

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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. 61. GASB Statement No. 61 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, 2016

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Non-major 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 position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

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

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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 *non-operating* 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 non-operating 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.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, continued

F. Assets, Liabilities, and Net Position 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, 2016 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

June 30, 2016

Note 1. Summary of Significant Accounting Policies, continued

F. Assets, Liabilities, and Net Position 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) An investment in zero-coupon United States government treasury bills, notes, and bonds purchased as a sinking fund investment for a balloon payment on qualified construction bonds described in 17-5-116(1) may have a maturity date exceeding 5 years if:

(a) the maturity date of the United States government treasury bills, notes, and bonds is on or before the date of the balloon payment; and (b) the school district trustees provide written consent.

(7) 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, from time to time, 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, 2016, the allowances were as follows:

	<u>Allowance Amount</u>
Accounts Receivable	\$ 70,290
Property taxes	1,139,400
Delinquent special assessments	8,300
Deferred special assessments	61,300
Total uncollectible allowance	<u>\$ 1,279,290</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, 2016

Note 1. Summary of Significant Accounting Policies, continued

F. Assets, Liabilities, and Net Position or Equity

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 fiscal year ended 6/30/16, 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
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, continued

F. Assets, Liabilities, and Net Position or Equity

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 non-vesting 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 position.

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. Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two types of items, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, one item, unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from property taxes and special assessments. The other item, relates to Net Pension Liability and is found only on the government-wide financials. Both amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

11. 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 Non-spendable, Restricted, Committed, Assigned and Unassigned. Non-spendable can represent a constraint or an asset that is not spendable in form.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, continued

F. Assets, Liabilities, and Net Position or Equity

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

12. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position 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 investment in capital assets excludes unspent debt proceeds. Net position is 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.

13. New Accounting Pronouncements

GASB Statement No. 72, Fair Value Measurement and Application, which is effective for the County beginning in fiscal year 2016. The primary objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value Measurements.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which is effective for the County beginning in fiscal year 2016. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The Statement reduces the GAAP hierarchy into two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the even that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This is effective for Yellowstone County, however does not effect the financial statements.

GASB Statement No. 77, Tax Abatement Disclosures, which is effective for the County beginning in fiscal year 2017. The objective of this Statement is to require disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, continued

Accounting Standards effective in a future period:

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is effective for the County beginning in fiscal year 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is effective for the County beginning in fiscal year 2018. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

The effect of adopting these Statements cannot be determined at this time.

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 Position

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 Position.

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 2016 was nominal. Reported budget amounts represent the original adopted budget as amended.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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, 2016. 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	\$ 80,047,049	\$0	\$0	\$ 80,047,049
Cash in overnight repurchase agreements	0	0	34,221,068	34,221,068
Cash on hand and demand deposits	311,303	0	21,237	332,540
Subtotal	<u>\$ 80,358,352</u>	<u>\$0</u>	<u>\$ 34,242,305</u>	<u>114,600,657</u>
<u>Investments Not Subject to Categories:</u>				
State Treasurer's Investment Pool (STIP)				58,102,811
Total Pooled Investments				<u>\$ 172,703,468</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	\$ 10,847,153	\$0	\$0	\$ 10,847,153
Cash investments - certificate of deposit	200,000	0	0	200,000
Cash on hand and demand deposits	250,000	0	1,932,290	2,182,290
Subtotal	<u>\$ 11,297,153</u>	<u>\$0</u>	<u>\$ 1,932,290</u>	<u>13,229,443</u>
<u>Investments Not Subject to Categories:</u>				
State Treasurer's Investment Pool (STIP)				37,204,910
Total Nonpooled Investments				<u>50,434,353</u>
Total Investments				<u>\$ 223,137,821</u>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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 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 has required significant funds to be tied up, producing little return. The Finance Director directed the County's re-entry to the STIP Program, maintaining liquidity while substantially increasing yields to the investment pool.

The total cash reported at June 30, 2016, is detailed as follows:

	<u>Total</u>	<u>Statement of Net Position</u>	<u>Fiduciary Net Position</u>
Cash and demand investments, pooled	\$ 92,656,417	\$ 34,265,388	\$ 58,391,029
Restricted cash and demand investments for capital, pooled	0	0	0
Restricted cash and demand investments held in trust, nonpooled	2,182,290	2,078,571	103,719
Restricted cash and demand investments for capital, nonpooled	0	0	0
Total cash and demand investments	<u>94,838,707</u>	<u>36,343,959</u>	<u>58,494,748</u>
Cash investments, pooled	80,047,049	29,588,357	50,458,692
Cash investments, nonpooled	400,000	0	400,000
Restricted cash investments for capital, nonpooled	37,004,908	0	37,004,908
Restricted cash investments for debt service, nonpooled	10,847,153	0	10,847,153
Total	<u>\$ 223,137,821</u>	<u>\$ 65,932,316</u>	<u>\$ 157,205,501</u>
Cash on hand, pooled	\$ 321,626		
Cash in bank deposits and other bank deposits, pooled	10,914		
Cash in bank deposits and other bank deposits, nonpooled	2,182,290		
Cash in overnight repurchase agreements, pooled	39,817,618		
Cash in State Treasurer's Investment Pool (STIP)	58,102,811		
Outstanding warrants, pooled	(5,596,552)		
Total cash and demand investments	<u>94,838,707</u>		
Cash investments, pooled	80,047,049		
Cash investments, nonpooled	48,252,061		
Total	<u>\$ 223,137,817</u>		
Cash and demand investments, and cash investments- pooled	\$ 172,703,468		
Cash and demand investments, and cash investments- nonpooled	50,434,353		
	<u>\$ 223,137,821</u>		

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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 - \$36,880; cash received after last bank deposit - \$284,746

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 - \$10,914; other bank deposits represents cash held in trust for other individuals in which any interest earnings are not distributed to the investment pool - \$2,182,290.

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, 2016

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, 2016 pooled cash investment items were:

<u>Investment Type</u>	<u>Yield</u>	<u>Maturity Date</u>	<u>Credit Risk Rating Moody's - S&P</u>	<u>Fair Value</u>
<u>U.S. Government Agencies</u>				
Federal Farm Credit	1.39%	2.25 years	AAA - AA+	\$2,051,000
Federal Home Loan Mortgage Corporation	.625 - 1.60%	1.50 - 5.0 years	AAA - AA+	49,017,493
Federal Home Loan Bank	1.10 - 1.81%	1.25 - 5.0 years	AAA - AA+	20,972,042
Federal National Mortgage Association	0.875 - 1.385%	2.0 - 3.0 years	AAA - AA+	8,006,510
Total U.S. government agency securities				<u>80,047,049</u>
State Treasurer's Investment Pool (STIP)	.55%-Varies	Daily		58,102,811
Total cash investments, pooled				<u><u>\$138,149,860</u></u>

At June 30, 2016, nonpooled cash investment items were:

<u>Investment Type</u>	<u>Yield</u>	<u>Maturity Date</u>	<u>Credit Risk Rating Moody's - S&P</u>	<u>Fair Value</u>
Certificate of Deposit Account Registry Service	.85 - 1.03%	1.0 - 3.0 years	100% FDIC Insured	\$10,847,153
Certificate of Deposit	0.35%	0.5 years	102% collateral	200,000
State Treasurer's Investment Pool (STIP)	.55%-Varies	Daily		37,204,909
Restricted cash investments for capital improvements, nonpooled				<u><u>\$ 48,252,062</u></u>

* - represents 5% or more of total cash investments

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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

The following represents a condensed statement of net position and changes in net position for the cash and investment pool as of June 30, 2016:

<u>Condensed Statement of Net Cash and Investment Assets</u>	
Cash and demand investments, pooled	\$ 92,656,417
Cash investments, pooled	80,047,049
Cash investments, nonpooled	400,000
Restricted cash and demand investments held in trust, nonpooled	2,182,290
Restricted cash investments for capital improvements, nonpooled	37,004,908
Restricted cash investments for debt service, nonpooled	10,847,153
Accrued interest receivable	135,236
Net position held in trust for all pool participants	<u><u>\$ 223,273,053</u></u>
Equity of internal pool participants	\$ 126,654,181
Equity of external pool participants	96,618,872
Total equity	<u><u>\$ 223,273,053</u></u>
<u>Condensed Statement of Changes in Net Cash and Investment Assets</u>	
Net position at July 1, 2015	\$ 211,841,287
Net changes in investments by pool participants	11,039,867
Market value adjustment of cash investments	391,899
Net position at June 30, 2016	<u><u>\$ 223,273,053</u></u>

Investments-Fair Value Measurement and Application (GASB 72):

The County categorizes its fair value measurements within the fair value hierarchy established by general principles, as defined under GASB 72. The hierarchy established is as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets.
- Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, which are observable for an asset or liability, either directly or indirectly.
- Level 3 – Prices determined using unobservable inputs.

The County has the following recurring fair value measurements as of June 30, 2016:

U.S. Government Agency securities of \$80,047,045 are valued using quoted market prices (Level 1 inputs)

Montana State Treasurer's Investment Pool (STIP) units totaling \$58,102,811, with \$1,546,102 valued using quoted market prices (Level 1 inputs), and \$56,556,709 valued using significant other observable inputs (Level 2 inputs), as detailed in STIP's annual report as of June 30, 2016.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 5. Receivables

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

	MAJOR GOVERNMENTAL FUNDS						Other	MAJOR ENTERPRISE FUNDS			Internal Service Funds	Fiduciary Funds	Total
	General	Road	Liability & Property Insurance	Public Safety - Sheriff	R.S.I.D. Bond Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Refuse Disposal	METRA				
Receivables:													
Property taxes	1,321,410	\$1,056,456	\$101,453	\$887,077	\$0	\$0	\$1,279,585	\$0	\$272,071	\$0	\$11,731,146	\$16,649,198	
Accounts	235,801	0	0	632,761	0	2,429	356,639	0	105,371	14,449	51,027	1,398,477	
Delinquent assessments	0	0	0	0	2,996	0	19,158	33,240	0	0	392,401	447,795	
Deferred assessments	0	0	0	0	1,220,050	0	5,194	0	0	0	0	1,225,244	
Accrued interest	26,612	0	2,716	0	68	13,229	3,800	0	596	6,035	82,180	135,236	
Gross receivables	1,583,823	1,056,456	104,169	1,519,838	1,223,114	15,658	1,664,376	33,240	378,038	20,484	12,256,754	19,855,950	
Less allowances for uncollectible accounts	(293,200)	(256,300)	(23,500)	(249,662)	(61,400)	0	(321,760)	(5,000)	(68,468)	0	0	(1,279,290)	
Net total receivables	\$1,290,623	\$800,156	\$80,669	\$1,270,176	\$1,161,714	\$15,658	\$1,342,616	\$28,240	\$309,570	\$20,484	\$12,256,754	\$18,576,660	

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)	\$3,569,781	\$0	\$3,569,781
Special assessments receivable (governmental funds)	18,854	0	18,854
Special assessments not yet billed (governmental funds)	1,163,944	0	1,163,944
METRA unearned revenue from future advertising revenues	0	335,300	335,300
METRA FY16 receipts for fiscal year 2017 events (enterprise fund)	0	1,924,688	1,924,688
Total Unearned Revenue	\$4,752,579	\$2,259,988	\$7,012,567

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 unearned revenue in the governmental fund types.

The 2015 real property taxes and the 2015 special assessments were levied and became receivables in October 2015. The semi-annual installments were due in November 2015 and May 2016. As of December 1, 2015, and June 1, 2016, uncollected real property taxes and special assessments became delinquent and all uncollected amounts as of June 30, 2016, have been reported as unearned 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, 2016, have been reported as unearned revenue. There was no significant land held for resale as of June 30, 2016.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 6. Interfund Receivables, Payables and Transfers

Interfund Receivables and Payables

Advances from/to Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	RSID Construction	\$ 58,797
General Fund	RSID Maintenance	\$ 24,537
General Fund	Lockwood Pedestrian Safety	\$ -

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	\$ -
School District #7 Laurel	\$ 4,130,706
School District #26 Lockwood	\$ -
Total Funds Released from Protest Tax fund	<u>\$ 4,130,706</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, 2016

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				
<u>Transfers out:</u>										
General Fund	\$0	\$0	\$0	\$447,200	\$0	\$600,000	\$2,911,649	\$0	\$0	\$3,958,849
Road Fund	\$0	0	0	0	0	100,000	66,059	0	0	166,059
Public Safety - Sheriff Fund	181,750	0	0	0	0	500,000	33,151	0	0	714,901
RSID Fund	0	0	0	0	0	0	142	0	0	142
Nonmajor Governmental Funds	826,722	194,875	22,580	922,315	0	314,000	587,495	50,000	1,450,362	4,368,349
Major Enterprise Fund - METRA	67,959	0	0	0	0	0	0	0	0	67,959
Refuse Disposal Fund	20,000	0	0	0	0	0	0	0	0	20,000
Total transfers	\$1,096,431	\$194,875	\$22,580	\$1,369,515	\$0	\$1,514,000	\$3,598,496	\$50,000	\$1,450,362	\$9,296,259

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 7. Capital Assets

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

<u>Governmental-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	3,526,624	0	(10,000)	3,516,624
Construction in Progress	272,289	234,556	(342,252)	164,593
Total Capital Assets, Not Being Depreciated	3,798,913	234,556	(352,252)	3,681,217
Capital Assets, Being Depreciated:				
Buildings	28,928,031	2,136,290	0	31,064,321
Improvements Other Than Buildings	3,056,262	420,655	0	3,476,917
Machinery and Equipment	21,005,558	1,295,165	(863,346)	21,437,377
Infrastructure	51,642,108	5,458,520	0	57,100,628
Total Assets Being Depreciated	104,631,959	9,310,630	(863,346)	113,079,243
Less Accumulated Depreciation For:				
Buildings	18,851,417	759,921	0	19,611,338
Improvements Other Than Buildings	1,350,834	134,141	0	1,484,975
Machinery and Equipment	12,909,351	1,421,113	(646,996)	13,683,468
Infrastructure	23,297,856	3,037,252	0	26,335,108
Total Accumulated Depreciation	56,409,458	5,352,428	(646,996)	61,114,890
Total Capital Assets, Being Depreciated, Net	48,222,500	3,958,203	(216,350)	51,964,354
Governmental Activities Capital Assets, Net	\$52,021,414	\$4,192,759	(\$568,602)	\$55,645,571

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 7. Capital Assets, continued

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
<u>Capital Assets, Not Being Depreciated:</u>				
Land	\$368,574	\$0	\$0	\$368,574
Construction in progress	1,189,707	183,645	(1,183,470)	189,883
Total Capital Assets, Not Being Depreciated	1,558,281	183,645	(1,183,470)	558,457
<u>Capital Assets, Being Depreciated:</u>				
Buildings	54,247,379	1,447,467	0	55,694,846
Improvements Other Than Buildings	5,784,546	84,970	0	5,869,516
Machinery and Equipment	1,755,245	170,183	(63,445)	1,861,983
Total Capital Assets, Being Depreciated	61,787,170	1,702,620	(63,445)	63,426,345
<u>Less Accumulated Depreciation For:</u>				
Buildings	20,202,872	1,248,870	0	21,451,742
Improvements Other Than Building	4,016,161	246,425	0	4,262,586
Machinery and Equipment	873,400	107,971	(63,445)	917,926
Total Accumulated Depreciation	25,092,433	1,603,266	(63,445)	26,632,254
Total Capital Assets, Being Depreciated, Net	36,694,737	99,354	0	36,794,091
Business-type Activities Capital Assets, Net	\$38,253,018	\$282,999	(\$1,183,470)	\$37,352,548

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

<u>Governmental Activities</u>	
General Government	\$463,740
Public Safety	897,141
Public Works	3,853,688
Public Health	4,167
Social and Economic	22,338
Culture and Recreation	104,912
Governmental Internal Service Funds	6,446
Total Depreciation Expense - Governmental Activities	5,352,432
<u>Business-type Activities</u>	
METRA	1,603,267
Total Depreciation Expense - Primary Government	\$6,955,699

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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>Governmental -type Activities:</u>	<u>Interest Rate</u>	<u>Amount</u>
2011 Limited Tax General Obligation Bonds – Bridge Connector & METRA Improvements (nontaxable) 1.40% - 2.85% due 6/15/2021, payable in annual principal installments of \$290,000 to \$340,000, callable on or after June 15, 2017	1.400 – 2.85%	\$ 1,605,000
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%	<u>\$ 1,395,000</u> <u>\$ 3,000,000</u>

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

<u>Year Ending</u>	<u>Governmental - type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June30,</u> 2017	545,000	91,498	636,498
2018	565,000	77,303	642,303
2019	585,000	61,612	646,612
2020	605,000	43,835	648,835
2021-2023	700,000	38,890	738,890
Total	<u>\$3,000,000</u>	<u>\$313,138</u>	<u>\$3,313,138</u>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 8. Long-Term Debt, continued

Rural Special Improvement District Bonds

The County issued no new special assessment bonds in fiscal year 2016.

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, 2016. The R.S.I.D. Revolving Fund has no unfunded commitment to the R.S.I.D. bond fund as of June 30, 2016. 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 \$327,451 at June 30, 2016, 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, 2016</u>
715	4.19%	08/01/04	08/01/19	410,000	45,000
717	4.93%	06/01/05	08/01/20	738,000	115,000
758	3.75%	05/01/07	07/01/27	373,000	185,000
783	4.58%	09/28/10	08/01/25	126,777	55,000
785	5.30%	02/01/11	08/01/26	126,945	80,000
803	3.36%	09/20/12	08/01/27	1,015,434	670,000
Various matured bonds	0.00%	Various	Matured	Various	7,225
Outstanding rural special improvement district bonds, June 30, 2016					1,157,225
Less called and matured bonds					<u>(7,225)</u>
Uncalled rural special improvement district bonds, June 30, 2016					<u>\$ 1,150,000</u>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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
2017	68,000	43,095	111,095
2018	14,000	43,095	57,095
2019	59,000	40,937	99,937
2020	169,000	40,412	209,412
2021-2025	528,000	138,333	666,333
2026-2028	312,000	36,592	348,592
Total	<u>\$1,150,000</u>	<u>\$342,464</u>	<u>\$1,492,464</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, 2016, the County had an outstanding balance of \$285,965 owed to Montana Board of Investments in the form of an InterCap loan. This note is payable in semi-annual principal and interest installments with a variable rate currently at 1.55% over 10 years with the final payment due February 15, 2026.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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, 2016				Principal Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
<u>Governmental Activities:</u>					
General obligation bonds	\$ 3,525,000	\$0	(\$525,000)	\$3,000,000	\$ 545,000
Special assessment debt with governmental commitment	1,306,000	0	(156,000)	1,150,000	68,000
Notes payable	0	285,965	0	285,965	27,382
Claims and judgements	950,000	0	(475,000)	475,000	475,000
Compensated absences	2,192,296	97,227	0	2,289,523	545,349
OPEB implicit rate subsidy	1,942,455	335,592	0	2,278,047	0
Governmental activity long-term liabilities	\$ 9,915,751	\$ 718,784	\$ (1,156,000)	\$ 9,478,535	\$ 1,660,731
<u>Business-type Activities:</u>					
Compensated absences	218,702	18,991	0	237,693	59,423
OPEB implicit rate subsidy	171,409	33,844	0	205,253	0
Business-type Activities Long-term Liabilities	\$ 390,111	\$ 52,835	\$ -	\$ 442,946	\$ 59,423

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 8. Long-Term Debt, continued

Summary of Debt Maturities

Annual debt service principal and interest payments required on outstanding debt at June 30, 2016, are as follows:

Year Ending June 30,	Type of Debt		
	General Obligation Bonds	Rural Special Improvement Bonds	Lockwood Safety Intercept Loan
2016	636,498	111,095	0
2017	642,303	57,095	27,382
2018	646,612	99,937	27,364
2019	648,835	209,412	27,707
2020-2024	738,890	666,333	143,834
2025-2028	0	348,592	59,678
	<u>\$ 3,313,138</u>	<u>\$ 1,492,464</u>	<u>\$ 285,965</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 Non-spendable, Restricted, Committed, Assigned and Unassigned.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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

	MAJOR FUNDS							Total Governmental Funds
	General Fund	Road Fund	Property & Liability Insurance Fund	Public Safety Fund	R.S.I.D. Bond Fund	Capital Improvement Fund	Other Nonmajor Governmental Funds	
Nonspendable								
Inventory	\$20,337	\$146,326	\$0	\$0	\$0	\$0	\$66,225	\$232,888
Prepays	111,523	45,675	3,525	123,685	0	0	4,381	\$288,789
Total Unspendable Fund Balance	\$131,860	\$192,001	\$3,525	\$123,685	\$0	\$0	\$70,606	\$521,677
Restricted								
Road	0	4,133,550	0	0	0	0	0	\$4,133,550
Predatory Animal	0	0	0	0	0	0	76	\$76
Park	0	0	0	0	0	0	215,141	\$215,141
Veteran's Cemetery	0	0	0	0	0	0	70,955	\$70,955
Public Safety - Mental Health	0	0	0	0	0	0	42,009	\$42,009
Lockwood Pedestrian Safety	0	0	0	0	0	0	\$112,611	\$112,611
Soil Conservation	0	0	0	0	0	0	2,932	\$2,932
Drug Forfeiture	0	0	0	0	0	0	332,277	\$332,277
RSID Maintenance	0	0	0	0	0	0	4,521,208	\$4,521,208
Junk Vehicle	0	0	0	0	0	0	69,639	\$69,639
DUI Task Force/Highway Traffic Safety	0	0	0	0	0	0	63,427	\$63,427
RSID Revolving	0	0	0	0	0	0	327,451	\$327,451
RSID Bond	0	0	0	0	226,461	0	0	\$226,461
Total Restricted Fund Balance	\$0	\$4,133,550	\$0	\$0	\$226,461	\$0	\$5,757,726	\$10,117,737
Committed								
Bridge	0	0	0	0	0	0	689,857	\$689,857
Weed	0	0	0	0	0	0	125,309	\$125,309
Liability & Property Insurance	0	0	933,897	0	0	0	0	\$933,897
Mental Health Fund	105,572	0	0	0	0	0	0	\$105,572
Senior Citizens	0	0	0	0	0	0	33,920	\$33,920
Extension Service	0	0	0	0	0	0	75,745	\$75,745
Public Safety	0	0	0	6,709,182	0	0	0	\$6,709,182
County Attorney	0	0	0	0	0	0	1,205,670	\$1,205,670
Museum	0	0	0	0	0	0	211,394	\$211,394
Youth Services	0	0	0	0	0	0	811,955	\$811,955
Total Committed Fund Balance	\$105,572	\$0	\$933,897	\$6,709,182	\$0	\$0	\$3,153,850	\$10,902,501

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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		
Assigned								
Use of Reserves	907,038	0	1,720,417	888,165	0	6,114,580	1,237,912	\$10,868,112
Blight	78,293	0	0	0	0	0	0	\$78,293
Record Preservation-Capital Improvements	275,160	0	0	0	0	0	0	\$275,160
PILT	0	0	0	0	0	0	318,923	\$318,923
GIS	0	0	0	0	0	0	306,315	\$306,315
Capital Improvement	0	0	0	0	0	10,056,420	0	\$10,056,420
Total Assigned Fund Balance	\$1,260,491	\$0	\$1,720,417	\$888,165	\$0	\$16,171,000	\$1,863,150	\$21,903,223
Unassigned								
General Fund	5,369,759	0	0	0	0	0	0	\$5,369,759
Total Unassigned Fund Balance	\$5,369,759	\$0	\$0	\$0	\$0	\$0	\$0	\$5,369,759
Total Fund Balance	\$6,867,682	\$4,325,551	\$2,657,839	\$7,721,032	\$226,461	\$16,171,000	\$10,845,332	\$48,814,897

Non-spendable 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 includes 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, 2016

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 \$475,000 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, 2016	\$ 250,000	\$ 1,500,000	\$ 3,000,000

County buildings and their contents are covered by a blanket property and casualty insurance policy of \$172,968,000 with a \$50,000 deductible. The County at June 30, 2016, had unreserved fund balance in its Property and Liability Insurance Fund totaling \$2,648,525. Levels of property insurance decreased .43% from the prior year. As of October 16, 2008, the County 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. The County made a one-time settlement of \$650,000 for an asbestos claim that allegedly accrued in the 1980's for which the County was not insured.

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 \$750,000 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, 2016

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, 2016, is \$2,527,215. The unvested 75% of accumulated sick pay benefits, which totaled \$2,784,331 at June 30, 2016, 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 \$200,000.

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>
2013-2014	\$ 299,001	\$ 6,725,061	\$ 6,169,234	\$ 854,828
2014-2015	\$ 854,828	\$ 7,128,625	\$ 6,560,732	\$ 567,893
2015-2016	\$ 567,893	\$ 6,031,963	\$ 6,399,856	\$ 200,000

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 2016. 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 \$1,450,362 to the health insurance fund in fiscal year 2016.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 11. Employee Benefits, continued

B. Health Insurance, continued

<u>Results of operations for fiscal year ended:</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Health insurance premiums	\$ 5,818,662	\$ 6,185,939
Health claims	(7,128,625)	(6,031,963)
Administrative expenses	(476,042)	(520,893)
Interest revenue	71,930	69,856
Interfund transfer in	<u>1,607,374</u>	<u>1,450,362</u>
Net income (loss)	(106,701)	1,153,301
Net position, beginning of fiscal year	<u>6,659,510</u>	<u>6,552,809</u>
Net position, end of fiscal year	<u>\$ 6,552,809</u>	<u>\$ 7,706,110</u>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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, 2016, there are 29 former employees covered under the health plan. As of June 30, 2016 there are 61 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 FY16, employees of Riverstone Health Department and Big Sky Economic Development pay premiums at the same County rates plus a \$10 per month per employee administrative fee. 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 under 65 coverage increased 5.93% during fiscal year 2016. Premiums for retirees over 65 coverage increased 11.1% during fiscal year 2016. The funding for the employer portion of coverage increased 6.0%. There were only minor changes to health plan benefits during fiscal year 2016.

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 2016.

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 dependents, 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, 2016

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 2016 there are 29 retirees and/or survivors enrolled for the employer's sponsored health insurance plan. In 2016, retirees contributed \$316,223 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, 2016

Normal Cost	\$369,601
Amortization of Unfunded Actuarial Accrued Liability Over 30 Years from the Valuation Date	<u>352,012</u>
Annual Required Contribution	<u>\$721,613</u>

5. Funded Status and Funding Progress

As of June 30, 2016, the actuarial accrued liability (AAL) for benefits was \$5,416,702 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, 2016

Actuarial Value of Assets	\$ 0
Plus Actuarial Accrued Liability (AAL)	\$5,416,702
Unfunded Actuarial Accrued Liability (UAAL)	\$5,416,702
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, 2016

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 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Sheriff Personnel).

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 4.0 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 pre-65 medical trend rate of 7.5% was used to calculate fiscal year 2015 and will be reduced by 0.25% each year until an ultimate rate of 5.0%.

Health insurance premiums for 2014 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, 2016

Note 12. Pension and Retirement Fund Commitments

Public Employees' Retirement System (PERS)

Pension Amount Totals

GASB Statement 68, Paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

Net Pension Liability -

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective NPL that is associated with the non-State employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Tax Severance fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer.

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

As of reporting date:	Net Pension Liability as of 6/30/2016	Net Pension Liability as of 6/30/2015	Percent of Collective NPL as of 6/30/2016	Percent of Collective NPL as of 6/30/2015	Change in Percent of Collective NPL
Employer Proportionate Share	\$15,557,794.00	\$13,999,854.00	1.112963%	1.123574%	-0.010611%
State of Montana Proportionate Share associated with the Employer	\$ 191,101.00	\$ 170,960.00	0.013671%	0.013721%	-0.000050%
Total	\$15,748,895.00	\$14,170,814.00	1.126634%	1.137295%	-0.010661%

The Table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all PERS' participating employers.

As of the employer's reporting date the employer recorded a liability of \$15,557,794.00
and the employer's proportionate share was 1.112963%

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the TPL.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL. (Employers must disclose the details of significant changes or state no changes.)

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Pension Expense –

As of reporting date	Pension Expense as of 6/30/2016	Pension Expense as of 6/30/2015
Employer's Proportionate Share of PERS	\$ 976,078.00	\$ 1,066,534.00
State of Montana Proportionate Share associated with the Employer	\$ 11,875.00	\$ 12,869.00
Total	\$ 987,953.00	\$ 1,079,403.00

At June 30, 2016, the employer recognized its proportionate share of the PERS' Pension Expense of
\$ 987,952.00

The employer also recognized grant revenue of \$ 11,875.00 for the support provided by the State of Montana for the proportionate share of the Pension Expense that is associated with the employer, and grant revenue of \$ 373,370.00 from the Coal Tax Fund.
(Two years of pension expense are documented in the above table but are not necessary for the employer's disclosures)

Recognition of Deferred Inflows and Outflows -

At June 30, 2016, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ -	\$ 94,125.00
Changes in Assumptions	\$ -	\$ -
Actual vs Expected Investment Earnings	\$ -	\$ 1,317,133.00
Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ 2,643.00	\$ 124,786.00
Employer Contributions subsequent to the measurement date - # FY2016 Contributions	\$ 1,191,173.00	
Total	\$ 1,193,816.00	\$ 1,536,044.00

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2017.

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

For the Reporting Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2017	\$ (625,297.00)
2018	\$ (625,297.00)
2019	\$ (625,367.00)
2020	\$ 342,561.00
2021	\$ -
Thereafter	\$ -

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Plan Description –

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, MCA. This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

Summary of Benefits –

Eligibility for benefit

Service retirement:

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

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
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Hired on or after July 1, 2011:	Age 55, 5 years of membership service.
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Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Vesting

5 years of membership service

Member's highest average compensation (HAC)

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

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

Compensation Cap

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

Monthly benefit formula

- 1) Members hired prior to July 1, 2011:
 - i) Less than 25 years of membership service
1.785% of HAC per year of service credit;
 - ii) 25 years of membership service or more
2% of HAC per year of service credit.

 - 2) Members hired on or after July 1, 2011:
 - i) Less than 10 years of membership service
1.5% of HAC per year of service credit;
 - ii) 10 years or more, but less than 30 years of membership service
1.785% of HAC per year of service credit;
 - iii) 30 years or more of membership service
2% of HAC per year of service credit.
-

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

3% for members hired prior to July 1, 2007

1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013:

- a) 1.5% for each year PERS is funded at or above 90%;
- b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
- c) 0% whenever the amortization period for PERS is 40 years or more.

Stand-Alone Statements -

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154.

CAFR information including our stand alone financial statements can be found at <http://mpera.mt.gov/annualReports.shtml>

The latest actuarial valuation and experience study can be found at <http://mpera.mt.gov/actuarialvaluations.shtml>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Overview of Contributions -

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown in the table below.

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions:
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Fiscal Year	Member		State & Universities	Local Government		School Districts		
	Hired <7/01/11	Hired >7/01/11	Employer	Employer	State	Employer	State	
	2016	7.9%	7.9%	8.370%	8.270%		0.10%	8.00%
2015	7.9%	7.9%	8.270%	8.170%		0.10%	7.90%	0.370%
2014	7.9%	7.9%	8.170%	8.070%		0.10%	7.80%	0.370%
2012-2013	6.9%	7.9%	7.170%	7.070%		0.10%	6.80%	0.370%
2010-2011	6.9%		7.170%	7.070%		0.10%	6.80%	0.370%
2008-2009	6.9%		7.035%	6.935%		0.10%	6.80%	0.235%
2000-2007	6.9%		6.900%	6.800%		0.10%	6.80%	0.100%

Actuarial Assumptions -

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

Investment Return (net of admin expense)	7.75%
Admin Expense as % of Payroll	0.27%
General Wage Growth*	4%
*includes Inflation at	3%
Merit Increases	0% to 6%
Post Retirement Increases	

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the members' benefit.

3% for members hired prior to July 1, 2007

1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013

- a) 1.5% for each year PERS is funded at or above 90%;
- b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
- c) 0% whenever the amortization period for PERS is 40 years or more.

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA>

Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate -

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. A municipal bond rate was not incorporated in the discount rate.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Target Allocations -

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

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis – 78g

	1.0% Decrease 6.75%	Current Discount Rate	1.0% Increase 8.75%
Employer's Net Pension Liability	\$23,986,752.00	\$15,557,794.00	\$8,439,735.00

The above table presents the NPL calculated using the discount rate of 7.75% as well as what the NPL would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Summary of Significant Accounting Policies -

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

Sheriff's Retirement System-

Pension Amount Totals -

GASB Statement 68, Paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

Net Pension Liability -

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Sheriffs' Retirement System (SRS). GASB Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

As of reporting date:	Net Pension Liability as of 6/30/2016	Net Pension Liability as of 6/30/2015	Percent of Collective NPL as of 6/30/2016	Percent of Collective NPL as of 6/30/2015	Change in Percent of Collective NPL
Employer Proportionate Share	\$ 8,870,691.00	\$ 3,754,635.00	9.202068%	9.021873%	0.180195%
Total	\$ 8,870,691.00	\$ 3,754,635.00	9.202068%	9.021873%	0.180195%

The Table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by SRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all SRS' participating employers.

As of the employer's reporting date the employer recorded a liability of \$ 8,870,691.00
and the employer's proportionate share was 9.202068%

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the TPL.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL. (Employers must disclose the details of significant changes or state no changes.)

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

As of reporting date	Pension Expense as of 6/30/2016	Pension Expense as of 6/30/2015
Employer's Proportionate Share of SRS	\$ 688,495.00	\$ 209,770.00
Total	\$ 688,495.00	\$ 209,770.00

At June 30, 2016, the employer recognized its proportionate share of the SRS' Pension Expense (Two years of pension expense are documented in the above table but are not necessary for the employer's disclosures.)

Recognition of Deferred Inflows and Outflows -

At June 30, 2016, the employer reported its proportionate share of SRS' deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ -	\$ 14,953.00
Changes in Assumptions	\$ 3,301,874.00	\$ 3,256,367.00
Actual vs Expected Investment Earnings	\$ -	\$ 607,536.00
Changes in Proportion Share	\$ 153,803.00	\$ -
Employer Contributions subsequent to the measurement date - # FY2016 Contributions	\$ 678,720.00	
Total	\$ 4,134,397.00	\$ 3,878,856.00

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2017.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

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

For the Reporting Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense	
2017	\$	(220,503.00)
2018	\$	(220,503.00)
2019	\$	(220,503.00)
2020	\$	201,457.00
2021	\$	36,871.00
Thereafter	\$	-

Plan Description –

The Sheriffs' Retirement System (SRS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Summary of Benefits –

Eligibility for benefit

20 years of membership service, regardless of age
Other Retirement Option

Age 50, 5 years of membership service. This benefit is the actuarial equivalent of the service retirement benefit.

Vesting

5 years of membership service for all other rights

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.

Compensation Cap

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

Monthly benefit formula

2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

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

3% for members hired **prior to** July 1, 2007

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

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Overview of Contributions -

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown in the table below.

Fiscal Year	Member	Employer
2010 - 2016	9.245%	10.115%
2008 - 2009	9.245%	9.825%
1998 - 2007	9.245%	9.535%

Stand-Alone Statements -

The SRS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154.

CAFR information including our stand alone financial statements can be found at <http://mpera.mt.gov/annualReports.shtml>

The latest actuarial valuation and experience study can be found at <http://mpera.mt.gov/actuarialvaluations.shtml>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Actuarial Assumptions -

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. There were several significant assumptions and other inputs used to measure the TPL. Among those assumptions were the following:

Investment Return (net of admin expense)	7.75%
Admin Expense as % of Payroll	0.17%
General Wage Growth*	4.00%
*includes Inflation at	3.00%
Merit Increases	0% to 7.3%
Post Retirement Increases	

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

For members hired prior to July 1, 2007	3.00%
For members hired on or after July 1, 2007	1.50%

Mortality assumptions among contributing members, terminated vested members, service retired members and and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate -

The discount rate used to measure the TPL was 6.86%, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. Based on those assumptions, the System's fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after 2057. Therefore, the portion of future projected benefit payments after 2057 are discounted at the municipal bond index rate.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Target Allocations -

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Summarized in the table above are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

Sensitivity Analysis -

	1.0% Decrease 5.86%	Current Discount Rate	1.0% Increase 7.86%
Employer's Net Pension Liability	\$ 14,245,737.00	\$ 8,870,691.00	\$ 4,464,455.00

The above table presents the NPL calculated using the discount rate of 6.86% as well as what the NPL would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

Note 12. Pension and Retirement Fund Commitments, continued

Summary of Significant Accounting Policies -

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

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 \$475,000 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.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2016

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.

Between July 1, 1978 and June 30, 2016 there were nineteen series of industrial revenue bonds issued. The aggregate principal amount outstanding for the five remaining series issued after July 1, 1997 was \$25,441,828 as of June 30, 2016.

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, 2016

Note 16. Protested Taxes

The protest tax receivable for the County's governmental and proprietary funds increased \$1,286,892 or 3% of the FY16 adjusted County tax levy .

Protest Tax Receivables									
Fiscal Year Ending	Governmental-type Funds			Business-type Funds			Total		
	Beginning Balance	Change	Ending Balance	Beginning Balance	Change	Ending Balance	Beginning Balance	Change	Ending Balance
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
FY13	\$7,287,083	\$2,549,918	\$9,837,001	\$448,870	\$161,828	\$610,698	\$7,735,953	\$2,711,746	\$10,447,699
FY14	\$9,837,001	(\$3,563,200)	\$6,273,801	\$610,698	(\$176,827)	\$433,871	\$10,447,699	(\$3,740,027)	\$6,707,672
FY15	\$6,273,801	(\$3,577,768)	\$2,696,033	\$433,871	(\$267,249)	\$166,622	\$6,707,672	(\$3,845,017)	\$2,862,655
FY16	\$2,696,033	\$1,221,318	\$3,917,351	\$166,622	\$65,574	\$232,196	\$2,862,655	\$1,286,892	\$4,149,547

The County portion of all protested property taxes held in trust increased materially in FY16. This is due almost entirely to area refinery protests. A sizable majority is from the CHS/Cenex facility alone. In meetings with the Yellowstone County Board of Commissioners prior to FYE, the Montana Department of Revenue stated that the difference in the DOR's value and that put forth by the taxpayer in question is so significant that no discussions toward resolution are scheduled. The DOR's estimate for resolution was a timeframe of up to five years.

Note 17. Subsequent Events

In October, 2016 the Montana Department of Revenue reached a resolution with NorthWestern Energy's statewide valuations for the 2016-2017 tax collection cycle. The result was an overall downward adjustment in statewide value of approximately 8%. There are two direct impacts to the County. First, it will reduce FY17 collections by an estimated total of \$215,336 in the county-wide levy funds, and \$35,990 in the County's Road Fund. At this time, the Board of County Commissioners has declined to seek a re-certification of values. This will combine to reduce the revenues to the funds in the county-wide levy and the Road Fund by slightly over \$250,000. Countywide, this amounts to a decline in taxable values of approximately .54%.

The second issue, unresolved as of this writing, may lie in the fact that requests in the County by certain school districts for re-certified values may delay the generation of tax bills normally sent at the end of October to allow for the first half of real estate tax collections to be due on November 30, 2016. The financial impact on interest earned on timely tax collections is uncertain at this time, but is not considered to be material in nature.