

**Yellowstone County, Montana**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 1. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

Yellowstone County's financial statements include those separate governmental entities that are controlled or are dependent on the County. The determination to include separate governmental entities is based on the criteria of GASB Statement No. 61. GASB Statement No. 61 defines the reporting entity as the County and those component units for which the County is financially accountable. To be financially accountable, a voting majority of the organization's board must be appointed by the County, and either a) the County must be able to impose its will, or b) the County may potentially benefit financially or be financially responsible for the organization. The County does not report any separate government entities as component units.

**B. Fund Accounting**

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

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

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

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

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

Yellowstone County, Montana  
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June 30, 2018

**Note 1. Summary of Significant Accounting Policies, continued**

**C. Government-wide and Fund Financial Statements**

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

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

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

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

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

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

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

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

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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, geographic information system, and technology services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges for property and liability insurance. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

**E. Use of Estimates**

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

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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, 2018 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) An investment in zero-coupon United States government treasury bills, notes, and bonds purchased as a sinking fund investment for a balloon payment on qualified construction bonds described in 17-5-116(1) may have a maturity date exceeding 5 years if:

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

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

Montana Code Annotated 7-6-206 permits time or savings deposits with banks, savings and loans associations, or credit unions within the State.

**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, 2018, the allowances were as follows:

	<u>Allowance Amount</u>
<b>Account Receivable</b>	<b>\$ 40,804</b>
<b>Property Taxes</b>	<b>2,265,500</b>
<b>Delinquent special assessments</b>	<b>14,100</b>
<b>Special assessments</b>	<b>47,700</b>
<b>Total uncollectible allowance</b>	<b><u><u>\$ 2,368,104</u></u></b>

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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**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 6/30/18, there were no significant purchases or deaccession of collection items.

**6. Self-Insurance Accruals**

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

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

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

**9. Long-term Obligations**

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

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

**10. Deferred Inflows of Resources**

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

**11. Fund Equity**

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

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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**

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

GASB Statement No. 85, Omnibus 2017, which is effective for the County beginning in fiscal year 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

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**Note 1. Summary of Significant Accounting Policies, continued**

Accounting Standards effective in a future period:

GASB Statement No. 84, *Fiduciary Activities*, which is effective for the County beginning in fiscal year 2019. The objective of this Statement is to improve identifying fiduciary activities for reporting purposes. The criteria is based on whether the County is controlling the assets of the fiduciary activity and the relationship with the beneficiaries.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is effective for the County beginning in fiscal year 2019. The objective of this Statement is to improve disclosures in the footnotes related to debt, including direct placements and borrowings and the liabilities the County should include in the disclosures.

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

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

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

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

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

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

**Note 3. Stewardship, compliance, and accountability**

**A. Budgets**

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

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

Budget amendments can be made at any time during the year by resolution after holding public hearings. Supplemental appropriations were made for unanticipated state and federal grants awarded during the year. The effect of the budget amendments other than those for federal and state grants during fiscal year 2018 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, 2018. 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	\$ 105,032,873	\$0	\$0	\$ 105,032,873
Cash in overnight sweep agreements	0	0	12,728,255	12,728,255
Cash on hand and demand deposits	70,910	0	381,106	452,016
Subtotal	<u>\$ 105,103,783</u>	<u>\$0</u>	<u>\$ 13,109,361</u>	<u>118,213,144</u>
<u>Investments Not Subject to Categories:</u>				
State Treasurer's Investment Pool (STIP)				65,390,786
<b>Total Pooled Investments</b>				<b><u>\$ 183,603,930</u></b>

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

	Category			Reported Amount/ Fair Value
	1	2	3	
Cash investments - certificate of deposit account registry service	\$ 15,035,826	\$0	\$0	\$ 15,035,826
Cash on hand and demand deposits	250,000	0	3,809,683	4,059,683
Subtotal	<u>\$ 15,285,826</u>	<u>\$0</u>	<u>\$ 3,809,683</u>	<u>19,095,509</u>
<u>Investments Not Subject to Categories:</u>				
State Treasurer's Investment Pool (STIP)				19,706,077
<b>Total Non-pooled Investments</b>				<b><u>38,801,586</u></b>
<b>Total Investments</b>				<b><u>\$ 222,405,516</u></b>

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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 reduced investment in overnight repurchase agreements for which the underlying securities were held by the dealer has been offset by the County's continued and expanded investment in the State of Montana's STIP Program. This has allowed for continued liquidity while substantially increasing yields to the investment pool.

The total cash reported at June 30, 2018, is detailed as follows:

	<u>Total</u>	<u>Statement of Net Position</u>	<u>Fiduciary Net Position</u>
Cash and demand investments, pooled	\$ 78,571,054	\$ 29,166,919	\$ 49,404,135
Restricted cash and demand investments for capital, pooled	0	0	0
Restricted cash and demand investments held in trust, non-pooled	4,059,683	3,994,328	65,355
Restricted cash and demand investments for capital, non-pooled	0	0	0
<b>Total cash and demand investments</b>	<b>82,630,737</b>	<b>33,161,247</b>	<b>49,469,490</b>
Cash investments, pooled	105,032,873	38,920,967	66,111,906
Cash investments, nonpooled	0	0	0
Restricted cash investments for capital, non-pooled	19,706,077	0	19,706,077
Restricted cash investments for debt service, non-pooled	15,035,826	0	15,035,826
<b>Total</b>	<b>\$ 222,405,516</b>	<b>\$ 72,082,214</b>	<b>\$ 150,323,299</b>
Cash on hand, pooled	\$ 417,986		
Cash in bank deposits and other bank deposits, pooled	34,030		
Cash in bank deposits and other bank deposits, non-pooled	4,059,683		
Cash in overnight repurchase agreements, pooled	26,172,857		
Cash in State Treasurer's Investment Pool (STIP)	65,390,786		
Outstanding warrants, pooled	(13,444,602)		
<b>Total cash and demand investments</b>	<b>82,630,740</b>		
Cash investments, pooled	105,032,873		
Cash investments, non-pooled	34,741,903		
<b>Total</b>	<b>\$ 222,405,516</b>		
Cash and demand investments, and cash investments- pooled	\$ 183,603,930		
Cash and demand investments, and cash investments- non-pooled	38,801,586		
<b>Total</b>	<b>\$ 222,405,516</b>		

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

Cash on hand - represents two types of cash items: petty cash and change funds on hand - \$36,880; cash received after last bank deposit - \$381,106.

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 - \$34,030; other bank deposits represents cash held in trust for other individuals in which any interest earnings are not distributed to the investment pool - \$4,059,683.

Cash in overnight sweep accounts – represents cash invested on a daily basis by the County’s primary bank to its Government Money Market Mutual Fund sweep account. Invested funds represent the nightly balance of collected funds in the County’s main depository bank account. The overnight sweep agreement has the funds re-deposited into the County’s main bank account the next business day. The invested funds are backed by and / or invested in government agency debt, agency repos, Treasury repo agreements and US Treasury debt – all permissible U.S. government securities. Direct obligations of governmental entities are purchased at 100% of invested dollars, while repurchase agreement securities are backed by eligible government securities 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, 2018

**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, 2018 pooled cash investment items were:

<u>Investment Type</u>	<u>Yield</u>	<u>Maturity Date</u>	<u>Credit Risk Rating Moody's - S&amp;P</u>	<u>Fair Value</u>
<b><u>Bank Certificates of Deposit</u></b>				
8 CDs with \$250k basis each-various	1.90% - 2.0%	2.3 years	100% FDIC Insured	\$1,951,079
<b>Total bank certificates of deposit</b>				<b>\$1,951,079</b>
<b><u>U.S. Government Treasury Notes</u></b>				
Treasury Note	1.71%	.58 years	Moody's AAA	\$1,991,640
<b>Total U.S. Treasury Notes</b>				<b>\$1,991,640</b>
<b><u>U.S. Government Agencies</u></b>				
Federal Farm Credit	1.39% - 2.42%	.25 - 4.25 years	AAA - AA+	\$10,804,310
Federal Home Loan Mortgage Corporation	1.126 - 3.0%	.25 - 5.0 years	AAA - AA+	34,847,181
Federal Home Loan Bank	1.40 - 2.30%	.67 - 4.5 years	AAA - AA+	33,819,376
Federal National Mortgage Association	1.25 - 2.166%	.42 - 3.3 years	AAA - AA+	21,619,287
<b>Total U.S. government agency securities</b>				<b>\$101,090,154</b>
State Treasurer's Investment Pool (STIP)	2.035%-Varies	Daily		65,390,786
<b>Total cash investments, pooled</b>				<b>\$170,423,659</b>

At June 30, 2018, non-pooled cash investment items were:

<u>Investment Type</u>	<u>Yield</u>	<u>Maturity Date</u>	<u>Credit Risk Rating Moody's - S&amp;P</u>	<u>Fair Value</u>
Certificate of Deposit Account Registry Service	1.03 - 1.75%	1.0 - 2.0 years	100% FDIC Insured	\$15,035,826
State Treasurer's Investment Pool (STIP)	2.035%-Varies	Daily		19,706,077
<b>Restricted cash investments for capital improvements, non-pooled</b>				<b>\$ 34,741,903</b>

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

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**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, 2018:

<b><u>Condensed Statement of Net Cash and Investment Assets</u></b>	
Cash and demand investments, pooled	\$ 78,571,054
Cash investments, pooled	105,032,873
Restricted cash and demand investments held in trust, nonpooled	4,059,683
Restricted cash investments for capital improvements, nonpooled	19,706,077
Restricted cash investments for debt service, nonpooled	15,035,826
Accrued interest receivable	519,647
<b>Net position held in trust for all pool participants</b>	<b><u><u>\$ 222,925,160</u></u></b>
Equity of internal pool participants	\$ 119,037,920
Equity of external pool participants	103,887,240
<b>Total equity</b>	<b><u><u>\$ 222,925,160</u></u></b>
<b><u>Condensed Statement of Changes in Net Cash and Investment Assets</u></b>	
Net position at July 1, 2017	\$ 208,229,190
Net changes in investments by pool participants	15,928,478
Market value adjustment of cash investments	(1,232,508)
<b>Net position at June 30, 2018</b>	<b><u><u>\$ 222,925,160</u></u></b>

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

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

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, which are observable for an asset or liability, either directly or indirectly.

Level 3 – Prices determined using unobservable inputs.

The County has the following recurring fair value measurements as of June 30, 2018:

U.S. Government Agency securities of \$105,032,873 are valued using quoted market prices (Level 1 inputs)

Montana State Treasurer’s Investment Pool (STIP) units totaling \$65,390,786, with \$390,383 valued using quoted market prices (Level 1 inputs), \$20,820,426 valued using significant other observable inputs (Level 2 inputs) and \$44,179,977 in investments not required to be categorized, as detailed in STIP’s annual report as of June 30, 2018 .

**Yellowstone County, Montana**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 5. Receivables**

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

	MAJOR GOVERNMENTAL FUNDS						Other Nonmajor Governmental Funds	MAJOR ENTERPRISE FUNDS		Internal Service Funds	Fiduciary Funds	Total
	General	Road	Liability & Property Insurance	Public Safety - Sheriff	R.S.I.D. Bond Fund	Capital Improvement Fund		Refuse Disposal	METRA			
<b>Receivables:</b>												
Property taxes	\$2,283,977	\$2,152,856	\$194,436	\$1,725,101	\$0	\$0	\$2,524,499	\$0	\$526,160	\$0	\$21,502,805	\$30,909,834
Accounts	261,317	(17,944)	0	318,943	0	2,588	568,013	0	4,196	108,148	38,366	1,283,627
Delinquent assessments	29,816	0	0	0	10,704	0	16,838	36,199	0	0	592,069	685,626
Assessments	0	0	0	0	953,661	0	0	0	0	0	0	953,661
Accrued interest	99,200	0	7,313	0	130	46,496	13,025	0	5,390	20,985	327,107	519,645
<b>Gross receivables</b>	<b>2,674,310</b>	<b>2,134,912</b>	<b>201,749</b>	<b>2,044,044</b>	<b>964,495</b>	<b>49,084</b>	<b>3,122,375</b>	<b>36,199</b>	<b>535,746</b>	<b>129,133</b>	<b>22,460,347</b>	<b>34,352,393</b>
Less allowances for uncollectible accounts	(582,600)	(528,400)	(46,600)	(428,791)	(55,900)	0	(594,034)	(5,400)	(126,380)	0	0	(2,368,105)
<b>Net total receivables</b>	<b>\$2,091,710</b>	<b>\$1,606,512</b>	<b>\$155,149</b>	<b>\$1,615,253</b>	<b>\$908,595</b>	<b>\$49,084</b>	<b>\$2,528,341</b>	<b>\$30,799</b>	<b>\$409,366</b>	<b>\$129,133</b>	<b>\$22,460,347</b>	<b>\$31,984,288</b>

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

	Unavailable	Unearned	Total
Delinquent property taxes receivable (governmental funds)	\$6,741,569	\$0	\$6,741,569
Special assessments receivable (governmental funds)	48,658	0	48,658
Special assessments not yet billed (governmental funds)	905,961	0	905,961
METRA unearned revenue from future advertising revenues	0	106,360	106,360
METRA FY18 receipts for fiscal year 2019 events (enterprise fund)	0	3,776,048	3,776,048
<b>Total Unearned Revenue</b>	<b>\$7,696,188</b>	<b>\$3,882,408</b>	<b>\$11,578,596</b>

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

The 2017 real property taxes and the 2017 special assessments were levied and became receivables in October 2017. The semi-annual installments were due in November 2017 and May 2018. As of December 1, 2017, and June 1, 2018, uncollected real property taxes and special assessments became delinquent and all uncollected amounts as of June 30, 2018, 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, 2018, have been reported as unearned revenue. There was no significant land held for resale as of June 30, 2018.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**Interfund Receivables and Payables**

**Advances from/to Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	RSID Construction	\$ 100,730
General Fund	RSID Maintenance	<u>\$ 73,001</u>
		<u>\$ 173,731</u>

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 #7 Laurel	<u>\$ 8,741,613</u>
Total Funds Released from Protest Tax fund	<u>\$ 8,741,613</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, 2018

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

**Interfund transfers**

	Transfers in								Internal Service Funds	Total
	MAJOR GOVERNMENTAL FUNDS						Other Nonmajor Governmental Funds	MAJOR ENTERPRISE FUND METRA		
	General	Road	Liability & Property Insurance	Public Safety - Sheriff	R.S.I.D. Bond Fund	Capital Improvement Fund				
<b><u>Transfers out:</u></b>										
General Fund	\$0	\$0	\$0	\$490,000	\$0	\$2,150,000	\$2,898,011	\$0	\$142,135	\$5,680,146
Road Fund	0	0	0	0	0	150,000	38,611	0	47,213	235,824
Public Safety - Sheriff Fund	149,718	0	0	0	0	2,700,000	649,084	0	34,160	3,532,962
Liability & Prop Fund	0	0	0	0	0	0	250,000	0	0	250,000
R.S.I.D Bond Fund	0	0	0	0	0	0	21,872	0	0	21,872
Nonmajor Governmental Funds	1,065,058	199,284	25,490	900,847	0	485,000	641,464	0	1,877,301	5,194,446
Major Enterprise Fund - METRA	74,753	0	0	0	0	0	0	0	0	74,753
Refuse Disposal Fund	60,000	0	0	0	0	0	0	0	0	60,000
Internal service funds	42,045	0	0	0	0	0	0	0	0	42,045
<b>Total transfers</b>	<b>\$1,391,574</b>	<b>\$199,284</b>	<b>\$25,490</b>	<b>\$1,390,847</b>	<b>\$0</b>	<b>\$5,485,000</b>	<b>\$4,499,042</b>	<b>\$0</b>	<b>\$2,100,808</b>	<b>\$15,092,045</b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**Note 7. Capital Assets**

Capital asset activity for the primary government for the year ended June 30, 2018 was as follows:

<b><u>Governmental-type Activities</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
<b>Capital Assets, Not Being Depreciated:</b>				
Land	3,563,344	95,002	0	3,658,346
Construction in Progress	5,531,161	11,505,639	(2,736,795)	14,300,005
Total Capital Assets, Not Being Depreciated	<u>9,094,505</u>	<u>11,600,641</u>	<u>(2,736,795)</u>	<u>17,958,351</u>
 <b>Capital Assets, Being Depreciated:</b>				
Buildings	31,327,194	2,671,285	0	33,998,479
Improvements Other Than Buildings	3,496,850	45,201	0	3,542,051
Machinery and Equipment	21,579,788	1,857,562	(984,260)	22,453,090
Infrastructure	62,615,077	4,521,689	0	67,136,766
Total Assets Being Depreciated	<u>119,018,909</u>	<u>9,095,738</u>	<u>(984,260)</u>	<u>127,130,387</u>
 <b>Less Accumulated Depreciation For:</b>				
Buildings	20,340,674	781,007	0	21,121,681
Improvements Other Than Buildings	1,613,582	136,567	0	1,750,149
Machinery and Equipment	14,427,473	1,449,868	(832,167)	15,045,175
Infrastructure	29,590,571	3,442,357	0	33,032,928
Total Accumulated Depreciation	<u>65,972,300</u>	<u>5,809,801</u>	<u>(832,167)</u>	<u>70,949,934</u>
 <b>Total Capital Assets, Being Depreciated, Net</b>	 <u>53,046,609</u>	 <u>3,285,937</u>	 <u>(152,093)</u>	 <u>56,180,452</u>
 <b>Governmental Activities Capital Assets, Net</b>	 <u>\$62,141,112</u>	 <u>\$14,886,578</u>	 <u>(2,888,888)</u>	 <u>\$74,138,804</u>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**Note 7. Capital Assets, continued**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Business-type Activities</u></b>				
<b><u>Capital Assets, Not Being Depreciated:</u></b>				
Land	\$368,574	\$0	\$0	\$368,574
Construction in progress	388,706	150,104	0	538,808
<b>Total Capital Assets, Not Being Depreciated</b>	<b>757,280</b>	<b>150,104</b>	<b>0</b>	<b>907,382</b>
<b><u>Capital Assets, Being Depreciated:</u></b>				
Buildings	55,848,675	528,659	0	56,377,334
Improvements Other Than Buildings	5,967,879	101,987	0	6,069,865
Machinery and Equipment	1,894,584	250,969	(24,496)	2,121,057
<b>Total Capital Assets, Being Depreciated</b>	<b>63,711,138</b>	<b>881,615</b>	<b>(24,496)</b>	<b>64,568,256</b>
<b><u>Less Accumulated Depreciation For:</u></b>				
Buildings	22,547,319	1,110,452	0	23,657,772
Improvements Other Than Building	4,518,862	110,561	0	4,629,422
Machinery and Equipment	1,051,472	138,996	(24,496)	1,165,972
<b>Total Accumulated Depreciation</b>	<b>28,117,653</b>	<b>1,360,009</b>	<b>(24,496)</b>	<b>29,453,166</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>35,593,485</b>	<b>(478,394)</b>	<b>0</b>	<b>35,115,090</b>
<b>Business-type Activities Capital Assets, Net</b>	<b>\$36,350,765</b>	<b>(\$328,290)</b>	<b>\$0</b>	<b>\$36,022,472</b>

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

<b><u>Governmental Activities</u></b>	
General Government	\$385,619
Public Safety	1,004,591
Public Works	4,259,594
Public Health	4,167
Social and Economic	14,111
Culture and Recreation	108,422
Governmental Internal Service Funds	33,296
<b>Total Depreciation Expense - Governmental Activities</b>	<b>5,809,801</b>
<b><u>Business-type Activities</u></b>	
METRA	1,360,009
<b>Total Depreciation Expense - Primary Government</b>	<b>\$7,169,810</b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**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 receives transfers from other levied funds to service the debt.

General obligation bonds are direct obligations and pledge the full faith and credit of the County, and where a levy to repay the debt exists, it 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	1.40 – 2.85%	<b>\$ 990,000</b>
2017 Limited Tax General Obligation Bonds – Jail Expansion & Improvements (nontaxable) 2.0% - 3.0% due 7/1/2037, payable in annual principal installments of \$395,000 to \$565,000, prepay option on or after July 1, 2027	2.00 – 3.00%	<b>\$8,910,000</b>
2008 Limited Tax General Obligation Bonds – Veteran’s Cemetery & METRA Seating (nontaxable) 3.40% - 4.00% due 6/15/2023, payable in annual principal installments of \$115,000 to \$275,000, callable on or after December 15, 2015	3.50 – 4.00%	<b><u>\$ 900,000</u></b>
		<b><u>\$ 10,800,000</u></b>

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

Year Ending	<u>Governmental - type Activities</u>		
<u>June30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	1,030,000	301,087	1,331,087
2020	1,065,000	269,960	1,334,960
2021	930,000	236,415	1,166,415
2022	605,000	207,875	812,875
2023	625,000	188,525	813,525
2024-2037	6,545,000	1,229,110	7,774,110
Total	<b><u>\$10,800,000</u></b>	<b><u>\$2,432,972</u></b>	<b><u>\$13,232,972</u></b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**Rural Special Improvement District Bonds**

The County issued no new special assessment bonds in fiscal year 2018.

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, 2018. The R.S.I.D. Revolving Fund has no unfunded commitment to the R.S.I.D. bond fund as of June 30, 2018. 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 \$338,024 at June 30, 2018, 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, 2018</u>
758	3.75%	05/01/07	7/1/2027	373,000	144,000
783	4.58%	09/28/10	8/1/2025	126,777	30,000
785	5.30%	02/01/11	8/1/2026	126,945	60,000
803	3.36%	09/20/12	8/1/2027	1,015,434	525,000
<b>Outstanding rural special improvement district bonds, June 30, 2018</b>					<b><u>759,000</u></b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**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>
2019	7,000	27,594	34,594
2020	14,000	27,332	41,332
2021	60,000	26,807	86,807
2022	57,000	24,732	81,732
2023	96,000	22,557	118,557
2024-2037	525,000	54,618	579,618
Total	<u>\$759,000</u>	<u>\$183,640</u>	<u>\$942,640</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, 2018, the County had an outstanding balance of \$203,125 owed to Montana Board of Investments in the form of an InterCap loan. This note is payable in semi-annual principal and interest installments with a variable rate at 2.50% as of June 30, 2018 and payable over 10 years with the final payment due February 15, 2026.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**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 an OPEB Liability that must be reported in the related financial statements due to the implementation of GASB Statement Nos. 75 & 85.

	Year Ended June 30, 2018				Principal Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
<b><u>Governmental Activities:</u></b>					
General obligation bonds	\$ 2,455,000	\$9,385,000	(\$1,040,000)	\$10,800,000	\$ 1,030,000
Special assessment debt with governmental commitment	972,000	0	(213,000)	759,000	7,000
Notes payable	227,163	0	(24,038)	203,125	24,339
Claims and judgements	475,000	325,000	0	800,000	800,000
Compensated absences	2,228,262	33,286	0	2,261,548	561,993
OPEB Liability	3,476,992	300,668	0	3,777,660	0
<b>Governmental activity long-term liabilities</b>	<b>\$ 9,834,417</b>	<b>\$ 10,043,954</b>	<b>\$ (1,277,038)</b>	<b>\$ 18,601,333</b>	<b>\$ 2,423,332</b>
<b><u>Business-type Activities:</u></b>					
Compensated absences	253,126	(20,426)	0	232,700	58,175
OPEB Liability	335,951	23,133	0	359,084	0
<b>Business-type Activities Long-term Liabilities</b>	<b>\$ 589,077</b>	<b>\$ 2,707</b>	<b>\$0</b>	<b>\$ 591,784</b>	<b>\$ 58,175</b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**Summary of Debt Maturities**

Annual debt service principal and interest payments required on outstanding debt at June 30, 2018, are as follows:

Year Ending June 30,	Type of Debt		
	General Obligation Bonds	Rural Special Improvement Bonds	Lockwood Safety Intercap Loan
2019	1,117,887	34,594	30,545
2020	1,127,270	41,332	24,644
2021	963,780	86,807	24,953
2022	624,490	81,732	25,266
2023-2037	7,184,690	698,175	103,924
	<u>\$ 11,018,117</u>	<u>\$ 942,640</u>	<u>\$ 209,332</u>

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

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

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

	MAJOR FUNDS							Total Governmental Funds
	General Fund	Road Fund	Property & Liability Insurance Fund	Public Safety Fund	R.S.I.D. Bond Fund	Capital Improvement Fund	Other Nonmajor Governmental Funds	
<b>Nonspendable</b>								
Inventory	\$68,031	\$137,880	\$0	\$0	\$0	\$0	\$80,134	\$286,045
Prepays	63,830	6,463	0	6,183	0	0	0	\$76,476
Total Nonspendable Fund Balance	\$131,861	\$144,343	\$0	\$6,183	\$0	\$0	\$80,134	\$362,521
<b>Restricted</b>								
Road	0	3,746,976	0	0	0	0	0	\$3,746,976
Predatory Animal	0	0	0	0	0	0	0	\$0
Park	0	0	0	0	0	0	251,314	\$251,314
Veteran's Cemetery	0	0	0	0	0	0	78,790	\$78,790
Lockwood Pedestrian Safety	0	0	0	0	0	0	192,984	\$192,984
Drug Forfeiture	0	0	0	0	0	0	398,466	\$398,466
RSID Maintenance	0	0	0	0	0	0	4,715,130	\$4,715,130
Junk Vehicle	0	0	0	0	0	0	127,315	\$127,315
DUI Task Force/Highway Traffic Safety	0	0	0	0	0	0	66,044	\$66,044
RSID Revolving	0	0	0	0	0	0	338,024	\$338,024
RSID Bond	0	0	0	0	145,527	0	0	\$145,527
Total Restricted Fund Balance	\$0	\$3,746,976	\$0	\$0	\$145,527	\$0	\$6,168,067	\$10,060,570
<b>Committed</b>								
Bridge	0	0	0	0	0	0	316,293	\$316,293
Weed	0	0	0	0	0	0	117,213	\$117,213
Liability & Property Insurance	0	0	284,648	0	0	0	0	\$284,648
Mental Health Fund	97,866	0	0	0	0	0	0	\$97,866
Extension Service	0	0	0	0	0	0	91,115	\$91,115
Public Safety	0	0	0	5,914,948	0	0	0	\$5,914,948
County Attorney	0	0	0	0	0	0	1,536,618	\$1,536,618
Museum	0	0	0	0	0	0	242,456	\$242,456
Youth Services	0	0	0	0	0	0	779,187	\$779,187
Total Committed Fund Balance	\$97,866	\$0	\$284,648	\$5,914,948	\$0	\$0	\$3,082,882	\$9,380,344

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

	MAJOR FUNDS						Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Road Fund	Property & Liability Insurance Fund	Public Safety Fund	R.S.I.D. Bond Fund	Capital Improvement Fund		
<b>Assigned</b>								
Use of Reserves	371,174	0	2,065,539	2,296,914	0	9,223,140	986,278	\$14,943,045
Blight	113,100	0	0	0	0	0	0	\$113,100
Record Preservation-Capital Improvements	305,494	0	0	0	0	0	0	\$305,494
PILT	0	0	0	0	0	0	290,713	\$290,713
Capital Improvement	0	0	0	0	0	8,859,883	0	\$8,859,883
Total Assigned Fund Balance	\$789,768	\$0	\$2,065,539	\$2,296,914	\$0	\$18,083,023	\$1,276,991	\$24,512,235
<b>Unassigned</b>								
General Fund	5,292,854	0	0	0	0	0	0	\$5,292,854
Total Unassigned Fund Balance	\$5,292,854	\$0	\$0	\$0	\$0	\$0	\$0	\$5,292,854
<b>Total Fund Balance</b>	<b>\$6,312,349</b>	<b>\$3,891,319</b>	<b>\$2,350,187</b>	<b>\$8,218,045</b>	<b>\$145,527</b>	<b>\$18,083,023</b>	<b>\$10,608,074</b>	<b>\$49,608,524</b>

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

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

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

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

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

Revenue sources for the major special revenue funds:

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

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

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

**Yellowstone County, Montana**  
**Notes to the Financial Statements**  
**June 30, 2018**

**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 to 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 \$800,000 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
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, 2018	\$ 250,000	\$ 1,500,000	\$ 3,000,000

County buildings and their contents are covered by a blanket property and casualty insurance policy of \$180,000,000 with a \$50,000 deductible. The County at June 30, 2018, had unreserved fund balance in its Property and Liability Insurance Fund totaling \$2,350,187. As of October 16, 2008, the County acquired \$5,000,000 of museum collection and temporary loan insurance coverage for artifacts and art held at the Yellowstone County Museum.

Liability settlements did not exceed insurance coverage limits in fiscal year 2018.

Worker's Compensation

The County converted from MACo to the Montana State Fund's Worker's Compensation plan as of October 1, 2016. Montana State Fund is back by the citizens of Montana and the policyholders of the Fund. The County pays monthly premiums for its workers' compensation coverage.

Financial statements for the Montana State Fund are available online and are located in Helena, Montana.

Employee health insurance is discussed in note 11B.

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2018

#### **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, 2018, is \$2,508,255. The unvested 75% of accumulated sick pay benefits, which totaled \$2,716,583 at June 30, 2018, 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 \$650,000 for FY18.

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

Fiscal Year	Beginning of fiscal-year liability	Estimated Incurred claims	Claims paid, net of expected reimbursements	End of fiscal-year liability
2015-2016	\$ 567,893	\$ 6,031,963	\$ 6,399,856	\$ 200,000
2016-2017	\$ 200,000	\$ 6,897,838	\$ 6,797,838	\$ 300,000
2017-2018	\$ 300,000	\$ 8,456,634	\$ 8,106,634	\$ 650,000

Yellowstone County carries specific stop loss insurance of \$295,000 per claim on a claims incurred basis. There were no claims that exceeded the specific stop loss level for fiscal year 2018. 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 \$1,494,704 to the health insurance fund in fiscal year 2018.

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

	June 30, 2017	June 30, 2018
Health insurance premiums	\$ 6,554,740	\$ 6,735,515
Health claims	(6,897,838)	(8,456,634)
Administrative expenses	(602,407)	(495,936)
Interest revenue	21,792	65,791
Interfund transfer in	1,214,502	1,494,704
Net income (loss)	290,789	(656,560)
Net position, beginning of fiscal year	7,706,110	7,996,899
<b>Net position, end of fiscal year</b>	<b>\$ 7,996,899</b>	<b>\$ 7,340,339</b>

**Yellowstone County, Montana**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 11. Employee Benefits, continued**

**B. Health Insurance, continued**

In addition to providing health benefits for existing employees, the County also allows retired employees under the age of 65 and COBRA (1985 Consolidated Omnibus Budget Reconciliation Act) employees, and their families, and dependents of retirees 65 and older (a spouse under 65 or a child or children) to participate in the plan at the former employee's expense. As of June 30, 2018, there are 14 former employees covered under the health plan. As of January 1, 2018 county retirees eligible for Medicare were discontinued from the County plan, with no future option to re-enroll.

The County also allows participation in the plan for employees and dependents of Riverstone Health Department and the Big Sky Economic Development. For FY18, employees of Riverstone Health Department and Big Sky Economic Development pay premiums at the same County rates plus a 2% of premium administrative fee per month per employee. 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 both employee paid coverage and the employer portion of coverage increased between 0.00 – 17.34%. Retiree coverage increased between 6.72–6.93% during fiscal year 2018. The County believes that it has addressed historical disparities with various rates and will see much more consistent adjustments going forward. The change in coverage relating to retirees who were Medicare eligible is the only minor change to health plan benefits during fiscal year 2018.

**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 2018.

**1. Plan Description**

As required by State law (MCA 2-18-704), the County allows its retiring employees with at least five years of service and who are at least 50 years of age, along with their eligible spouses and dependents, the option to continue participation in the County's group health insurance plan until the retiree becomes eligible for Medicare coverage. This option creates a defined benefit other post-employment benefits plan (OPEB) since retirees are typically older than the average age of active plan participants and therefore receive a benefit of lower insurance rates. The OPEB plan is a single-employer defined benefit plan administered by a third party. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The County covers OPEB costs when they come due, on a pay-as-you-go basis.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**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 must be under the age of 65, including former fulltime and certain other employees. As of June 2018 there are 14 retirees and/or survivors enrolled for the employer's sponsored health insurance plan. In 2018, retirees contributed \$234,546 towards the cost of the County's annual premium.

**3. Benefits Provided**

The OPEB plan provides healthcare insurance benefits for retirees, eligible spouses and dependents as defined in MCA 2-18-704. Eligible retirees are required to pay the full amount of their health insurance premiums.

**4. Employees Covered by Benefit Terms**

As of July 1, 2016 (after the Plan change) the following employees were covered:

Inactive employees or beneficiaries currently receiving benefit payments	24
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	416
	<b>440</b>

**5. Total OPEB liability**

The County's total OPEB liability of \$4,136,744 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

**6. Actuarial assumptions and other inputs**

The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.00%
Discount rate	3.40%
Medical cost trend rates	6.50% in 2017 grading to 5.00% over 6 years
Dental cost trend rates	4.00%

The discount rate was based on the estimated yield of 20-Year AA-rated municipal bonds.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

The withdrawal and retirement assumptions used in the July 1, 2016 OPEB Actuarial Valuation (June 30, 2018 report) were based on the MPERA experience study for the period ending June 30, 2016. The other assumptions were reviewed by Yellowstone County's actuarial for reasonableness as of the valuation date.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**Note 11. Employee Benefits, continued**

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

**7. Changes in the total OPEB liability**

	Total OPEB Liability
Balance at July 1, 2016	\$ 3,812,943
Changes for the year:	
Service cost	\$ 346,974
Interest	\$ 138,708
Changes in benefit terms	\$ -
Differences between expected and actual experience	\$ -
Changes in assumptions or other inputs	\$ -
Benefit payments	\$ (161,881)
Net changes	\$ 323,801
Balance at July 1, 2017 (used at reporting date of June 30,2018)	\$ 4,136,744

Changes in benefit terms are the result of the County no longer offering health insurance to retirees eligible for Medicare. Therefore, there is no post-age 65 implicit rate subsidy and the ten post-age 65 retirees on the County's medical plan as of July 1, 2016 are no longer included.

Changes in assumptions and other inputs reflect the current discount rate of 3.40%.

**8. Sensitivity of the total OPEB liability to changes in the discount rate:**

The following represents the total OPEB liability reported by the County, as well as how that liability would change if the discount rate used to calculate the OPEB liability were decreased or increased by 1 percent:

	1% Decrease 2.40%	Discount Rate 3.40%	1% Increase 4.40%
Total OPEB liability	\$4,468,879.00	\$4,136,744.00	\$3,826,411.00

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**Note 11. Employee Benefits, continued**

**9. Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates:**

The following presents the total OPEB liability reported by the County, as well as how that liability would change if the healthcare trend rate used in projecting benefit payments were to decrease or increase by 1 percent:

	1% Decrease	Healthcare Trend Rate	1% Increase
Total OPEB liability	\$3,643,649.00	\$4,136,744.00	\$4,718,351.00
Medical Trend Rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years
Dental Trend Rate	3.00%	4.00%	5.00%

Note: The trend rate assumption has not changed since the initial valuation date of July 1, 2016. The initial rate shown above is as of July 1, 2017 and has decreased from the initial rate in the July 1, 2016 actuarial valuation report due to the assumed decrease over the select period.

**10. OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB:**

For the year ended June 30, 2018, the County recognized OPEB expense of \$485,682. The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer Contributions	\$ 166,742	\$ -
Changes in assumption or other input	\$ -	\$ -
Total	<u>\$ 166,742</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	<u>\$ -</u>
2020	<u>\$ -</u>
2021	<u>\$ -</u>
2022	<u>\$ -</u>
2023	<u>\$ -</u>
Therafter	<u>\$ -</u>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

**Note 12. Pension and Retirement Fund Commitments**

**Public Employees' Retirement System (PERS)**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan).

Employers are required to record and report their proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions.

This report provides information for employers who are using a June 30, 2017 measurement date for the 2018 reporting.

**A. Pension Amount Totals**

Employers are provided guidance in GASB Statement 68, paragraph 74, that pension amounts must be combined as a total or aggregate for reporting. This is true when employees are provided benefits through more than one pension, whether cost-sharing, single-employer, or agent plans.

**B. Net Pension Liability**

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2017, was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

**1. Special Funding:**

The state of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as special funding. Those employers who received special funding are counties, cities & towns, school districts & high schools, and other governmental agencies.

**2. Not Special Funding:**

Per Montana law, state agencies and universities paid their own additional contributions. These employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions. The state of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are not accounted for as special funding for all participating employers.

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2018, and 2017, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid.

Yellowstone County recorded a liability of \$22,422,029 and the proportionate share was 1.15%.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

As of reporting date:	Net Pension Liability as of 6/30/2018	Net Pension Liability as of 6/30/2017	Percent of Collective NPL as of 6/30/2018	Percent of Collective NPL as of 6/30/2017	Change in Percent of Collective NPL
Employer Proportionate Share	\$22,422,029.00	\$19,683,035.00	1.15%	1.16%	-0.01%
State of Montana Proportionate Share associated with the Employer	\$ 298,536.00	\$ 240,504.00	1.52%	1.48%	0.04%
<b>Total</b>	<b>\$22,720,565.00</b>	<b>\$19,923,539.00</b>	<b>2.671500%</b>	<b>2.632300%</b>	<b>0.039200%</b>

**Changes in actuarial assumptions and methods:**

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%
- Decreased the administrative expense load from 0.27% to 0.26%

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

**Changes in benefit terms:**

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

**Changes in proportionate share:**

Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that would have an effect on the employer's proportionate share of the collective NPL.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**B. Pension Expense –**

As of reporting date	Pension Expense as of 6/30/2018	Pension Expense as of 6/30/2017
Employer's Proportionate Share of PERS	\$ 2,563,790.00	\$ 1,486,268.00
State of Montana Proportionate Share associated with the Employer	\$ 15,916.00	\$ 20,154.00
Grant Revenue - State of Montana Coal Tax for employer	\$ 320,751.00	\$ 344,852.00
<b>Total</b>	<b>\$ 2,900,457.00</b>	<b>\$ 1,851,274.00</b>

**C. Recognition of Deferred Inflows and Outflows –**

At June 30, 2017, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$ 552,184.00	\$ 32,454.00
Projected Investment Earnings vs. Actual Investment Earnings	\$ -	\$ 150,588.00
Changes in Assumptions	\$ 3,064,857.00	\$ -
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	\$ 232,855.00	\$ -
Employer Contributions subsequent to the measurement date	\$ 1,381,021.00	\$ -
<b>Total</b>	<b>\$ 5,230,917.00</b>	<b>\$ 183,042.00</b>

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

For the Reporting Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2018	\$ 794,244.00
2019	\$ 1,753,306.00
2020	\$ 1,363,691.00
2021	\$ (477,243.00)
2022	\$ -
Thereafter	\$ -

Yellowstone County, Montana  
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**Note 12. Pension and Retirement Fund Commitments, continued**

**D. Plan Description –**

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

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

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

**E. Summary of Benefits –**

**Eligibility for benefit**

**1. Service retirement:**

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

**2. Early Retirement:**

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of service.

**3. Second Retirement (requires returning to PERS-covered employer or PERS services):**

- a. Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
  - i. A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
  - ii. No service credit for second employment;
  - iii. Start the same benefit amount the month following termination; and
  - iv. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- b. Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
  - i. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
  - ii. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- c. Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
  - i. The same retirement as prior to the return to service;
  - ii. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date;
  - iii. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**4. Vesting:**

5 years of membership service.

**5. Member's highest average compensation (HAC):**

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

**6. Compensation Cap:**

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

**7. Monthly benefit formula:**

- a. Members hired prior to July 1, 2011:
  - i. Less than 25 years of membership service:  
1.785% of HAC per year of service credit;
  - ii. 25 years of membership service or more:  
2% of HAC per year of service credit.
- b. Members hired on or after July 1, 2011:
  - i. Less than 10 years of membership service:  
1.5% of HAC per year of service credit;
  - ii. 10 years or more, but less than 30 years of membership service:  
1.785% of HAC per year of service credit;
  - iii. 30 years or more of membership service:  
2% of HAC per year of service credit.

**8. Guaranteed Annual Benefit Adjustment (GABA):**

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013:

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

**F. Overview of Contributions –**

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

Yellowstone County, Montana  
Notes to the Financial Statements  
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**Note 12. Pension and Retirement Fund Commitments, continued**

Fiscal Year	Member		State/Universities	Local Government	State	School Districts	State
			Employer	Employer		Employer	
	Hired <7/01/11	Hired >7/01/11					
2018	7.9%	7.9%	8.570%	8.470%	0.10%	8.20%	0.370%
2017	7.9%	7.9%	8.470%	8.370%	0.10%	8.10%	0.370%
2016	7.9%	7.9%	8.370%	8.270%	0.10%	8.00%	0.370%
2015	7.9%	7.9%	8.270%	8.170%	0.10%	7.90%	0.370%
2014	7.9%	7.9%	8.170%	8.070%	0.10%	7.80%	0.370%
2012-2013	6.9%	7.9%	7.170%	7.070%	0.10%	6.80%	0.370%
2010-2011	6.9%		7.170%	7.070%	0.10%	6.80%	0.370%
2008-2009	6.9%		7.035%	6.935%	0.10%	6.80%	0.235%
2000-2007	6.9%		6.900%	6.800%	0.10%	6.80%	0.100%

**1. Member Contributions:**

a. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

**2. Employer contributions to the system:**

a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.

b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

c. The Plan Choice Rate (PCR), that directed a portion of employer contributions for DCmembers to the PERS defined benefit plan, are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

**3. Non Employer Contributions:**

**a. Special Funding:**

- i. The State contributes 0.1% of members' compensation on behalf of local government entities.
- ii. The State contributes 0.37% of members' compensation on behalf of school district entities.

**b. Not Special Funding:**

- i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**G. Stand-Alone Statements –**

The financial statements of the Montana Public Employees Retirement Board (PERB) Comprehensive Annual Financial Report (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at:

<http://mpera.mt.gov/annualReports.shtml>

**H. Actuarial Assumptions –**

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

Investment Return (net of admin expense)	7.65%
Admin Expense as % of Payroll	0.26%
General Wage Growth*	3.50%
*includes Inflation at	2.75%
Merit Increases	0% to 6.3%
Post Retirement Increases	

**1. Guaranteed Annual Benefit Adjustment (GABA):**

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

3% for members hired prior to July 1, 2007

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

Members hired on or after July 1, 2013

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

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA> and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.

Mortality assumptions among disabled members were based on RP 2000 Combined Mortality Tables with no projections.

**I. Discount Rate –**

The discount rate used to measure the Total Pension Liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities would be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the

Yellowstone County, Montana  
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**Note 12. Pension and Retirement Fund Commitments, continued**

projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. A municipal bond rate was not incorporated in the discount rate.

**J. Target Allocations –**

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The experience study, performed for the period of fiscal years 2010 through 2016, was outlined in a report dated June 2017 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized below.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
	(a)	(b)	(a) x (b)
Cash Equivalents	2.6%	4.00%	0.10%
Domestic Equity	36.0%	4.55%	1.64%
Foreign Equity	18.0%	6.35%	1.14%
Fixed Income	23.4%	1.00%	0.23%
Private Equity	12.0%	7.75%	0.93%
Real Estate	8.0%	4.00%	0.32%
Total	100%		4.37%
Inflation			2.75%
Portfolio Return Expectation			7.12%

The long-term expected nominal rate of return above of 7.12% is an expected portfolio rate of return provided by Board of Investments (BOI), which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

**K. Sensitivity Analysis –**

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Employer's Net Pension Liability	\$32,655,769.00	\$22,422,029.00	\$13,831,579.00

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**L. Summary of Significant Accounting Policies –**

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable.

Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Yellowstone County contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan for employees that have elected the DCRP. The PRES-DSRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBPR and have a 12-month window during which they may choose to remain in the PERS-DBPR or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of PERS-DCRP.

At the plan level for the measurement period ended June 30, 2017, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 300 employers that have participants in PERS-DCRP totaled \$396,650.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**Sheriff's Retirement System –**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with participation in the Sheriffs' Retirement System (the Plan). Employers are required to record and report the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. This report provides information for employers who are using a June 30, 2017 measurement date for the 2018 reporting.

**A. Pension Amount Totals –**

Employers are provided guidance in GASB Statement 68, paragraph 74, that pension amounts must be combined as a total or aggregate for reporting. This is true when employees are provided benefits through more than one pension, whether cost-sharing, single-employer, or agent plans.

**1. Net Pension Liability:**

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As allowed by GASB Statement 68, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2017, was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The proportionate shares of the employer's NPL for June 30, 2017, and 2016, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer contributions during the measurement period.

Yellowstone County recorded a liability of \$7,052,513 and the proportionate share was 9.2678%.

As of reporting date:	Net Pension Liability as of 6/30/2018	Net Pension Liability as of 6/30/2017	Percent of Collective NPL as of 6/30/2018	Percent of Collective NPL as of 6/30/2017	Change in Percent of Collective NPL
Employer Proportionate Share	\$ 7,052,513	\$ 16,296,484	9.267800%	9.276300%	-0.008500%
<b>Total</b>	<b>\$ 7,052,513</b>	<b>\$ 16,296,484</b>	<b>9.267800%</b>	<b>9.276300%</b>	<b>-0.008500%</b>

***Changes in actuarial assumptions and methods:***

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%
- Increased the administrative expense load from 0.17% to 0.21%.

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

Effective July 1, 2017, the contribution charges were:

- Effective July 1, 2017, SRS employee contributions increase from 9.245% to 10.495% of the member's compensation.
- SRS employer additional contributions increase from 0.58% to 3.58%, for a total employer contribution rate of 13.115%.
- SRS employee contributions will return to 9.245% and SRS employer contributions will return to 9.535% when reducing the employee contribution and terminating the additional employer contributions will not cause the amortization period to exceed 25 years.

***Changes in benefit terms:***

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

***Changes in proportionate share:***

There were no changes between the measurement date of the collective NPL and the employer's reporting date that would have significant effect on the employer's proportionate share of the collective NPL.

**B. Pension Expense –**

As of reporting date:	Pension Expense as of 6/30/2018	Pension Expense as of 6/30/2017
Employer's Proportionate Share of SRS	\$ 432,285.00	\$ 2,131,954.00
<b>Total</b>	<b>\$ 432,285.00</b>	<b>\$ 2,131,954.00</b>

Yellowstone County, Montana  
Notes to the Financial Statements  
June 30, 2018

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

**C. Recognition of Deferred Inflows and Outflows –**

At June 30, 2017, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$ 46,290.00	\$ 21,698.00
Projected Investment Earnings vs. Actual Investment Earnings	\$ -	\$ 86,567.00
Changes in Assumptions	\$ 5,503,957.00	\$ 9,002,506.00
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	\$ 135,037.00	\$ -
Employer Contributions subsequent to the measurement date	\$ 946,998.00	\$ -
<b>Total</b>	<b>\$ 6,632,282.00</b>	<b>\$ 9,110,771.00</b>

Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

For the Reporting Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2018	\$ (1,046,807.00)
2019	\$ (621,834.00)
2020	\$ (787,595.00)
2021	\$ (1,104,288.00)
2022	\$ -
Thereafter	\$ -

**D. Plan Description –**

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

**E. Summary of Benefits –**

**Eligibility for benefit**

**1. Service retirement:**

- 20 years of membership service
- 2.5% of HAC x years of service credit.

Yellowstone County, Montana  
Notes to the Financial Statements  
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**Note 12. Pension and Retirement Fund Commitments, continued**

**2. Early Retirement:**

- Age 50 with 5 years of membership service.
- This benefit calculated using HAC and service credit at early retirement, and reduced to the actuarial equivalent commencing at the earliest of age 60 or the attainment of 20 years of service credit.

**3. Vesting:**

5 years of membership service

**4. Member's compensation period used in benefit calculation:**

- HAC = Highest Average Compensation
- Hired prior to July 1, 2011: HAC is average of the highest 36 consecutive months of compensation paid to member.
- Hired on or after July 1, 2011: HAC is average of the highest 60 consecutive months of compensation paid to member.

**5. Compensation Cap**

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

**6. Guaranteed Annual Benefit Adjustment (GABA):**

After the member has completed 12 full months of retirement, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to:

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

**F. Overview of Contributions –**

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

<u>Fiscal Year</u>	<u>Member</u>	<u>Employer</u>
2010 - 2018	9.245%	10.115%
2008 - 2009	9.245%	9.825%
1998 - 2007	9.245%	9.535%

**G. Stand-alone Statements –**

The financial statements of the Montana Public Employees Retirement Board (PERB) Comprehensive Annual Financial Report (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at <http://mpera.mt.gov>.

**H. Actuarial Assumptions –**

The TPL used to calculate the NPL was determined by taking the results of June 30, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017, for the six- year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

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Notes to the Financial Statements  
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**Note 12. Pension and Retirement Fund Commitments, continued**

- Investment Return (net of admin expense) 7.65%
- Admin Expense as % of Payroll 0.21%
- General Wage Growth\* 3.50%
- \*includes Inflation at 2.75%
- Merit Increases 0% to 6.30%
- Postretirement Benefit Increases

i. **Guaranteed Annual Benefit Adjustment (GABA)**

After the member has completed 12 full months of retirement, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to:

- 3.0% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Mortality Tables.

**I. Discount Rate –**

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. Based on those assumptions, the Plan's fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after June 30, 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

**J. Target Allocations –**

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The experience study, performed for the period of fiscal years July 1, 2010 to June 30, 2016 is outlined in a report dated June 2017 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized below.

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

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
	(a)	(b)	(a) x (b)
Cash Equivalents	2.6%	4.00%	0.10%
Domestic Equity	36.0%	4.55%	1.64%
Foreign Equity	18.0%	6.35%	1.14%
Fixed Income	23.4%	1.00%	0.23%
Private Equity	12.0%	7.75%	0.93%
Real Estate	8.0%	4.00%	0.32%
Total	100.0%		4.37%
	Inflation		2.75%
	Portfolio Return Expectation		7.12%

The long-term expected nominal rate of return above of 7.12% is an expected portfolio rate of return provided by Board of Investments (BOI), which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

**K. Sensitivity Analysis –**

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
<b>Employer's Net Pension Liability</b>	\$ 12,453,039.00	\$ 7,052,513.00	\$ 2,634,219.00

**L. Summary of Significant Accounting Policies –**

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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**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 \$800,000 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.

Between July 1, 1978 and June 30, 2018 there were twenty series of industrial revenue bonds issued. The aggregate principal amount outstanding for the six remaining series issued after July 1, 1997 was \$15,660,000 as of June 30, 2018.

**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.

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**Note 16. Protested Taxes**

The protest tax receivable for the County's governmental and proprietary funds increased \$1,294,189 or 9.46% of the FY18 adjusted County tax levy.

<b>Protest Tax Receivables</b>									
Fiscal Year	<b>Governmental-type Funds</b>			<b>Business-type Funds</b>			<b>Total</b>		
	<u>Beginning Balance</u>	<u>Change</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Change</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Change</u>	<u>Ending Balance</u>
FY14	\$9,837,001	(\$3,563,200)	\$6,273,801	\$610,698	(\$176,827)	\$433,871	\$10,447,699	(\$3,740,027)	\$6,707,672
FY15	\$6,273,801	(\$3,577,768)	\$2,696,033	\$433,871	(\$267,249)	\$166,622	\$6,707,672	(\$3,845,017)	\$2,862,655
FY16	\$2,696,033	\$1,221,318	\$3,917,351	\$166,622	\$65,574	\$232,196	\$2,862,655	\$1,286,892	\$4,149,547
FY17	\$2,696,033	\$4,239,466	\$6,935,499	\$166,622	\$241,017	\$407,639	\$2,862,655	\$4,480,483	\$7,343,138
FY18	\$3,917,351	\$4,242,006	\$8,159,357	\$232,196	\$245,774	\$477,970	\$4,149,547	\$4,487,780	\$8,637,327

The County portion of all protested property taxes held in trust continued to increase in FY18. This is virtually all due to the ongoing protest of CHS/Cenex. Two other large protests – one from another refinery and one from an oil industry pipeline transmission entity were resolved in FY18. The CHS/Cenex protest was resolved in early FY19, as discussed in Note 18 – Subsequent Events.

# Yellowstone County, Montana

## Notes to the Financial Statements

### June 30, 2018

#### **Note 17. Tax Abatement Activity**

In accordance with GASB Statement 77, Tax Abatement Disclosures, state and local governments are to provide essential information about the nature and magnitude of the reduction of tax revenues through abatement programs. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

The County has two tax abatement programs in place, both of which provide reductions in taxable value as it applies to the number of mills levied and assessed for local high school district and elementary school district purposes and to the number of mills levied and assessed by the governing body approving the benefit over which the governing body has sole discretion. The reduction may not apply to state mandated levies or assessments required under Title 15, chapter 10, 20-9-331, 20-9-333, or 20-9-360 MCA or otherwise required under state law.

#### **Five-Year Program**

Resolution #02-66, passed by the Board of Yellowstone County Commissioners on August 9, 2002 allows for a 5-year tax abatement program authorized by MCA 15-24-1501. As adopted under this resolution, entities that incur remodel, reconstruction or expansion construction costs that meet or exceed \$500,000 and increase the taxable value of the property involved by at least 2.5% as determined by the Montana Department of Revenue may qualify. If within the confines of the cities of Billings or Laurel, or town of Broadview those local governing bodies would also have to approve under their resolutions for it to apply for city or town imposed mills.

The applying party must also show that jobs will either be created or retained, and taxes on the property remain current. The abatement amounts to 100% for the first 4 years following construction. In the fifth year, the full rate of taxation applies. If the entity fails in complying with terms stated in the abatement application, it may be subject to recapture of all previous abatements, along with penalties and interest. Recapture is not triggered by any involuntary conversion of the property, and the recapture may be canceled, in whole or in part, if the County determines that the failure was due to circumstances outside of the entity's control.

#### **Ten-Year Program**

Resolution 94-92, passed by the Board of Yellowstone County Commissioners on October 4, 1994 allows for a 10 year tax abatement program authorized by Title 15, Chapter 24 MCA. As adopted under this resolution, entities that expend at least \$50,000 on qualifying improvements or modernized processes or new businesses that expend at least \$125,000 on qualifying improvements or modernized processes may qualify. If within the confines of the cities of Billings or Laurel, or town of Broadview those local governing bodies would also have to approve under their resolutions for it to apply for city or town imposed mills.

Qualifying entities must also demonstrate and maintain job growth and keep taxes on the property current. The abatement amounts to a 50% taxable value reduction for each of the first five years of the improvement. The reduction is reduced by 10% each year, beginning in year six, until the full rate of taxation applies after the tenth year. If the entity fails in complying with terms stated in the abatement application, it may be subject to recapture of all previous abatements, along with penalties and interest. Recapture is not triggered by any involuntary conversion of the property, and the recapture may be canceled, in whole or in part, if the County determines that the failure was due to circumstances outside of the entity's control.

The 2017 Montana legislative session produced House Bill 226, signed by the Governor. Through this change to Montana statute, the local governing body may also choose to abate at a 75% level. This abatements stays in place for five years, then the abatement is reduced by 15% per year beginning in year six, until full taxation applies after ten years. At the end of FY18, no such level of abatement has been granted.

For the purposes of this GASB, the County believes that a threshold for separately identifying an entity receiving abatements should meet or exceed \$500,000. For totals less than this, reporting will be in aggregate for the programs presented.

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Notes to the Financial Statements  
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**Note 17. Tax Abatement Activity, continued**

<b>Tax Abatement Recap</b>		
General Taxes Abated:	FYE <u>6/30/2018</u>	FYE <u>6/30/2017</u>
County	\$98,811	\$218,404
Cities and towns	\$56,030	\$31,638
School District 2	\$88,990	\$106,999
School District 7	\$47,527	\$180,659
School District 26	\$48,759	\$51,355
Other School Districts	\$16,553	\$17,817
Other	<u>\$2,294</u>	<u>\$4,224</u>
	<u>\$358,964</u>	<u>\$611,096</u>

**Note 18. Subsequent Events**

As referenced in Note 16 Protested Taxes, in July of 2018 the County learned of the multi-year tax protest resolution between the Montana Department of Revenue and CHS/Cenex, the County's largest taxpayer. Amounts released from protest totaling approximately \$23.5 million will go out to all taxing jurisdictions involved in the first half of FY19. This will leave less than \$1 million in protested taxes before the November, 2018 collection cycle. It should be noted that the Laurel School District took advances on all protests over this timeframe and will be assessing an emergency mill levy on its taxpayers in the amount of slightly over \$1 million in this tax year to cover the shortage due to the CHS refund.

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**Note 19. Restatement for GASB 75**

Subsequent to the issuance of our report dated December 18, 2018, the County discovered an error in the application of GASB 75. The restatement of net position due to the implementation of GASB 75 was entered incorrectly. The net effect of the adjustments made to correct the error was as follows:

<b>Statement of Activities</b>	<b>As Previously Reported</b>	<b>Restatement for GASB 75</b>	<b>As Restated</b>
<b>Governmental Activities</b>			
General Government	\$ 16,091,136	\$ (252,870)	\$ 15,838,266
Public Safety	28,542,841	(523,362)	28,019,479
PublicWorks	9,703,925	(83,421)	9,620,504
Public Health	4,119,626	(2,086)	4,117,540
Social & Economic Services	2,463,322	(4,901)	2,458,421
Cultural & Recreation	1,648,197	0	1,648,197
Community & Development	136,376	0	136,376
Conservation of Natural Resources	480,521	0	480,521
Interest on Long-Term Debt	404,452	0	404,452
	<b>\$63,590,396</b>	<b>✶ (\$866,640)</b>	<b>\$62,723,756</b>
<b>Beginning Net Position</b>	<b>\$93,046,013</b>	<b>(\$866,640)</b>	<b>\$92,179,373</b>
<b>Business-type Activities</b>			
Sanitation, Refuse Disposal	\$ 206,950	0	\$ 206,950
Civic Center, METRA	8,111,268	(82,378)	8,028,890
	<b>\$8,318,218</b>	<b>(\$82,378)</b>	<b>\$8,235,840</b>
<b>Beginning Net Position</b>	<b>\$38,827,020</b>	<b>(\$82,378)</b>	<b>\$38,744,642</b>