

Yellowstone County, Montana
Annual Comprehensive Financial Report - Transmittal Letter (Unaudited)
June 30, 2023

Yellowstone County



FINANCE
(406) 256-2718
(406) 254-7929 (FAX)

P.O. Box 35003
Billings, MT 59107-5003

December 11, 2023

Board of County Commissioners
Citizens of Yellowstone County
Billings, Montana

The Annual Comprehensive Financial Report of Yellowstone County (the County) for the fiscal year ended June 30, 2023 is hereby submitted. State law requires that counties publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This annual comprehensive financial report meets all required criteria specified by the State, to report the Budgetary, Accounting and Financial Reporting System (BARS), prepared in conformance with the principles and standards for financial reporting as promulgated by the Governmental Accounting Standards Board (GASB). Pursuant to those requirements, the finance department hereby issues the annual comprehensive financial report of Yellowstone County for the fiscal year ended June 30, 2023.

This report consists of management's representations concerning the finances of Yellowstone County. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of Yellowstone County has established a comprehensive internal control framework that is designed to protect the government's assets from material loss, theft, or misuse; compile sufficient reliable information for the preparation of Yellowstone County's financial statements in conformity with GAAP; and ensure compliance with laws, regulations, and contracts. Because the cost of internal controls should not outweigh their benefits, Yellowstone County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

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Yellowstone County’s financial statements have been audited by KCoe Isom, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of Yellowstone County for the fiscal year ended June 30, 2023, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts, and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that Yellowstone County’s financial statements for the fiscal year ended June 30, 2023 are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of Yellowstone County has usually been part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. In FY23, a Single Audit engagement did take place, since the County met the threshold for expenditures of Federal government awards of at least \$750,000. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Yellowstone County’s MD&A can be found immediately following the report of the independent auditors.

FINANCIAL STATEMENT PRESENTATION

This Annual Comprehensive Financial Report includes all of the financial statements and reports as required by the Governmental Accounting Standards Board. Designed to meet the needs of a broad spectrum of financial statement readers, this Annual Comprehensive Financial Report is divided into four major sections.

1. **Introductory Section:** As the title indicates, this section introduces the reader to the report and includes the table of contents, transmittal letter, organization chart, and list of elected officials.

2. **Financial Section:** Includes the following subsections –
 - Independent Auditor’s Report
 - Management’s Discussion and Analysis (MD&A) – This report is a narrative providing information and analysis about the County’s financial position, results of operations for the audited year, and significant changes from the prior year.
 - Basic Financial Statements – These include government-wide financial statements which report on both governmental and business-type activities on a full accrual (business-like) basis.
 - Notes to Basic Financial Statements – Explanatory narratives, details, and reconciliations that are critical to an understanding of the basic financial statements.
 - Required Supplementary Information
 - Fund Financial Statements – These statements provide additional reporting for the major and nonmajor funds.

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3. **Statistical Section:** Although this section contains substantial financial information, these tables differ from financial statements in that they present some non-accounting data and are designed to reflect social and economic data, as well as the fiscal capacity of the County.
4. **Single Audit Section:** This is a requirement of all non-Federal entities that expend \$750,000 or more of federal awards in a fiscal year. The purpose of this audit is to test compliance with Federally awarded programs.

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other. Each accounting entity is accounted for in a separate "fund." A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

PROFILE OF THE COUNTY

Yellowstone County (population 169,852), created by legislative enactment in 1883, is located in the south-central section of Montana and includes the incorporated City of Billings, which is the County seat and most populous city in the state (population 119,960); and also includes the incorporated City of Laurel (population 7,203) and Town of Broadview (population 202). The County imposes tax levies for jurisdictions under the authority of the Board of County Commissioners, which includes county funds and some special districts, such as the Big Sky Economic Development Authority (BSEDA). The Board of County Commissioners also approves levies requested by boards of special cemetery and fire districts. The County does bill, collect, and distribute property taxes on behalf of other taxing entities such as the State of Montana, schools and cities, but does not approve their levies.

The Board of County Commissioners is a commission form of government with a three-member board comprised of officials elected at-large from three different district boundaries to six-year terms on a staggered two-year cycle. The County has the authority to cause actions that are statutorily permitted under Montana law. The Board of County Commissioners establishes budget authority and policies for County departments.

Budgetary control is maintained through an annual budget adopted by the County Commissioners. Public hearings are published and generally conducted in May or June of each year. The final budget must be adopted by the first Thursday in September or 30 days after receiving the certified taxable values from the State of Montana. Budgetary authority is flexible in that the Commissioners may make transfers among budget object lines within a fund and make budget amendments with statutory restrictions when considered necessary for proper administration of County government. Budget amendments may be passed by the Board of County Commissioners after conducting two published public hearings. The level of budgetary control is established at the fund level. Budget comparisons for the major governmental funds are presented as part of the basic financial statements. These statements also show the original budget that was adopted for the major funds. Generally, the revisions made during the fiscal year are related to grant funding and associated expenditures.

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Yellowstone County provides a full range of services as mandated by Montana statutes, including general government, public works, public safety, public health, social and economic, culture and recreation, and community development. Some of the more significant departments and functions within these areas include:

General Government – County Commissioners, Treasurer, Finance, Elections, Records, Auditing, Facility Maintenance, Property and Liability Insurance, Planning and Clerk of District Court

Public Safety – Sheriff’s departments including administration, patrol, detectives, civil, records, adult detention, and communications. Other public safety functions include youth detention, county attorney prosecution, disaster and emergency services and traffic safety programs.

Public Works – County road and bridge projects and maintenance, weed control, junk vehicle control, and RSID construction and maintenance.

Public Health – Funding support for operations of the public health department (Riverstone Health), mental health treatment and involuntary commitment costs, animal control, and alcohol rehabilitation programs.

Social and Economic Services – Senior citizen program funding, extension & agricultural services, and low income medical and rent assistance programs.

Culture and Recreation – Library and museum funding, and county parks.

Conservation of Natural Resources – Soil Conservation programs and Air Quality Control funding

Community Development – Community Development Block Grant projects

The County also operates the METRA (Montana Exposition, Trade, and Recreation Arena) and adjacent buildings and grounds. This facility includes 3 large multi-purpose event centers, large adjacent parking, grounds, and ancillary buildings.

FACTORS AFFECTING FINANCIAL CONDITION

General Operating Environment

The information presented in the financial statements is perhaps best understood from the broader perspective when it is considered with the specific perspective in which the County operates.

Local business activity includes agricultural, medical, retail, industrial, petroleum refining, banking, mining, and utility enterprises; which contribute substantially to the County's economy and tax base. The County is home to three substantial oil refineries, two major hospitals, and is the major retailer to a large geographical area. Billings also is an important tourism and cultural center to the region. These businesses and industries have historically provided a stable economy for the community and have provided for steady population and economic growth.

Montana’s tax structure predominately relies on income, mineral, property, gambling, and motor vehicle taxes. Counties directly levy property taxes and indirectly share in mineral, gambling and motor vehicle taxes by receiving revenue distribution from the State referred to as the entitlement share that is supported by the aforementioned taxes. The State has no general sales tax although some communities in the State are permitted to levy a local sales tax (referred to as the resort tax). Yellowstone County is not currently permitted to levy a local sales tax.

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Property taxing authority is statutorily determined and taxing authority above the allowed maximum level must be voter approved. The local governing bodies determine the amount of property tax revenue they wish to levy annually up to the maximum allowed. New property revenues are permitted for new construction valuation and a statutorily determined acceptable inflation growth indexed to 50% of the State's rate of inflation, averaged over the past 3 years. For FY23, that rate equaled 1.77%, and for FY24 the rate will be 2.46%.

The Management Discussion and Analysis provides additional discussion of specific pending financial impacts on the County.

Recent Events and Economic Conditions

The County has continued infrastructure projects at MetraPark with ARPA funds which will enhance that campus's capacity to serve in the event of a wide range of regional events that may involve evacuation, medical emergency, and more. The next 12 months will see the County complete plans and various options for law enforcement and judicial related needs that will be necessary for the next 20 – 30 years. Both processes just mentioned are critical in the meeting of Yellowstone's primary mission to its citizens of maintaining public safety and public health.

The Billings area continues to benefit as the regional hub for healthcare and one of our largest employers at approximately 15,000 employees. Billings currently has two accredited hospitals, with one now the first and only Level One Trauma Center in Montana and Wyoming. A new four-year medical school in Billings welcomed its inaugural class in the fall of 2023 and now has future plans to open Montana's first school of veterinary medicine.

Additionally, we continue to be the hub for the oil and gas industry in our region. We currently have three large refineries that frequently provide their employees with salaries that are above the median for our region. We saw the oil and gas industry soften during fiscal year 2023 with a price per barrel of \$70.66 as of June 30, 2023. As of November 2023, price per barrel sits at \$77.69 and is predicted to increase slightly in 2024.

Our region continues to see growth in our housing industry with median average home price listed at \$379,000. We continue to see population growth in terms of in-bound moves, with residents more than four times more likely to stay and build their life in our area versus other areas in Montana. Some recent highlights in this area include Costco opening their new, expanded facility in southwest Billings, entry of a new airline service and the expansion of flights by another airline at Logan International Airport and Coca-Cola's new bottling and distribution facility.

The unemployment rate for Yellowstone County has declined to 2.7% as of June 30, 2023, as compared to 2.8% as of June 30, 2022. Generally, the diversity provided by local energy, retail, medical, and agriculture businesses help stabilize employment swings in our region. Unemployment rates are a bit less useful as the country has emerged from the COVID-19 pandemic. A large number of people have yet to re-enter the workforce since that contraction of our economy. Much of this is due to generous federal spending for extended benefits that have provided some the opportunity to remain out of the workforce.

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Internal Controls

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding; (1) the safeguarding of assets against loss from unauthorized uses; (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets; and (3) maintaining compliance with laws and regulations. The concept of reasonable assurance recognizes the costs of internal control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the County's internal controls adequately safeguard assets, provide reasonable assurance of proper recording of financial transactions, and maintain compliance with laws and regulations.

As a recipient of Federal and State financial assistance, the County also is responsible for ensuring adequate internal control is in place to ensure compliance with applicable laws and regulations related to major programs. This internal control is subject to periodic evaluation by management and the internal audit staff of the County.

Risk Management

The County uses a self-funded Property and Liability Insurance Fund because the County considers it to be cost effective to self-insure for routine claims and reinsure for catastrophic losses. The County carries commercial liability coverage with a current deductible of \$250,000 and an aggregate limit of \$5,000,000 per year. Coverage of \$5 million per year is anticipated to provide a high degree of safety from catastrophic losses. The Property and Liability Insurance Fund has an accrued liability balance of \$800,950, which is considered to be sufficient to fund the incurred claims against the County. See footnote 10 for additional discussion on liability re-insurance. The County also carries \$244.26 million in property damage coverage with a \$100,000 deductible on buildings and their contents.

See footnotes 10 and 11 for additional information on coverages related to worker's compensation and health insurance.

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Cash Management

The County currently has an investment program agreement with the local schools, cemetery, rural fire and other special districts to invest their funds as part of an investment pool. The County invests the funds at a fee of 1.00% of the interest proceeds received for the month. Currently the County invests in repurchase agreements, U.S. government securities, agencies of the U.S. government, insured certificates of deposit and the STIP program with the State of Montana. The rate of return for the investment pool is net of bank service fees incurred for the operational costs of the participating pool members. Investments are limited to a 5-year maturity. A comparison of previous years' investment results are as follows:

	<u>Total Interest Earned</u>	<u>Average Investment Balance</u>	<u>Rate of Return</u>
F.Y. 13-14	786,253	153,628,654	0.51%
F.Y. 14-15	1,110,436	148,673,700	0.75%
F.Y. 15-16	1,136,874	152,434,141	0.75%
F.Y. 16-17	1,608,857	163,317,123	0.99%
F.Y. 17-18	2,626,690	184,972,330	1.42%
F.Y. 18-19	3,428,730	181,022,478	1.89%
F.Y. 19-20	2,821,458	192,588,686	1.46%
F.Y. 20-21	461,093	212,837,658	0.22%
F.Y. 21-22	846,997	231,994,654	0.37%
F.Y. 22-23	7,783,606	264,620,837	2.94%

The rate of return for FY23 showed a consistent increase in yields throughout the year that ranged from 1.38% in July 2022 to 3.93% in June 2023. Yields on the shorter end of the yield curve benefited the most, and continue to do so as the Federal Reserve has aggressively raised rates to combat inflation. In FY23, the FOMC increased the federal interest rate seven times totaling 3.5% in order to help combat inflation. As of this writing, general consensus is that we are at the end of the rate increases with possible reductions in FY24. Yellowstone County has been seeking investments with extended call protection to mitigate risk of declining rates. See footnote 4 for additional information on cash and cash investments.

Debt

At June 30, 2023 Yellowstone County has a number of debt issues outstanding. These issues include \$7,045,000 in limited tax general obligation bonds; and \$278,000 of rural special improvement district bonds for which the County has limited secondary responsibility. The County has one note payable owed to Montana Board of Investments with an outstanding balance due of \$307,452 as of June 30, 2023.

See footnote 8 and the MD&A for additional information on long-term county debt.

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Pension and Other Post-Retirement Benefits and Obligations

All county employees may elect participation in the Public Employees Retirement System (PERS) or Sheriff Retirement System (SRS) if they meet eligibility criteria. Employees exceeding 960 hours of work in a year must participate in PERS if they're in a covered position. Effective July 1, 2021 the current employer contribution rates are 8.87% of covered payroll for PERS and 13.12% for SRS. New employees have the option to elect membership in either a defined benefit (DB) plan or defined contribution (DC) plan. Employees hired before July 1, 2002 have had the opportunity to select their retirement option (DB or DC). Employees hired after July 1, 2002 have 12 months to select an irrevocable retirement option. Funding requirements and plan administration is the responsibility of the State of Montana.

The County allows retiring employees who are not yet eligible for Medicare the option to retain health insurance coverage through the County's plan. Eligible retirees and their dependents can maintain County coverage provided they pay the full cost of insurance premiums. Retirees who qualify for Medicare but have a spouse under the age of 65 or dependents may elect to keep the spouse and / or dependents on the plan, providing that the retiree pays the coverage costs in full.

Terminating employees that do not elect or are not eligible for a pension may elect to retain County health coverage under the provisions of the Consolidated Omnibus Budget Reconciliation Act (COBRA). This coverage may be elected and paid for by the terminating employee for up to 18 months.

See footnotes 11E and 12 for additional information on pension and other post-retirement benefits and obligations.

ACKNOWLEDGEMENTS

The goal of this report is to provide useful information regarding the use of the resources provided to Yellowstone County governmental operations. This financial report is simply one method of reflecting efforts of all those who serve in County government. Without our citizens and businesses providing the funding and direction for needed services and programs, Yellowstone County government could not function. We appreciate the efforts of everyone who works to improve the community and its governments.

I would like to express my appreciation to the finance department staff and the staffs of all the County offices for providing excellent work and cooperation during the year. Although the finance department takes on the task of preparing the financial report, all County departments contribute to the effort required to maintain our financial system.

A special "thank you" is extended to Lisa Sticka, Anna Ullom, and Juli Bjornebo for their work in the preparation of the financial report, and assistance with the audit. I would also like to thank KCoe Isom, LLP for their assistance, and for the auditing of this report.

Respectfully submitted,


Jennifer Jones, Finance Director