

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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.

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

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

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

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

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

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

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net 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.

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Note 1. Summary of Significant Accounting Policies, continued

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

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

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

The government reports the following major governmental funds:

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

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

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

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

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

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

The government reports the following major fund proprietary funds:

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

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

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Note 1. Summary of Significant Accounting Policies, continued

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

Additionally, the government reports the following fund types:

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

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

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

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

E. Use of Estimates

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

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Note 1. Summary of Significant Accounting Policies, continued

F. Assets, Liabilities, and Net 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, 2014 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.

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

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

2. Restricted Cash and Demand Investments

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

3. Receivables and Payables

All trade, special assessment, and property tax receivables are shown net of an allowance for uncollectibles. As of June 30, 2014, the allowances were as follows:

	<u>Allowance Amount</u>
Accounts Receivable	\$ 38,452
Property taxes	1,914,000
Delinquent special assessments	12,000
Deferred special assessments	<u>77,000</u>
Total uncollectible allowance	<u>\$2,041,452</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."

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Notes to the Financial Statements
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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 6/30/14, there were no significant purchases or deassessment 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.

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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 nonvesting accumulating rights to receive sick pay benefits. The non-vested portion of sick leave is 75% of the accrued sick leave times the rate of pay.

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

9. Long-term Obligations

In the government-wide financial statements, and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net 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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from property taxes and special assessments. These 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 Nonspendable, Restricted, Committed, Assigned and Unassigned. Nonspendable can represent a constraint or an asset that is not spendable in form.

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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

The County has adopted the provisions of the following GASB pronouncements for fiscal year 2014:

Statement No. 65 - Items Previously Reported as Assets and Liabilities, which is effective for periods beginning after December 15, 2012.

Accounting Standards effective in a future period:

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers.

This Statement establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years beginning after June 15, 2014. The effect of adopting the Standard cannot be determined at this time.

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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 2014 was nominal. Reported budget amounts represent the original adopted budget as amended.

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Note 4. Cash and Demand Investments, and Cash Investments

The County maintains a cash and investment pool for all funds under the control of the County Treasurer. The non-pooled investments represent those investments held for other individuals or districts to be utilized for a specific purpose or capital project. The County's investments are categorized below to give an indication of the level of risk assumed by the County at June 30, 2014. 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	\$ 60,491,622	\$0	\$0	\$ 60,491,622
Cash investments - certificate of deposit account registry service	50,000,000	0	0	50,000,000
Cash in overnight repurchase agreements	0	0	49,245,219	49,245,219
Cash on hand and demand deposits	339,031	0	1,022,447	1,361,478
Subtotal	\$ 110,830,653	\$0	\$ 50,267,666	161,098,319
<u>Investments Not Subject to Categories:</u>				
State Treasurer's Investment Pool (STIP)				0
Total Pooled Investments				\$ 161,098,319

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	\$ 7,054,472	\$0	\$0	\$ 7,054,472
Cash investments - certificate of deposit	35,000,000	0	0	35,000,000
Cash in overnight repurchase agreements	0	0	43,077,879	43,077,879
Cash on hand and demand deposits	250,000	0	616,200	866,200
Subtotal	\$ 42,304,472	\$0	\$ 43,694,079	85,998,551
<u>Investments Not Subject to Categories:</u>				
State Treasurer's Investment Pool (STIP)				0
Total Nonpooled Investments				85,998,551
Total Investments				\$ 247,096,870

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

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

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

The total cash reported at June 30, 2014, is detailed as follows:

	Total	Statement of Net Position	Fiduciary Net Position
Cash and demand investments, pooled	\$ 28,982,032	\$ 17,066,042	\$ 11,915,990
Restricted cash and demand investments for capital, pooled	21,624,665	0	21,624,665
Restricted cash and demand investments held in trust, nonpooled	866,200	811,592	54,608
Restricted cash and demand investments for capital, nonpooled	43,077,879	0	43,077,879
Total cash and demand investments	<u>94,550,776</u>	<u>17,877,634</u>	<u>76,673,142</u>
Cash investments, pooled	110,491,622	37,260,978	73,230,644
Restricted cash investments for capital, nonpooled	35,400,000	0	35,400,000
Restricted cash investments for debt service, nonpooled	6,654,472	0	6,654,472
Total	<u>\$ 247,096,870</u>	<u>\$ 55,138,612</u>	<u>\$ 191,958,258</u>
Cash on hand, pooled	\$ 887,552		
Cash in bank deposits and other bank deposits, pooled	473,926		
Cash in bank deposits and other bank deposits, nonpooled	866,200		
Cash in overnight repurchase agreements, pooled	61,833,705		
Cash in overnight repurchase agreements, nonpooled	43,077,879		
Cash in State Treasurer's Investment Pool (STIP)	0		
Outstanding warrants, pooled	<u>(12,588,486)</u>		
Total cash and demand investments	<u>94,550,776</u>		
Cash investments, pooled	110,491,622		
Cash investments, nonpooled	42,054,472		
Total	<u>\$ 247,096,870</u>		
Cash and demand investments, and cash investments- pooled	\$ 161,098,319		
Cash and demand investments, and cash investments- nonpooled	<u>85,998,551</u>		
	<u>\$ 247,096,870</u>		

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

Cash on hand - represents two types of cash items: petty cash and change funds on hand - \$36,930; cash received after last bank deposit - \$850,622

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 - \$473,926; other bank deposits represents cash held in trust for other individuals in which any interest earnings are not distributed to the investment pool - \$866,200

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, 2014

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, 2014 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	0.92 - 1.97%	3.5 - 5.0 years	AAA - AA+	\$8,002,579 *
Federal Home Loan Mortgage Corporation	0.424 - 1.55%	3.3 - 4.0 years	AAA - AA+	12,967,190 *
Federal Home Loan Bank	0.288 - 2.715%	0.7-5 years	AAA - AA+	27,561,788 *
Federal National Mortgage Association	0.37 - 1.90%	5 days - 4.7 years	AAA - AA+	11,960,065 *
Total U.S. government agency securities				<u>\$60,491,622</u>
Certificate of Deposit Account Registry Service	0.22 - 0.89%	10 - 150 days	100% FDIC Insured	50,000,000 *
Total cash investments, pooled				<u><u>\$110,491,622</u></u>

At June 30, 2014, 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	.26 - 1.03%	0.6 - 3.0 years	100% FDIC Insured	\$7,054,472
Certificate of Deposit	0.21 - 0.24%	0.8- 1.3 years	102% collateral	35,000,000 *
Restricted cash investments for capital improvements, nonpooled				<u><u>\$ 42,054,472</u></u>

* - represents 5% or more of total cash investments

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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, 2014:

<u>Condensed Statement of Net Cash and Investment Assets</u>	
Cash and demand investments, pooled	\$ 50,606,697
Cash investments, pooled	110,491,622
Restricted cash and demand investments for capital improvements, nonpooled	43,077,879
Restricted cash and demand investments held in trust, nonpooled	866,200
Restricted cash investments for capital improvements, nonpooled	35,400,000
Restricted cash investments for debt service, nonpooled	6,654,472
Accrued interest receivable	174,638
Net position held in trust for all pool participants	<u><u>\$ 247,271,508</u></u>
Equity of internal pool participants	\$ 146,662,248
Equity of external pool participants	100,609,260
Total equity	<u><u>\$ 247,271,508</u></u>
<u>Condensed Statement of Changes in Net Cash and Investment Assets</u>	
Net position at July 1, 2013	\$ 164,029,635
Net changes in investments by pool participants	82,874,199
Market value adjustment of cash investments	367,674
Net position at June 30, 2014	<u><u>\$ 247,271,508</u></u>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

Note 5. Receivables

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

	MAJOR GOVERNMENTAL FUNDS						Other Nonmajor Governmental Funds	MAJOR ENTERPRISE FUNDS			Internal Service Funds	Fiduciary Funds	Total
	General	Road	Liability & Property Insurance	Public Safety - Sheriff	R.S.I.D. Bond Fund	Capital Improvement Fund		Refuse Disposal	METRA				
Receivables:													
Property taxes	\$2,404,127	\$1,091,214	\$203,650	\$1,745,437	\$0	\$0	\$2,386,239	\$0	\$518,645	\$0	\$25,586,209	\$33,935,521	
Accounts	203,218	88,980	0	480,362	0	1,797	377,793	0	80,221	11,884	13,228	1,257,483	
Delinquent assessments	0	0	0	0	2,040	0	16,316	61,681	0	0	356,472	436,509	
Deferred assessments	0	0	0	0	1,539,425	0	0	0	0	0	0	1,539,425	
Accrued interest	27,541	0	2,741	0	100	8,848	4,132	0	1,004	6,651	123,621	174,638	
Gross receivables	2,634,886	1,180,194	206,391	2,225,799	1,541,565	10,645	2,784,480	61,681	599,870	18,535	26,079,530	37,343,576	
Less allowances for uncollectible accounts	(542,800)	(261,400)	(46,300)	(421,372)	(77,300)	0	(560,823)	(9,300)	(122,157)	0	0	(2,041,452)	
Net total receivables	\$2,092,086	\$918,794	\$160,091	\$1,804,427	\$1,464,265	\$10,645	\$2,223,657	\$52,381	\$477,713	\$18,535	\$26,079,530	\$35,302,124	

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

	Unavailable	Unearned	Total
Delinquent property taxes receivable (governmental funds)	\$6,037,267	\$0	\$6,037,267
Special assessments receivable (governmental funds)	15,656	0	15,656
Special assessments not yet billed (governmental funds)	1,462,425	0	1,462,425
METRA unearned revenue from future advertising revenues	0	587,708	587,708
METRA FY14 receipts for fiscal year 2015 events (enterprise fund)	0	817,484	817,484
Total Unearned Revenue	\$7,515,348	\$1,405,192	\$8,920,540

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 2013 real property taxes and the 2013 special assessments were levied and became receivables in October 2013. The semi-annual installments were due in November 2013 and May 2014. As of December 1, 2013, and June 1, 2014, uncollected real property taxes and special assessments became delinquent and all uncollected amounts as of June 30, 2014, 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, 2014, have been reported as unearned revenue. There was no significant land held for resale as of June 30, 2014.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

Note 6. Interfund Receivables, Payables and Transfers

Due from/to Other Taxing Districts

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Shepherd Cemetery	\$ 3,000

Advances from/to Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	Metra	\$ 700,000
General Fund	RSID Maintenance	\$ 34,617

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	\$ 6,463,266
School District #26 Lockwood	\$ 140,577
Total Funds Released from Protest Tax fund	<u>\$ 6,603,843</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, 2014

Note 6. Interfund Receivables, Payables and Transfers, continued

Interfund transfers

	Transfers in									
	MAJOR GOVERNMENTAL FUNDS						Other Nonmajor Governmental Funds	MAJOR ENTERPRISE FUND METRA	Internal Service Funds	Total
	General	Road	Liability & Property Insurance	Public Safety - Sheriff	R.S.I.D. Bond Fund	Capital Improvement Fund				
<u>Transfers out:</u>										
General Fund	\$0	\$3,696	\$0	\$447,200	\$0	\$2,005,000	\$2,715,669	\$0	\$0	\$5,171,565
Road Fund	\$0	0	0	0	0	200,000	39,974	0	0	239,974
Public Safety - Sheriff Fund	129,790	0	0	0	0	1,725,000	32,342	0	0	1,887,132
Nonmajor Governmental Funds	976,934	191,216	20,999	686,788	0	20,000	529,007	0	1,606,262	4,031,206
Major Enterprise Fund - METRA	35,658	0	0	0	0	0	0	0	0	35,658
Refuse Disposal Fund	20,000	0	0	0	0	0	0	0	0	20,000
Total transfers	\$1,162,382	\$194,912	\$20,999	\$1,133,988	\$0	\$3,950,000	\$3,316,992	\$0	\$1,606,262	\$11,385,535

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

Note 7. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2014 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	3,665,796	0	0	3,665,796
Construction in Progress	109,637	56,097	(109,637)	56,097
Total Capital Assets, Not Being Depreciated	<u>3,775,433</u>	<u>56,097</u>	<u>(109,637)</u>	<u>3,721,893</u>
Capital Assets, Being Depreciated:				
Buildings	28,668,545	300,052	0	28,968,597
Improvements Other Than Buildings	4,770,647	146,692	(1,923,191)	2,994,148
Machinery and Equipment	20,275,518	3,294,923	(3,134,792)	20,435,649
Infrastructure	41,659,083	4,776,195	0	46,435,278
Total Assets Being Depreciated	<u>95,373,793</u>	<u>8,517,862</u>	<u>(5,057,983)</u>	<u>98,833,672</u>
Less Accumulated Depreciation For:				
Buildings	17,491,078	714,813	0	18,205,891
Improvements Other Than Buildings	1,440,127	114,291	(320,532)	1,233,886
Machinery and Equipment	12,201,280	1,459,224	(1,424,427)	12,236,077
Infrastructure	18,058,111	2,511,244	0	20,569,355
Total Accumulated Depreciation	<u>49,190,596</u>	<u>4,799,572</u>	<u>(1,744,959)</u>	<u>52,245,209</u>
Total Capital Assets, Being Depreciated, Net	<u>46,183,197</u>	<u>3,718,290</u>	<u>(3,313,025)</u>	<u>46,588,462</u>
Governmental Activities Capital Assets, Net	<u>\$49,958,630</u>	<u>\$3,774,387</u>	<u>(\$3,422,662)</u>	<u>\$50,310,355</u>

Decreases include the transfer of the county's veteran's cemetery to the federal government of \$1,923,191.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

Note 7. Capital Assets, continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-type Activities</u>				
<u>Capital Assets, Not Being Depreciated:</u>				
Land	\$368,574	\$0	\$0	\$368,574
Construction in progress	161,692	77,502	(161,691)	77,503
Total Capital Assets, Not Being Depreciated	530,266	77,502	(161,691)	446,077
<u>Capital Assets, Being Depreciated:</u>				
Buildings	53,891,763	355,877	0	54,247,640
Improvements Other Than Buildings	5,460,139	201,136	0	5,661,275
Machinery and Equipment	1,267,673	244,456	(22,332)	1,489,797
Total Capital Assets, Being Depreciated	60,619,575	801,469	(22,332)	61,398,712
<u>Less Accumulated Depreciation For:</u>				
Buildings	17,715,485	1,248,519	0	18,964,002
Improvements Other Than Building	3,484,573	291,067	0	3,775,640
Machinery and Equipment	697,958	89,803	(22,332)	765,429
Total Accumulated Depreciation	21,898,016	1,629,389	(22,332)	23,505,071
Total Capital Assets, Being Depreciated, Net	38,721,559	(827,920)	0	37,893,641
Business-type Activities Capital Assets, Net	\$39,251,825	(\$750,418)	(\$161,691)	\$38,339,718

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

<u>Governmental Activities</u>	
General Government	\$504,420
Public Safety	958,768
Public Works	3,197,359
Public Health	10,160
Social and Economic	4,624
Culture and Recreation	94,256
Governmental Internal Service Funds	29,986
Total Depreciation Expense - Governmental Activities	4,799,572
<u>Business-type Activities</u>	
METRA	1,629,389
Total Depreciation Expense - Primary Government	\$6,428,961

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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%	\$ 2,190,000
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>\$ 1,850,000</u> <u>\$ 4,040,000</u>

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

<u>Year Ending</u>	<u>Governmental - type Activities</u>		
<u>June30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	515,000	116,121	631,121
2016	525,000	104,185	629,185
2017	545,000	91,498	636,498
2018	565,000	77,302	642,302
2019	585,000	61,612	646,612
2020-2023	<u>1,305,000</u>	<u>82,723</u>	<u>1,387,723</u>
Total	<u>\$4,040,000</u>	<u>\$533,441</u>	<u>\$4,573,441</u>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

Note 8. Long-Term Debt, continued

Rural Special Improvement District Bonds

The County issued no new special assessment bonds in fiscal year 2014.

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, 2014. The R.S.I.D. Revolving Fund has no unfunded commitment to the R.S.I.D. bond fund as of June 30, 2014. 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 \$327,295 at June 30, 2014, 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, 2014</u>
682	6.00%	08/01/02	08/01/17	\$ 174,000	\$ 7,000
715	4.19%	08/01/04	08/01/19	410,000	85,000
717	4.93%	06/01/05	08/01/20	738,000	205,000
758	3.75%	05/01/07	07/01/27	373,000	208,000
783	4.58%	09/28/10	08/01/25	126,777	80,000
785	5.30%	02/01/11	08/01/26	126,945	100,000
803	3.36%	09/20/12	08/01/27	1,015,434	805,000
Various matured bonds	0.00%	Various	Matured	Various	7,225
Outstanding rural special improvement district bonds, June 30, 2014					1,497,225
Less called and matured bonds					(7,225)
Uncalled rural special improvement district bonds, June 30, 2014					\$ 1,490,000

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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 <u>June 30,</u>	<u>Governmental-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$171,000	\$57,906	\$228,906
2016	0	50,774	50,774
2017	11,000	50,774	61,774
2018	39,000	50,361	89,361
2019	175,000	48,955	223,955
2020-2024	665,000	146,327	811,327
2025-2028	429,000	37,005	466,005
Total	<u>\$1,490,000</u>	<u>\$442,102</u>	<u>\$1,932,102</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, 2014, the County had no outstanding notes payable.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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.

	<u>Year Ended June 30, 2014</u>				<u>Principal Due Within One Year</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	
<u>Governmental Activities:</u>					
General obligation bonds	\$ 5,275,000	\$0	(\$1,235,000)	\$4,040,000	\$ 515,000
Special assessment debt with governmental commitment	1,819,434	0	(329,434)	1,490,000	171,000
Claims and judgements	375,000	0	(95,000)	280,000	280,000
Compensated absences	2,081,507	54,242	0	2,135,749	531,534
OPEB implicit rate subsidy	1,408,384	219,670	0	1,628,054	0
Governmental activity long-term liabilities	<u>\$ 10,959,325</u>	<u>\$ 273,912</u>	<u>\$ (1,659,434)</u>	<u>\$ 9,573,803</u>	<u>\$ 1,497,534</u>
<u>Business-type Activities:</u>					
Compensated absences	214,315	0	(18,233)	196,082	49,020
OPEB implicit rate subsidy	120,458	19,283	0	139,741	0
Business-type Activities Long-term Liabilities	<u>\$334,773</u>	<u>\$19,283</u>	<u>(\$18,233)</u>	<u>\$335,823</u>	<u>\$49,020</u>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

Note 8. Long-Term Debt, continued

Summary of Debt Maturities

Annual debt service principal and interest payments required on outstanding debt at June 30, 2014, are as follows:

Year Ending June 30,	Type of Debt	
	General Obligation Bonds	Rural Special Improvement Bonds
2015	\$ 631,121	\$ 228,906
2016	629,185	50,774
2017	636,498	61,774
2018	642,302	89,361
2019	646,612	223,955
2020-2024	1,387,723	811,327
2025-2028	0	466,005
	<u>\$ 4,573,441</u>	<u>\$ 1,932,102</u>

Note 9. GASB Statement No. 54 Fund Balance

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

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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		
Nonspendable								
Inventory	\$43,696	\$268,565	\$0	\$0	\$0	\$0	\$63,999	\$376,260
Prepays	71,147	0	2,472	16,709	0	0	6,263	\$96,591
Total Unspendable Fund Balance	\$114,843	\$268,565	\$2,472	\$16,709	\$0	\$0	\$70,262	\$472,851
Restricted								
Road	0	2,957,579	0	0	0	0	0	\$2,957,579
Predatory Animal	0	0	0	0	0	0	293	\$293
Park	0	0	0	0	0	0	146,631	\$146,631
Veteran's Cemetery	0	0	0	0	0	0	154,404	\$154,404
Drug Forfeiture	0	0	0	0	0	0	282,645	\$282,645
RSID Maintenance	0	0	0	0	0	0	4,046,549	\$4,046,549
Junk Vehicle	0	0	0	0	0	0	106,145	\$106,145
DUI Task Force/Highway Traffic Safety	0	0	0	0	0	0	57,724	\$57,724
RSID Revolving	0	0	0	0	0	0	327,295	\$327,295
RSID Bond	0	0	0	0	263,289	0	0	\$263,289
RSID Construction	0	0	0	0	0	0	0	\$0
Total Restricted Fund Balance	\$0	\$2,957,579	\$0	\$0	\$263,289	\$0	\$5,121,686	\$8,342,554
Committed								
Bridge	0	0	0	0	0	0	569,560	\$569,560
Weed	0	0	0	0	0	0	112,327	\$112,327
Liability & Property Insurance	0	0	1,016,603	0	0	0	0	\$1,016,603
Mental Health Fund	81,521	0	0	0	0	0	0	\$81,521
Extension Service	0	0	0	0	0	0	82,004	\$82,004
Public Safety	0	0	0	4,591,432	0	0	0	\$4,591,432
County Attorney	0	0	0	0	0	0	1,234,349	\$1,234,349
Museum	0	0	0	0	0	0	162,158	\$162,158
Youth Services	0	0	0	0	0	0	333,875	\$333,875
Total Committed Fund Balance	\$81,521	\$0	\$1,016,603	\$4,591,432	\$0	\$0	\$2,494,273	\$8,183,829

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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	1,071,671	1,287,972	1,919,173	403,260	0	9,683,000	1,218,328	\$15,583,404
Blight	73,091	0	0	0	0	0	0	\$73,091
Record Preservation-Capital Improvements	304,382	0	0	0	0	0	0	\$304,382
PILT	0	0	0	0	0	0	410,582	\$410,582
GIS	0	0	0	0	0	0	276,952	\$276,952
Capital Improvement	0	0	0	0	0	2,835,572	0	\$2,835,572
Total Assigned Fund Balance	\$1,449,144	\$1,287,972	\$1,919,173	\$403,260	\$0	\$12,518,572	\$1,905,862	\$19,483,983
Unassigned								
General Fund	4,687,398	0	0	0	0	0	0	\$4,687,398
Total Unassigned Fund Balance	\$4,687,398	\$0	\$0	\$0	\$0	\$0	\$0	\$4,687,398
Total Fund Balance	\$6,332,906	\$4,514,116	\$2,938,248	\$5,011,401	\$263,289	\$12,518,572	\$9,592,083	\$41,170,615

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

Restricted fund balance classification 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, 2014

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 \$280,000 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, 2014	\$ 250,000	\$ 1,500,000	\$ 3,000,000

County buildings and their contents are covered by a blanket property and casualty insurance policy of \$168,778,738 with a \$50,000 deductible. The County at June 30, 2014, had unreserved fund balance in its Property and Liability Insurance Fund totaling \$2,938,248. Levels of property insurance increased 4.5% from the prior year. As of October 16, 2008 the County has acquired \$5,000,000 of museum collection and temporary loan insurance coverage for artifacts and art held at the Yellowstone County Museum.

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

Worker's Compensation

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

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

Employee health insurance is discussed in note 11B.

Yellowstone County, Montana

Notes to the Financial Statements

June 30, 2014

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, 2014, is \$2,331,831. The unvested 75% of accumulated sick pay benefits, which totaled \$2,623,441 at June 30, 2014, 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 \$475,000 and \$379,828 is recorded for health and drug claims and administration costs incurred in fiscal year 2014 but paid in July 2014.

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>
2011-2012	\$ 320,475	\$ 5,396,392	\$ 5,276,553	\$ 440,314
2012-2013	\$ 440,314	\$ 5,570,324	\$ 5,711,637	\$ 299,001
2013-2014	\$ 299,001	\$ 6,725,061	\$ 6,169,234	\$ 854,828

Yellowstone County' carries specific stop loss insurance of \$270,000 per claim on a claims incurred basis. There was one claim that exceeded the specific stop loss level for fiscal year 2014. 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 \$1,606,262 to the health insurance fund in fiscal year 2014. The transfer was larger than normal because of protest tax settlements.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

Note 11. Employee Benefits, continued

B. Health Insurance, continued

Results of operations for fiscal year ended:

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Health insurance premiums	\$ 5,659,234	\$ 5,771,353
Health claims	(5,570,324)	(6,725,061)
Administrative expenses	(525,525)	(508,241)
Interest revenue	559	55,838
Interfund transfer in	<u>1,182,403</u>	<u>1,606,262</u>
Net income (loss)	746,347	200,151
Net position, beginning of fiscal year	<u>5,713,012</u>	<u>6,459,359</u>
Net position, end of fiscal year	<u><u>\$ 6,459,359</u></u>	<u><u>\$ 6,659,510</u></u>

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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, 2014, there are 51 former employees covered under the health plan. As of June 30, 2014 there are 52 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 FY14, 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 5.8% during fiscal year 2014. Premiums for retirees over 65 coverage increased 10.0% during fiscal year 2014. The funding for the employer portion of coverage increased 5.8%. There were only minor changes to health plan benefits during fiscal year 2014.

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 2014.

1. Plan Description

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

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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 2014 there are 51 retirees and/or survivors enrolled for the employer's sponsored health insurance plan. In 2014 retirees contributed \$478,383 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, 2014

Normal Cost	\$292,639
Amortization of Unfunded Actuarial Accrued Liability Over 30 Years from the Valuation Date	<u>344,438</u>
Annual Required Contribution	<u>\$637,077</u>

5. Funded Status and Funding Progress

As of June 30, 2014, the actuarial accrued liability (AAL) for benefits was \$5,240,702 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, 2014

Actuarial Value of Assets	\$ 0
Plus Actuarial Accrued Liability (AAL)	\$5,240,702
Unfunded Actuarial Accrued Liability (UAAL)	\$5,240,702
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, 2014

Note 11. Employee Benefits, continued

E. Other Post Employment Benefits (OPEB), continued

6 Methods and Assumptions

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

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

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

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

Healthcare cost trend rate (HCCTR) was based on projections from historical rates of the County. A medical trend rate of 8.0% was used to calculate fiscal year 2013 and will be reduced by 0.5% each year until an ultimate rate of 5.0% after 6 years and later.

Health insurance premiums for 2012 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, 2014

Note 12. Pension and Retirement Fund Commitments

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

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits for employees with less than 25 years of membership service are determined by taking 1/56 times the number of years of service times the final average salary. Monthly retirement benefits for employees with 25 years or more of membership service are determined by taking 1/50 times the number of years of service times the final average salary. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The State legislature has the authority to establish and amend contribution rates to the plan. Plan members are required to contribute 7.9% of compensation. In FY14 local government employers were required to contribute 8.07% of members' compensation and the State of Montana was required to contribute 0.1% of members' compensation on behalf of local government entities. One hundred percent of the required County and employee contributions were made for the current and each of the two preceding years. Required contributions were made as follows:

<u>Fiscal Year</u>	<u>County Contribution</u>	<u>Employee Contribution</u>	<u>State of Montana Contribution</u>
2011-2012	\$957,830	\$934,800	\$13,548
2012-2013	\$882,790	\$861,563	\$12,487
2013-2014	\$977,680	\$957,086	\$12,115

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

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

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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

<u>Fiscal Year</u>	<u>Unfunded Actuarial Liability</u>	<u>Amortization Period</u>	<u>Funded Status</u>
6/30/09	\$ (790,000,000)	Does not amortize over 30 years	84%
6/30/10	\$ (1,352,000,000)	Does not amortize over 30 years	74%
6/30/11	\$ (1,609,000,000)	Does not amortize over 30 years	70%
6/30/12	\$ (1,844,000,000)	Does not amortize over 30 years	67%
6/30/13	\$ (1,021,030,000)	14.5 years assuming legislative changes withstand legal challenge	80%

Yellowstone County, Montana

Notes to the Financial Statements

June 30, 2014

Note 12. Pension and Retirement Fund Commitments, continued

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

The 2013 legislature made substantive changes which are effective after June 30, 2013 to the PERS defined benefit plan and are under legal challenge.

The PERS financial information is reported in the Montana Public Employees' Retirement Board's (MPERB) *Comprehensive Annual Financial Report* (CAFR) for the fiscal year end. It is available from the PERB at 1712 Ninth Avenue, PO Box 200131, Helena MT 59620-0131, telephone 406-444-3154 or on its website at <http://mpera.mt.gov/annualReports.shtml>

The Sheriffs' Retirement System (SRS) which was established in 1974 and is governed by Title 19, Chapters 2 & 7 of the Montana Code Annotated provides retirement service to all Department of Justice criminal investigators hired after July 1, 1993, and to all Montana sheriffs. Detention officers employed before July 1, 2005 who elected to join SRS or were employed after July 1, 2005 become members of SRS. SRS is a mandatory multiple-employer, cost sharing benefit plan administered by the PERB.

The SRS offers retirement, disability and death benefits to plan members and their beneficiaries. Minimum years of service are 20 regardless of age for a normal retirement benefit. Actuarial reduced benefits may be taken at age 50 with at least five years of service. The service retirement benefit is calculated as follows: 2.5% times final average salary times the number of years of service. After 5 years of service, an employee has a vested right to service retirement benefits. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The State legislature has the authority to establish and amend rates to the plan. Plan members are required to contribute 9.245% of compensation. Employers are required to contribute 10.115% of members' compensation. One hundred percent of the required County and employee contributions were made for the current and each of the two preceding fiscal years. Required contributions were made as follows:

<u>Fiscal Year</u>	<u>County Contribution</u>	<u>Employee Contribution</u>
2011-2012	\$541,960	\$495,345
2012-2013	\$532,317	\$486,487
2013-2014	\$590,179	\$539,417

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

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

Note 12. Pension and Retirement Fund Commitments, continued

SHERIFF'S RETIREMENT SYSTEM

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

<u>Fiscal Year</u>	<u>Unfunded Actuarial Liability</u>	<u>Amortization Period</u>	<u>Funded Status</u>
6/30/09	\$ (23,000,000.00)	Does not amortize over 30 years	90%
6/30/10	\$ (46,000,000.00)	Does not amortize over 30 years	81%
6/30/11	\$ (62,800,000.00)	Does not amortize over 30 years	76%
6/30/12	\$ (73,000,000.00)	Does not amortize over 30 years	74%
6/30/13	\$ (68,875,000.00)	Does not amortize over 30 years	77%

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

The SRS financial information is reported in the Montana Public Employees' Retirement Board's (MPERB) *Comprehensive Annual Financial Report (CAFR)* for the fiscal year end. It is available from the PERB at 1712 Ninth Avenue, PO Box 200131, Helena MT 59620-0131, telephone 406-444-3154 or on its website at <http://mpera.mt.gov/annualReports.shtml>.

Yellowstone County, Montana
Notes to the Financial Statements
June 30, 2014

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 \$280,000 is considered to be adequate for potential settlements and litigation costs. The County considers the other known legal actions, for which no reserve has been determined, to be of nominal financial impact.

Grants

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

Note 14. Conduit Debt Obligations

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

As of June 30, 2014 there were seventeen series of industrial revenue bonds issued after July 1, 1978. The aggregate principal amount outstanding for the ten series issued prior to July 1, 1997, could not be determined; however, their original issue amounts totaled \$33.56 million. The aggregate principal amount outstanding for the four remaining series issued after July 1, 1997 was \$15,547,120 as of June 30, 2014. The County issued no industrial revenue bonds during the fiscal year. See note 17.

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, 2014

Note 16. Protested Taxes

The protest tax receivable for the County's governmental and proprietary funds decreased \$3,740,027 or 35.8% from 6/30/13 to 6/30/14.

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

The County portion of all protested property taxes held in trust rose from \$1,007,965 at 7/1/09 to \$6,707,672 as of 6/30/14 primarily from large protests from communication companies and two refineries. The Montana Department of Revenue made progress during FY14 in settling existing tax protests. During FY14, tax protests with the County's largest tax protest, CHS, Inc. (Cenex oil refinery) and Puget Sound Power were resolved. See Note 17 for subsequent events related to tax protests.

Note 17. Subsequent Events

In July 2014 the State of Montana and Phillips 66, Bresnan/Charter, and Verizon resolved \$22.15 million of their outstanding tax protests. Tax refunds of \$7.05 million went back to the companies and \$15.1 million was distributed to the taxing jurisdictions. The County's portion of the resolved tax protests was \$3.19 million.

In December 2014, Phillips 66 and the Montana Department of Revenue agreed to refund \$1,824,115 of their \$3,295,970 protest from the 2013 tax year (FY14). The county's portion of this distribution was \$448,763. They also agreed to a reduction of \$1,381,139 in their 2014 general tax billing (FY15). The county's portion of the adjustment was (\$395,781).

Protested real estate taxes for November 2014 was \$3.1 million in total, which was down \$390,000 from November 2013. The portion of the November 2014 tax protest that affects County funds is \$995,558. The proceeding amounts reflect the first half payment and will likely be matched by the same protest amount for the second half of taxes due in May 2015. It is therefore expected that the total FY15 tax protest for County funds will be \$1,991,116 or 4.8% of the County's FY15 budget for property taxes. Of the taxes protested in November 2014, 87.7% of the protest (\$2,717,707 for 1st half of tax bill) was from CHS, Inc. which is an oil refiner. The total FY15 budget for protests was anticipated to be \$822,600. The current level of protests is not expected to result in disruption in operations as tax protest distributions from prior years has more than offset FY15 tax protests and tax adjustments made through the date of this report.