from the PERB at 1712 Ninth Avenue, PO Box 200131, Helena MT 59620-0131, telephone 406-444-3154.

The Sheriffs' Retirement System (SRS) which was established in 1974 and is governed by Title 19, Chapters 2 & 7 of the Montana Code Annotated provides retirement service to all Department of Justice criminal investigators hired after July 1, 1993, and to all Montana sheriffs. SRS is a mandatory multiple-employer, cost sharing benefit plan administered by the PERB.

The SRS offers retirement, disability and death benefits to plan members and their beneficiaries. Minimum years of service are 20 regardless of age for a normal retirement benefit. Actuarial reduced benefits may be taken at age 50 with at least five years of service. The service retirement benefit is calculated as follows: 2.5% times final average salary times the number of years of service. A guaranteed annual benefit adjustment (GABA) of 1.5% is provided each January for benefit recipients if they have been receiving a benefit for at least 36 months. After 5 years of service, an employee has a vested right to service retirement benefits. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The State legislature has the authority to establish and amend rates to the plan. Plan members are required to contribute 9.245% of compensation. Employers are required to contribute 9.535% of members' compensation. One hundred percent of the required County and employee contributions were made for the current and each of the two preceding fiscal years. Required contributions were made as follows:

Fiscal Year	County Contribution	Employee Contribution
2002-2003	$221,066	$214,342
2003-2004	$228,153	$221,214
2004-2005	$243,834	$236,418

The SRS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year end. It is available from the PERB at 1712 Ninth Avenue, PO Box 200131, Helena MT 59620-0131, telephone 406-444-3154.

Note 12. Contingent Liabilities and Commitments

Pending Litigation

There are a number of lawsuits pending. However, management estimates that the potential claims against the County from such litigation would not threaten the County's political existence or exceed the County's ability to pay. The accrued liability established in the Property and Liability Insurance Fund of $475,000 is considered to be adequate for potential settlements and litigation costs. The County considers the other known legal actions to be of nominal financial impact.

Grants

The County has Federal and state grants for specific purposes that are subject to annual audits and other periodic reviews by grantor agencies. Such reviews could result in requests for reimbursement by grantor agencies for costs, which may be disallowed as appropriate expenses under the grant terms. The County believes disallowances, if any, will not be material.

Note 13. Conduit Debt Obligations

From time to time, the County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying general purpose financial statements.

As of June 30, 2005, there were twelve series of industrial revenue bonds issued after July 1, 1978. The aggregate principal amount outstanding for the ten series issued prior to July 1, 1997, could not be determined; however, their original issue amounts totaled $19.5 million. The aggregate principal amount outstanding for the two outstanding series issued after July 1, 1997 was $5.155 million at June 30, 2005.

Note 14. Related Organization

The County is responsible for appointing the members of the governing board of the Big Sky Economic Development Authority (the Organization) however, the County is not able to impose its will on the Organization. Nor is there a potential for the Organization to provide specific financial benefits to, or impose specific financial burdens on, the County. As a result, the Big Sky Economic Development Authority is considered a related organization, and not a component unit of the County.

Note 15. Deficit Fund Balances

The deficit fund balance of ($62,474) in the permissive medical levy fund is a result of uncollected tax levies and additional fund expense in FY05 that will be levied in FY06.