

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2012

#### **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.

#### **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.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**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 government-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.

Yellowstone County, Montana  
Notes to the Financial Statements  
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**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 *capital 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.

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**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.

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.

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**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, its agencies, or government sponsored entities and are carried at quoted market prices. The fair value of investments is determined annually, and is based on quoted market prices. 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. Government sponsored entities include: federal home loan bank; federal national mortgage association; federal home mortgage corporation; and federal farm credit bank.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2012 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 cash and demand investments, as cash equivalents.

**Montana Code Annotated 7-6-202 regarding "Deposit and Investment of Public Money" reads as follows:**

- (1) A local governing body may invest public money not necessary for immediate use by the county, city, or town in the following eligible securities:
  - (a) United States government treasury bills, notes, and bonds and in United States treasury obligations, such as state and local government series (SLGS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;
  - (b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book-entry form with the federal reserve bank of New York; or
  - (c) obligations of the following agencies of the United States, subject to the limitations in subsection (2):
    - (i) federal home loan bank;
    - (ii) federal national mortgage association;
    - (iii) federal home mortgage corporation; and
    - (iv) federal farm credit bank.
- (2) An investment in an agency of the United States is authorized under this section if the investment is a general obligation of the agency and has a fixed or zero-coupon rate and does not have prepayments that are based on underlying assets or collateral, including but not limited to residential or commercial mortgages, farm loans, multifamily housing loans, or student loans.
- (3) The local governing body may invest in a United States government security money market fund if:
  - (a) the fund is sold and managed by a management-type investment company or investment trust registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1 through 80a-64), as may be amended;
  - (b) the fund consists only of eligible securities as described in this section;
  - (c) the use of repurchase agreements is limited to agreements that are fully collateralized by the eligible securities, as described in this section, and the investment company or investment trust takes delivery of the collateral for any repurchase agreement, either directly or through an authorized custodian.

Yellowstone County, Montana  
Notes to the Financial Statements  
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**Note 1. Summary of Significant Accounting Policies, continued**

**F. Assets, Liabilities, and Net Assets or Equity**

**1. Cash and Demand Investments, and Cash Investments**

(d) the fund is listed in a national financial publication under the category of "money market mutual funds", showing the fund's average maturity, yield, and asset size; and (e) the fund's average maturity does not exceed 397 days.

(4) Except as provided in subsection (5), an investment authorized in this part 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.

(5) An investment of the assets of a local government group self-insurance program established pursuant to 2-9-211 or 39-71-2103 in an investment authorized in this part may not have a maturity date exceeding 10 years, and the average maturity of all those authorized investments of a local government group self-insurance program may not exceed 6 years.

(6) This section may not be construed to prevent the investment of public funds under the state unified investment program established in Montana Code Annotated Title 17, chapter 6, part 2.

Montana Code Annotated 7-6-206 permits time or savings deposits with banks, savings and loans associations, or credit unions within the State. The County has placed investment pool funds into a local bank utilizing a recent FDIC program referred as the Certificate of Deposit Account Registry Service (CDARS). The CDARS program allows funds to be placed into a participating bank and the funds are 100% FDIC insured with that bank. The program utilizes FDIC insurance distribution from member banks, however, the funds are utilized and retained by the local member bank.

**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, 2012, the allowances were as follows:

	<u>Allowance Amount</u>
Accounts Receivable	\$ 31,983
Property taxes	2,039,200
Delinquent special assessments	14,200
Deferred special assessments	51,600
Total uncollectible allowance	<u>\$2,136,983</u>

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."

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2012

#### **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.

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.

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

<u>Assets</u>	<u>Years</u>
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. During 2012, there were no significant purchases or deaccession of collection items.

##### **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.

Yellowstone County, Montana  
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**Note 1. Summary of Significant Accounting Policies, continued**

**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 non-vested 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 fund balance in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Government Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for the County beginning in fiscal year 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The five fund balance classifications, in order of constraint level, are Nonspendable, Restricted, Committed, Assigned and Unassigned. Nonspendable can represent a constraint or an asset that is not spendable in form.

In compliance with GASB Statement No. 54, Yellowstone County adopted a Fund Balance Classification Policy. This policy states that committed fund balances will be authorized by the County Commission in a public meeting by resolution or policy. Committed fund balance may only become uncommitted by the same formal action authorized by the County Commission in a public meeting by resolution or policy. Assigned fund balance may be assigned informally by the Finance Director based on future budget expenditures after a current fund balance review has been completed. Assigned fund balance may become unassigned by the same action.

Yellowstone County's expenditure order of resource categories for all governmental funds, when restricted, committed, assigned or unassigned are available, will be as follows:

1. Restricted
2. Committed
3. Assigned
4. Unassigned



Yellowstone County, Montana  
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**Note 1. Summary of Significant Accounting Policies, continued**

**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**

**A. Budgets**

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 2012 was nominal. Reported budget amounts represent the original adopted budget as amended.

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**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 non-pooled 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, 2012. 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/ Fair Value
	1	2	3	
Cash investments - U.S. Government agencies	\$ 51,788,056	\$0	\$0	\$ 51,788,056
Cash investments - certificate of deposit account registry service	42,000,000	0	0	42,000,000
Cash in overnight repurchase agreements	0	0	31,664,042	31,664,042
Cash on hand and demand deposits	177,116	0	949,551	1,126,667
Subtotal	<u>\$ 93,965,172</u>	<u>\$0</u>	<u>\$ 32,613,593</u>	<u>126,578,765</u>
<b><u>Investments Not Subject to Categories:</u></b>				
State Treasurer's Investment Pool (STIP)				0
<b>Total Pooled Investments</b>				<u><b>\$ 126,578,765</b></u>

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

	Category			Reported Amount/ Fair Value
	1	2	3	
Cash investments - certificate of deposit account registry service	\$ 2,467,918	\$0	\$0	\$ 2,467,918
Cash on hand and demand deposits	100,000	0	190,247	290,247
Subtotal	<u>\$ 2,567,918</u>	<u>\$0</u>	<u>\$ 190,247</u>	<u>2,758,165</u>
<b><u>Investments Not Subject to Categories:</u></b>				
State Treasurer's Investment Pool (STIP)				0
<b>Total Nonpooled Investments</b>				<u><b>2,758,165</b></u>
<b>Total Investments</b>				<u><b>\$ 129,336,930</b></u>

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

Along with limitations placed on investments by state law, the County minimizes custodial risk by restrictions set forth by County policy. Custodial risk is the risk that in an event of a financial institution failure, the County investments may not be returned or the County will not be able to recover the collateral securities in the possession of the outside party. The County maintains a listing of financial institutions which are approved for investment purposes.

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, 2012, is detailed as follows:

	<b><u>Total</u></b>	<b><u>Statement of Net Assets</u></b>	<b><u>Fiduciary Net Assets</u></b>
Cash and demand investments, pooled	\$ 32,790,709	\$ 10,862,694	\$21,928,015
Restricted cash and demand investments held in trust, nonpooled	290,247	260,292	29,955
<b>Total cash and demand investments</b>	<b>33,080,956</b>	<b>11,122,986</b>	<b>21,957,970</b>
Cash investments, pooled	93,788,056	31,069,856	62,718,200
Restricted cash investments for debt service, nonpooled	2,467,918	0	2,467,918
<b>Total</b>	<b><u>\$ 129,336,930</u></b>	<b><u>\$ 42,192,842</u></b>	<b><u>\$87,144,088</u></b>
Cash on hand, pooled	\$ 387,694		
Cash in bank deposits and other bank deposits, pooled	738,973		
Cash in bank deposits and other bank deposits, nonpooled	290,247		
Cash in overnight repurchase agreements, pooled	44,212,612		
Cash in State Treasurer's Investment Pool (STIP)	0		
Outstanding warrants, pooled	<u>(12,548,570)</u>		
<b>Total cash and demand investments</b>	<b>33,080,956</b>		
Cash investments, pooled	93,788,056		
Cash investments, nonpooled	2,467,918		
<b>Total</b>	<b><u>\$ 129,336,930</u></b>		
Cash and demand investments, and cash investments- pooled	\$ 126,578,765		
Cash and demand investments, and cash investments- nonpooled	2,758,165		
	<b><u>\$ 129,336,930</u></b>		

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**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 - \$37,330; cash received after last bank deposit - \$350,364

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 - \$738,973; other bank deposits represents cash held in trust for other individuals in which any interest earnings are not distributed to the investment pool - \$290,247

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 re-deposited 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.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

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

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

At June 30, 2012 pooled cash investment items were:

<u>Investment Type</u>	<u>Yield</u>	<u>Maturity Date</u>	<u>Credit Risk Rating Moody's - S&amp;P</u>	<u>Fair Value</u>
<b><u>U.S. Government Agencies</u></b>				
Federal Farm Credit	0.28%	4.9 years	AAA - AA+	\$3,018,417
Federal Home Loan Mortgage Corporation	0.20 - 0.43%	0.1 - 5.0 years	AAA - AA+	\$15,522,607 *
Federal Home Loan Bank	.38 - 2.715%	3.7 - 4.0 years	AAA - AA+	\$3,131,222
Federal National Mortgage Association	0.26 - 0.80%	0.5 - 4.8 years	AAA - AA+	30,115,810 *
<b>Total U.S. government agency securities</b>				<u>\$51,788,056</u>
Certificate of Deposit Account Registry Service	0.24 - 3.4%	53 days - 2.2 years	100% FDIC Insured	42,000,000 *
<b>Total cash investments, pooled</b>				<u><u>\$93,788,056</u></u>

At June 30, 2012, nonpooled cash investment items were:

<u>Investment Type</u>	<u>Yield</u>	<u>Maturity Date</u>	<u>Credit Risk Rating Moody's - S&amp;P</u>	<u>Fair Value</u>
<b><u>U.S. government agency securities</u></b>				
Certificate of Deposit Account Registry Service	.31 - 1.45%	.2 - 2.9 years	100% FDIC Insured	\$ 2,467,918
<b>Restricted cash investments for capital improvements, nonpooled</b>				<u><u>\$ 2,467,918</u></u>

\* - represents 5% or more of total cash investments

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

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

The following represents a condensed statement of net assets and changes in net assets for the cash and investment pool as of June 30, 2012:

<b><u>Condensed Statement of Net Cash and Investment Assets</u></b>	
Cash and demand investments, pooled	\$ 32,790,709
Cash investments, pooled	93,788,056
Restricted cash and demand investments held in trust, nonpooled	290,247
Restricted cash investments for debt service, nonpooled	2,467,918
Accrued interest receivable	43,590
<b>Net assets held in trust for all pool participants</b>	<b><u><u>\$ 129,380,520</u></u></b>
Equity of internal pool participants	\$ 49,830,038
Equity of external pool participants	79,550,482
<b>Total equity</b>	<b><u><u>\$ 129,380,520</u></u></b>
<b><u>Condensed Statement of Changes in Net Cash and Investment Assets</u></b>	
Net assets at July 1, 2011	\$ 128,878,105
Net changes in investments by pool participants	647,972
Market value adjustment of cash investments	(145,557)
<b>Net assets at June 30, 2012</b>	<b><u><u>\$ 129,380,520</u></u></b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**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 Nonmajor Governmental Funds	MAJOR ENTERPRISE FUNDS			Internal Service Funds	Fiduciary Funds	Total
	General	Road	Liability & Property Insurance	Public Safety - Sheriff	R.S.I.D. Bond Fund	Capital Improvement Fund		Refuse Disposal	METRA				
<b>Receivables:</b>													
Property taxes	\$2,135,630	\$1,563,941	\$196,092	\$1,659,312	\$0	\$0	\$2,483,586	\$0	\$500,620	\$0	\$24,195,194	\$32,734,375	
Accounts	244,062	500	0	366,287	0	1,726	274,344	0	14,018	1,628	0	902,565	
Delinquent assessments	0	0	0	0	2,960	0	34,044	57,894	0	0	614,428	709,326	
Deferred assessments	0	0	0	0	1,027,952	0	4,495	0	0	0	0	1,032,447	
Accrued interest	9,448	0	949	0	45	2,789	1,456	0	87	2,253	27,194	44,221	
<b>Gross receivables</b>	<b>2,389,140</b>	<b>1,564,441</b>	<b>197,041</b>	<b>2,025,599</b>	<b>1,030,957</b>	<b>4,515</b>	<b>2,797,925</b>	<b>57,894</b>	<b>514,725</b>	<b>3,881</b>	<b>24,836,816</b>	<b>35,422,934</b>	
Less allowances for uncollectible accounts	(507,200)	(380,900)	(46,600)	(411,176)	(51,800)	0	(610,906)	(8,700)	(119,701)	0	0	(2,136,983)	
<b>Net total receivables</b>	<b>\$1,881,940</b>	<b>\$1,183,541</b>	<b>\$150,441</b>	<b>\$1,614,423</b>	<b>\$979,157</b>	<b>\$4,515</b>	<b>\$2,187,019</b>	<b>\$49,194</b>	<b>\$395,024</b>	<b>\$3,881</b>	<b>\$24,836,816</b>	<b>\$33,285,951</b>	

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)	\$6,118,361	\$0	\$6,118,361
Special assessments receivable (governmental funds)	31,504	0	31,504
Special assessments not yet billed (governmental funds)	980,847	0	980,847
METRA unearned revenue from future advertising revenues	0	916,583	916,583
METRA receipts for fiscal year 2012 events (enterprise fund)	0	91,814	91,814
<b>Total Deferred Revenue</b>	<b>\$7,130,712</b>	<b>\$1,008,397</b>	<b>\$8,139,109</b>

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 2011 real property taxes and the 2011 special assessments were levied and became receivables in October 2011. The semi-annual installments were due in November 2011 and May 2012. As of December 1, 2011, and June 1, 2012, uncollected real property taxes and special assessments became delinquent and all uncollected amounts as of June 30, 2012, 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, 2012, have been reported as deferred revenue. There was no significant land held for resale as of June 30, 2012.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 6. Interfund Receivables, Payables and Transfers**

**Interfund Receivables and Payables**

**Due from/to Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	RSID Construction Fund	\$ 100
Health Insurance	Health Levy	\$ 27,335
		<u>\$ 27,435</u>

**Due from/to Other Taxing Districts**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Shepherd Cemetery	\$ 2,250

**Advances from/to Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	Metra	\$ 1,400,000

The following school districts have requested and received a release of funds from the protest tax fund (agency fund) as an early release of property taxes from protesting property owners within their districts:

	<u>Amount</u>
School District #2 Billings	\$ 2,323,400
School District #7 Laurel	\$ 2,964,002
School District #26 Lockwood	\$ 140,577
Total Funds Released from Protest Tax fund	<u>\$ 5,427,979</u>

Should the protesting taxpayer prevail in part or in whole, the school district may levy the shortage caused by the refunded amount on the protest in the succeeding year if the governing body chooses to do so.



Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 6. Interfund Receivables, Payables and Transfers, continued**

**Interfund transfers**

	Transfers in								Internal Service Funds	Total
	MAJOR GOVERNMENTAL FUNDS					Other Nonmajor Governmental Funds	MAJOR ENTERPRISE FUND METRA			
	General	Road	Liability & Property Insurance	Public Safety - Sheriff	R.S.I.D. Bond Fund	Capital Improvement Fund				
<b><u>Transfers out:</u></b>										
General Fund	\$0	\$97,248	\$0	\$200,000	\$0	\$620,000	\$2,545,755	\$0	\$0	\$3,463,003
Road Fund	39,623	0	0	0	0	450,000	37,863	0	0	527,486
Public Safety - Sheriff Fund	129,638	0	0	0	0	100,000	31,553	0	0	261,191
Nonmajor Governmental Funds	798,550	195,486	20,851	699,092	0	460,000	654,071	0	1,136,397	3,964,447
Major Enterprise Fund - METRA	40,664	0	0	0	0	0	0	0	0	40,664
Refuse Disposal Fund	25,000	0	0	0	0	0	0	0	0	25,000
<b>Total transfers</b>	<b>\$1,033,475</b>	<b>\$292,734</b>	<b>\$20,851</b>	<b>\$899,092</b>	<b>\$0</b>	<b>\$1,630,000</b>	<b>\$3,269,242</b>	<b>\$0</b>	<b>\$1,136,397</b>	<b>\$8,281,791</b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 7. Capital Assets**

Capital asset activity for the primary government for the year ended June 30, 2012 was as follows:

<b><u>Governmental-type Activities</u></b>	<b>Beginning Balance</b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b>Ending Balance</b>
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$3,665,796	\$0	\$0	\$3,665,796
Construction in Progress	667,188	\$63,336	(\$667,188)	\$63,336
<b>Total Capital Assets, Not Being Depreciated</b>	<b>4,332,984</b>	<b>63,336</b>	<b>-667,188</b>	<b>3,729,132</b>
<b>Capital Assets, Being Depreciated:</b>				
Buildings	27,616,476	1,012,914	0	28,629,390
Improvements Other Than Buildings	3,510,852	684,096	0	4,194,948
Machinery and Equipment	18,390,723	1,824,455	(314,507)	19,900,671
Infrastructure	34,097,232	3,955,900	0	38,053,132
<b>Total Assets Being Depreciated</b>	<b>83,615,283</b>	<b>7,477,365</b>	<b>-314,507</b>	<b>90,778,141</b>
<b>Less Accumulated Depreciation For:</b>				
Buildings	16,045,867	758,069	0	16,803,936
Improvements Other Than Buildings	1,119,594	145,861	0	1,265,455
Machinery and Equipment	10,668,271	1,346,253	(146,632)	11,867,892
Infrastructure	13,386,852	2,388,783	0	15,775,635
<b>Total Accumulated Depreciation</b>	<b>41,220,584</b>	<b>4,638,966</b>	<b>(146,632)</b>	<b>45,712,918</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>42,394,699</b>	<b>2,838,399</b>	<b>(167,875)</b>	<b>45,065,223</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$46,727,683</b>	<b>\$2,901,735</b>	<b>(\$835,063)</b>	<b>\$48,794,355</b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 7. Capital Assets, continued**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Business-type Activities</u></b>				
<b><u>Capital Assets, Not Being Depreciated:</u></b>				
Land	\$368,574	\$0	\$0	\$368,574
Construction in progress	27,909,545	2,264,259	(30,153,068)	20,736
<b>Total Capital Assets, Not Being Depreciated</b>	<b>28,278,119</b>	<b>2,264,259</b>	<b>(30,153,068)</b>	<b>389,310</b>
<b><u>Capital Assets, Being Depreciated:</u></b>				
Buildings	21,859,401	32,039,314	(34,965)	53,863,750
Improvements Other Than Buildings	4,691,559	899,146	(118,631)	5,472,074
Machinery and Equipment	1,004,259	144,360	(32,269)	1,116,350
<b>Total Capital Assets, Being Depreciated</b>	<b>27,555,219</b>	<b>33,082,820</b>	<b>(185,865)</b>	<b>60,452,174</b>
<b><u>Less Accumulated Depreciation For:</u></b>				
Buildings	15,418,351	1,229,751	(34,965)	16,613,137
Improvements Other Than Building	3,055,666	283,804	(116,059)	3,223,411
Machinery and Equipment	672,785	68,505	(32,269)	709,021
<b>Total Accumulated Depreciation</b>	<b>19,146,802</b>	<b>1,582,060</b>	<b>(183,293)</b>	<b>20,545,569</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>8,408,417</b>	<b>31,500,760</b>	<b>(2,572)</b>	<b>39,906,605</b>
<b>Business-type Activities Capital Assets, Net</b>	<b>\$36,686,536</b>	<b>\$33,765,019</b>	<b>(\$30,155,640)</b>	<b>\$40,295,915</b>

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

<b><u>Governmental Activities</u></b>	
General Government	\$475,526
Public Safety	976,795
Public Works	2,975,580
Public Health	9,690
Social and Economic	67,191
Culture and Recreation	103,850
<b>Total Depreciation Expense - Governmental Activities</b>	<b>4,608,632</b>
<b><u>Business-type Activities</u></b>	
METRA	1,582,060
<b>Total Depreciation Expense - Primary Government</b>	<b>\$6,190,692</b>

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2012

#### 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, and the levy to repay the debt is not subject to other tax levy limits. Limited tax general obligation bonds are funded from available tax authority and have budget priority funding. Outstanding general obligation bonds are as follows:

	<u>Interest Rate</u>	<u>Amount</u>
<u>Governmental -type Activities:</u>		
2009 General Obligation Refunding Bonds (nontaxable – refunded 2001 General Obligation Refunding Bonds due after June 1, 2011), due June 1, 2014, payable in annual principal installments of \$710,000 to \$735,000, noncallable prior to stated redemption date	2.575 – 3.00%	<b>\$ 1,445,000</b>
2011 Limited Tax General Obligation Bonds – Bridge Connector & METRA Improvements (nontaxable) 1.50% - 2.85% due 6/15/2021, payable in annual principal installments of \$275,000 to \$340,000, callable on or after June 15, 2017	1.400 – 2.85%	<b>\$ 2,750,000</b>
2008 Limited Tax General Obligation Bonds – Veteran’s Cemetery & METRA Seating (nontaxable) 3.40% - 4.00% due 6/15/2023, payable in annual principal installments of \$115,000 to \$275,000, callable on or after December 15, 2015	3.50 – 4.00%	<b><u>\$ 2,270,000</u></b> <b><u>\$ 6,465,000</u></b>

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

Year Ending	<u>Governmental - type Activities</u>		
<u>June30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	1,190,000	179,448	1,369,448
2014	1,235,000	146,848	1,381,848
2015	515,000	116,121	631,121
2016	525,000	104,185	629,185
2017	545,000	91,498	636,498
2018-2022	2,330,000	216,638	2,546,638
2023	125,000	5,000	130,000
<b>Total</b>	<b><u>\$6,465,000</u></b>	<b><u>\$859,737</u></b>	<b><u>\$7,324,737</u></b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 8. Long-Term Debt, continued**

**Rural Special Improvement District Bonds**

The County issued no new special assessment bonds in fiscal year 2012.

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, 2012. The R.S.I.D. Revolving Fund has no unfunded commitment to the R.S.I.D. bond fund as of June 30, 2012. 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 \$276,560 at June 30, 2012, is treated as a debt service fund.

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

<u>Rural Special Improvement District Number</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance June 30, 2012</u>
668	5.83%	06/15/00	06/15/15	\$ 750,000	\$ 40,000
682	6.00%	08/01/02	08/01/17	174,000	21,000
691	4.90%	10/01/03	08/01/13	49,000	6,000
715	4.19%	08/01/04	08/01/19	410,000	135,000
717	4.93%	06/01/05	08/01/20	738,000	285,000
758	3.75%	05/01/07	07/01/27	373,000	242,000
783	4.58%	09/28/10	08/01/25	126,777	120,000
785	5.30%	02/01/11	08/01/26	126,945	126,945
Various matured bonds	0.00%	Various	Matured	Various	7,225
Outstanding rural special improvement district bonds, June 30, 2012					983,170
Less called and matured bonds					(7,225)
Uncalled rural special improvement district bonds, June 30, 2012					<u>\$ 975,945</u>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**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
2013	\$95,945	\$44,901	\$140,846
2014	98,000	40,204	138,204
2015	92,000	35,482	127,482
2016	78,000	31,113	109,113
2017	84,000	27,499	111,499
2018-2022	333,000	81,812	414,812
2023-2027	184,000	25,393	209,393
2028	11,000	413	11,413
Total	<u>\$975,945</u>	<u>\$286,816</u>	<u>\$1,262,761</u>

**Notes Payable**

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

As of June 30, 2012, the County had no outstanding notes payable.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 8. Long-Term Debt, continued**

**Changes in Long-Term Liabilities**

The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the County.

	Year Ended June 30, 2012				Principal Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
<b><u>Governmental Activities:</u></b>					
General obligation bonds	\$ 7,595,000	\$0	\$ (1,130,000)	\$6,465,000	\$ 1,190,000
Special assessment debt with governmental commitment	1,131,722	0	(155,777)	975,945	95,945
Claims and judgements	250,000	0	0	250,000	250,000
Compensated absences	2,108,915	45,445	0	2,154,360	536,434
OPEB implicit rate subsidy	872,970	258,846	0	1,131,816	0
Governmental activity long-term liabilities	<u>\$ 11,958,607</u>	<u>\$ 304,291</u>	<u>\$ (1,285,777)</u>	<u>\$ 10,977,121</u>	<u>\$ 2,072,379</u>
<b><u>Business-type Activities:</u></b>					
Compensated absences	218,427	18,491	0	236,918	59,230
OPEB implicit rate subsidy	71,117	24,614	0	95,731	0
Business-type Activities Long-term Liabilities	<u>\$289,544</u>	<u>\$43,105</u>	<u>\$0</u>	<u>\$332,649</u>	<u>\$59,230</u>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 8. Long-Term Debt, continued**

**Summary of Debt Maturities**

Annual debt service principal and interest payments required on outstanding debt at June 30, 2012, are as follows:

Year Ending June 30,	Type of Debt	
	General Obligation Bonds	Rural Special Improvement Bonds
2013	1,369,448	140,846
2014	1,381,848	138,204
2015	631,121	127,482
2016	629,185	109,113
2017	636,498	111,499
2018-2022	2,546,638	414,812
2023-2027	130,000	209,393
2028	0	11,413
	<u>\$ 7,324,737</u>	<u>\$ 1,262,761</u>

**Note 9. GASB Statement No. 54 Fund Balance**

The Government Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for the County beginning in fiscal year 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The five fund balance classifications, in order of constraint level, are Nonspendable, Restricted, Committed, Assigned and Unassigned.



Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 9. GASB Statement No. 54 Fund Balance, continued**

	MAJOR FUNDS						Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Road Fund	Property & Liability Insurance Fund	Public Safety Fund	R.S.I.D. Bond Fund	Capital Improvement Fund		
<b>Nonspendable</b>								
Inventory	\$40,385	\$250,812	\$0	\$0	\$0	\$0	\$77,624	\$368,821
Prepays	5,188	90	4,718	10,622	0	0	6,051	\$26,669
Total Unspendable Fund Balance	\$45,573	\$250,902	\$4,718	\$10,622	\$0	\$0	\$83,675	\$395,490
<b>Restricted</b>								
Road	0	2,409,226	0	0	0	0	0	\$2,409,226
Park	0	0	0	0	0	0	94,707	\$94,707
Veteran's Cemetery	0	0	0	0	0	0	64,542	\$64,542
Drug Forfeiture	0	0	0	0	0	0	73,114	\$73,114
RSID Maintenance	0	0	0	0	0	0	3,033,279	\$3,033,279
DUI Task Force/Highway Traffic Safety	0	0	0	0	0	0	42,951	\$42,951
DES Grants	17,043	0	0	0	0	0	0	\$17,043
METRA Debt Service	0	0	0	0	0	0	148,938	\$148,938
RSID Revolving	0	0	0	0	0	0	276,560	\$276,560
RSID Bond	0	0	0	0	172,573	0	0	\$172,573
RSID Construction	0	0	0	0	0	0	-100	(\$100)
Total Restricted Fund Balance	\$17,043	\$2,409,226	\$0	\$0	\$172,573	\$0	\$3,733,991	\$6,332,833
<b>Committed</b>								
Bridge	0	0	0	0	0	0	635,365	\$635,365
Weed	0	0	0	0	0	0	125,164	\$125,164
Liability & Property Insurance	0	0	728,718	0	0	0	0	\$728,718
Mental Health Fund	65,709	0	0	0	0	0	0	\$65,709
Extension Service	0	0	0	0	0	0	36,165	\$36,165
Public Safety	0	0	0	3,767,640	0	0	0	\$3,767,640
County Attorney	0	0	0	0	0	0	1,111,092	\$1,111,092
Museum	0	0	0	0	0	0	59,839	\$59,839
Youth Services	0	0	0	0	0	0	349,854	\$349,854
Total Committed Fund Balance	\$65,709	\$0	\$728,718	\$3,767,640	\$0	\$0	\$2,317,479	\$6,879,546

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 9. GASB Statement No. 54 Fund Balance, continued**

	MAJOR FUNDS						Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Road Fund	Property & Liability Insurance Fund	Public Safety Fund	R.S.I.D. Bond Fund	Capital Improvement Fund		
<b>Assigned</b>								
Use of Reserves	985,091	718,459	1,651,155	570,915	8,500	7,181,750	852,659	\$11,968,529
Blight	78,074	0	0	0	0	0	0	\$78,074
Record Preservation-Capital Improvements	181,626	0	0	0	0	0	0	\$181,626
PILT	0	0	0	0	0	0	430,940	\$430,940
GIS	0	0	0	0	0	0	245,523	\$245,523
Capital Improvement	0	0	0	0	0	1,831,526	0	\$1,831,526
Total Assigned Fund Balance	\$1,244,791	\$718,459	\$1,651,155	\$570,915	\$8,500	\$9,013,276	\$1,529,122	\$14,736,218
<b>Unassigned</b>								
General Fund	4,356,501	0	0	0	0	0	0	\$4,356,501
Total Unassigned Fund Balance	\$4,356,501	\$0	\$0	\$0	\$0	\$0	\$0	\$4,356,501
<b>Total Fund Balance</b>	<b>\$5,729,617</b>	<b>\$3,378,587</b>	<b>\$2,384,591</b>	<b>\$4,349,177</b>	<b>\$181,073</b>	<b>\$9,013,276</b>	<b>\$7,664,267</b>	<b>\$32,700,588</b>

Nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or limited due to legal or contractual restrictions.

Restricted fund balance classification include constraints placed on the use of resources that are legally enforceable by an external party. External parties include creditors, grantors, contributors, and laws/regulations of other governments.

Committed fund balance classifications include constraints placed on the use of resources that are imposed by formal action of the government's highest level of decision making authority.

Assigned fund balance classifications include constraints placed on the use of resources that are imposed by the government's intent to be used for a specific purpose and the intent to spend down fund balance to fund the next year's projected deficit spending (if this exists).

Unassigned fund balance classifications include spendable amounts that have not been Restricted, Committed or Assigned to a specific purpose within the General Fund.

Revenue sources for the major special revenue funds:

Road Fund – Real and personal property taxes, road permits, intergovernmental revenue, charge for services, other income including sale of fixed assets and transfers in.

Property & Liability Insurance Fund - Real and personal property taxes, charge for services, refund reimbursement, other income including interest revenue and transfers in.

Public Safety Fund - Real and personal property taxes, permits and licenses, intergovernmental revenue including grant revenues, charge for services, other income including sale of fixed assets and transfers in.

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2012

#### **Note 10. 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 \$250,000 for outstanding liability claims. Reinsurance for liability claims is purchased from a third party risk retention group. Coverage history is as follows:

	<u>Deductible</u>	<u>Limit per occurrence</u>	<u>Annual aggregate</u>
Claims outstanding prior to October 4, 1990	No coverage	No coverage	No coverage
October 4, 1990 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, 2012	\$ 250,000	\$ 1,500,000	\$ 3,000,000

County buildings and their contents are covered by a blanket property and casualty insurance policy of \$157,900,000 with a \$50,000 deductible. The County at June 30, 2012, had unreserved fund balance in its Property and Liability Insurance Fund totaling \$2,202,672. Levels of property insurance increased 23.8% from the prior year. The County has included in its property insurance policy \$250,000 of fine arts insurance. As of October 16, 2008 the County has acquired \$5,000,000 of museum collection and temporary loan insurance coverage for artifacts and art held at the Yellowstone County Museum.

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

See footnote 16 for further explanation of a major property damage loss to the County's METRA arena.

##### 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 11B.

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2012

#### **Note 11. 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, 2012, is \$2,391,278. The unvested 75% of accumulated sick pay benefits, which totaled \$2,692,590 at June 30, 2012, 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 company 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 \$285,000 and \$155,314 is recorded for health and drug claims incurred in fiscal year 2012 but paid in July 2012.

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

<u>Fiscal Year</u>	<u>Beginning of fiscal-year liability</u>	<u>Estimated Incurred claims</u>	<u>Claims paid, net of expected reimbursements</u>	<u>End of fiscal-year liability</u>
2009-2010	\$ 532,286	\$ 5,414,107	\$ 5,381,637	\$ 564,756
2010-2011	\$ 564,756	\$ 5,708,477	\$ 5,952,758	\$ 320,475
2011-2012	\$ 320,475	\$ 5,396,392	\$ 5,276,553	\$ 440,314

Yellowstone County' carries specific stop loss insurance of \$270,000 per claim on a claims incurred basis. There were no claims that exceeded the specific stop loss level for fiscal year 2012. 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 \$1,136,397 to the health insurance fund in fiscal year 2012.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 11. Employee Benefits, continued**

**B. Health Insurance , continued**

**Results of operations for fiscal year ended:**

	<u>June 30, 2011</u>	<u>June 30, 2012</u>
Health insurance premiums	\$ 5,441,970	\$ 5,609,371
Health claims	(5,708,477)	(5,396,392)
Administrative expenses	(450,119)	(476,274)
Interest revenue	54,749	37,734
Interfund transfer in	<u>1,259,929</u>	<u>1,136,397</u>
Net income (loss)	598,052	910,836
Net assets, beginning of fiscal year	<u>4,211,241</u>	<u>4,809,293</u>
Net assets, end of fiscal year	<u><u>\$ 4,809,293</u></u>	<u><u>\$ 5,720,129</u></u>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 11. 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 employee's expense. As of June 30, 2012, there are 72 former employees covered under the health plan. As of June 30, 2012 there are 48 county retirees that have elected coverage under a Medicare advantage plan in lieu of the County's health plan. Those employees will have the option to re-enroll with the County's health plan on an annual elective basis. Additionally, eligible Medicare retirees currently covered by the County's health plan may annually elect to change to the Medicare advantage plan. The participation of those eligible Medicare covered individuals in the Medicare advantage plan is not expected to result in any significant financial impact to the county's health plan. The County also allows participation in the plan for employees and dependents of Riverstone Health Department and the Big Sky Economic Development. For FY12 employees of Riverstone Health Department and Big Sky Economic Development pay premiums at the same as County rates. 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 6.7% during fiscal year 2012. The funding for the employer portion of coverage increased 6.5%. There were only minor changes to health plan benefits during fiscal year 2012.

**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.

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.

**E. Other Post Employment Benefits (OPEB)**

As required by Governmental Accounting Standards Board (GASB) Statement No. 45 Other Post Employment Benefits, the County has calculated and included a post employment benefit liability in 2012.

**1. Plan Description**

Yellowstone County Employee Group Benefits Plan maintains a single-employer self-insured medical plan that is administered by Blue Cross Blue Shield of Montana. The plan currently provides defined healthcare insurance benefits for eligible employees, retirees, spouses and dependants, included are medical and dental benefits. Participation is elected by the retiree at the time of retirement. Benefit provisions are set annually by the Board of County Commissioners and may be revoked or altered at any time.

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2012

#### **Note 11. Employee Benefits, continued**

##### **E. Other Post Employment Benefits (OPEB), continued**

###### **2. Funding Policy**

The County provides no direct subsidy to the health insurance premiums for retirees. Retirees pay for the entire cost of the health insurance premium. Eligible retired employees include former fulltime and certain other employees. As of June 2012 there are 72 retirees and/or survivors enrolled for the employer's sponsored health insurance plan. In 2012 retirees contributed \$496,282 towards the cost of the County's annual premium.

###### **3. Annual OPEB Cost Obligation.**

The County's other post employment benefit (OPEB) cost (expense) is calculated based on the projected unit credit cost method. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credit service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule.

###### **4. Annual Required Contribution – June 30, 2012**

Normal Cost	\$296,658
Amortization of Unfunded Actuarial Accrued Liability Over 30 Years from the Valuation Date	<u>357,257</u>
Annual Required Contribution	<u>\$653,915</u>

###### **5. Funded Status and Funding Progress**

As of June 30, 2012, the actuarial accrued liability (AAL) for benefits was \$5,664,460 all of which was unfunded. There are no assets set aside to fund these benefits as the County funds post-retirement health insurance benefits on a pay-as-you-go basis.

###### **Annual Valuation – June 30, 2012**

Actuarial Value of Assets	\$ 0
Plus Actuarial Accrued Liability (AAL)	\$5,664,460
Unfunded Actuarial Accrued Liability (UAAL)	\$5,664,460
Funded Ratio (actuarial value of assets / UAAL)	0.00%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the note to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 11. Employee Benefits, continued**

**E. Other Post Employment Benefits (OPEB), continued**

**6 Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made:

Retirement and Disability rates are assumed to follow the RP2000 Healthy Combined Table with mortality improvements by Scale AA to 2010 and set backs of two years for both males and females. In the case of a disability the same applies, except for females, where it is a set forward of one year.

Turnover rates were based on specific gender age data assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Amortization factor for a 30-year, level percent of pay amortization on an open basis, using a 4.5 percent discount rate and a 3.0 percent payroll growth assumption.

Healthcare cost trend rate (HCCTR) was based on projections from historical rates of the County. A medical trend rate of 8.5% was used to calculate fiscal year 2012 and will be reduced by 0.5% each year until an ultimate rate of 5.0% after 7 years and later.

Health insurance premiums for 2011 retirees were used as the basis for calculation of the present value of total benefits to be paid.



# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2012

#### **Note 12. 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. 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.

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 7.07% 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:

<u>Fiscal Year</u>	<u>County Contribution</u>	<u>Employee Contribution</u>	<u>State of Montana Contribution</u>
2009-2010	\$975,456	\$952,002	\$13,797
2010-2011	\$981,104	\$957,514	\$13,877
2011-2012	\$957,830	\$934,800	\$13,548

Members have 12 months from date of employment to elect coverage in the DCRP. Members not electing the DCRP remain in the defined benefit plan.

The description above is a brief synopsis of a few of the rules regarding PERS. Please consult the MPERA website for detailed information.

Some key actuarial information on PERS pension plan from latest available MPERB CAFR is as follows:

<u>Fiscal Year</u>	<u>Unfunded Actuarial Liability</u>	<u>Amortization Period</u>	<u>Funded Status</u>
6/30/09	\$ (790,000,000)	Does not amortize over 30 years	84%
6/30/10	\$ (1,352,000,000)	Does not amortize over 30 years	74%
6/30/11	\$ (1,609,000,000)	Does not amortize over 30 years	70%

Pension trust funds are considered well-funded when there is enough money and contributions to amortize any unfunded liability in 30 years or less. It is the funding objective of the PERB that the retirement systems become 100 percent funded. Once a system has achieved this objective, there needs to be a range of safety to absorb market volatility without creating unfunded actuarial liabilities. A single year's funded ratio, by itself, does not provide a measure of the funding direction. Whenever, through the use of long-term cash flow projections, the amortization period of a system's unfunded liabilities is projected to exceed 30 years for two consecutive valuations and the PERB can reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of the PERB to recommend funding increases and/or system changes to the Legislature to address financial sustainability. A well-funded plan allows participants to see that their assets are committed to the payment of benefits. (excerpt from FY11 MPERB CAFR)

The PERS financial information is reported in the Montana Public Employees' Retirement Board's (MPERB) *Comprehensive Annual Financial Report* (CAFR) 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 or on its website at <http://mpera.mt.gov/annualReports.shtm>

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2012

#### **Note 12. Pension and Retirement Fund Commitments, continued**

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. Detention officers employed before July 1, 2005 who elected to join SRS or were employed after July 1, 2005 become members of SRS. 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. 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 10.115% 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:

<u>Fiscal Year</u>	<u>County Contribution</u>	<u>Employee Contribution</u>
2009-2010	\$515,938	\$471,562
2010-2011	\$547,470	\$500,381
2011-2012	\$541,960	\$495,345

The description above is a brief synopsis of a few of the rules regarding SRS. Please consult the MPERA website for detailed information.

Some key actuarial information on SRS pension plan from latest available MPERB CAFR is as follows:

<u>Fiscal Year</u>	<u>Unfunded Actuarial Liability</u>	<u>Amortization Period</u>	<u>Funded Status</u>
6/30/09	\$ (23,000,000)	Does not amortize over 30 years	90%
6/30/10	\$ (46,000,000)	Does not amortize over 30 years	81%
6/30/11	\$ (62,800,000)	Does not amortize over 30 years	76%

Pension trust funds are considered well-funded when there is enough money and contributions to amortize any unfunded liability in 30 years or less. It is the funding objective of the PERB that the retirement systems become 100 percent funded. Once a system has achieved this objective, there needs to be a range of safety to absorb market volatility without creating unfunded actuarial liabilities. A single year's funded ratio, by itself, does not provide a measure of the funding direction. Whenever, through the use of long-term cash flow projections, the amortization period of a system's unfunded liabilities is projected to exceed 30 years for two consecutive valuations and the PERB can reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of the PERB to recommend funding increases and/or system changes to the Legislature to address financial sustainability. A well-funded plan allows participants to see that their assets are committed to the payment of benefits. (excerpt from FY11 MPERB CAFR).

The SRS financial information is reported in the Montana Public Employees' Retirement Board's (MPERB) *Comprehensive Annual Financial Report (CAFR)* 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 or on its website at <http://mpera.mt.gov/annualReports.shtml>.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 13. 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 \$250,000 is considered to be adequate for potential settlements and litigation costs. The County considers the other known legal actions, for which no reserve has been determined, 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 14. 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, 2012 there were fifteen 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 \$33.56 million. The aggregate principal amount outstanding for the four remaining series issued after July 1, 1997 was \$16,631,347 as of June 30, 2012. There were no new issues of industrial revenue bonds during the fiscal year.

**Note 15. Related Organization**

The County is responsible for appointing the members of the governing board of the Big Sky Economic Development (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 is considered a related organization, and not a component unit of the County.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2012

**Note 16. Protested Taxes**

The protest tax receivable for the County's governmental and proprietary funds increased \$3,134,112 or 8.2% of the FY12 adjusted County tax levy.

<b>Protest Tax Receivables</b>									
Fiscal Year <u>Ending</u>	<b>Governmental-type Funds</b>			<b>Business-type Funds</b>			<b>Total</b>		
	<u>Beginning Balance</u>	<u>Change</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Change</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Change</u>	<u>Ending Balance</u>
FY09	\$1,740,530	(\$773,315)	\$967,215	\$72,240	(\$31,490)	\$40,750	\$1,812,770	(\$804,805)	\$1,007,965
FY10	\$967,215	\$1,614,755	\$2,581,970	\$40,750	\$63,048	\$103,798	\$1,007,965	\$1,677,803	\$2,685,768
FY11	\$2,581,970	\$1,760,455	\$4,342,425	\$103,798	\$155,622	\$259,420	\$2,685,768	\$1,916,077	\$4,601,845
FY12	\$4,342,425	\$2,944,658	\$7,287,083	\$259,420	\$189,450	\$448,870	\$4,601,845	\$3,134,108	\$7,735,953

The County portion of all protested property taxes held in trust rose from \$1,007,948 in FY09 to \$7,735,953 in FY12 from large protests from communication companies and two refineries. The rise in the amount taxes under protest is a concerning trend. The size of the protests and the duration between time of protest and protest resolution are contributing to the increase in the total amount held under protest and may cause local taxing jurisdictions to begin to request release of their taxes prior to protest resolution. The County is currently budgeting for 10.2% of the FY13 tax levy to be protested and anticipates to be able to manage its budget and all debt service without requesting early release of any protest tax funds due to existing reserve levels and operational savings.

**Note 17. Subsequent Events**

Protested real estate taxes for November 2012 was \$5.15 million in total, which was down from \$6.64 million in November 2011. The portion of the November 2012 tax protest that affects County funds is \$1,365,256. The preceding amounts reflect the first half payment and will likely be matched by the same protest amount for the second half of taxes due in May 2013. It is therefore expected that the total FY13 tax protest for County funds will be \$2,730,512 or 6.8% of the County's FY13 budget for property taxes. Of the taxes protested in November 2012, 99.4% of the protest was from 6 large taxpayers in the oil refining, utility, and communications industries. The total FY13 budget for protests was anticipated to be \$4,078,400. The current level of protests is not expected to result in disruption in operations or funding of any debt service for FY13.