

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2003**

As financial management of Yellowstone County, Montana, we offer readers of the attached financial statements this narrative overview and analysis of the financial activities of Yellowstone County for the fiscal year ended June 30, 2003 and the financial position as of June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which precedes this report.

**Financial Highlights**

- The general fund incurred a net change to fund balance of (\$596,165). The reduction was primarily a result of a one-time transfer of \$400,000 to METRA for replacement of heating and cooling units on the main arena building and for an improved control system. The remainder of reduction was driven by courthouse building improvements and the transfer of funds to the capital improvement fund for future capital needs. The shortfall in fiscal year 2003 was not a result of a recurring operational deficit.
  - Operations of the district court fund were significantly impacted by the State of Montana assuming \$1.47 million of costs. The change in operations impacted both expenditures and revenues in a like amount, since the State reduced the County's entitlement revenue distribution by \$1.22 million and also assumed some additional revenues previously recorded in the district court fund. The recent significant reductions to fund balance within the district court fund were necessary as a result of the changes to these operations. The fund balance on June 30, 2003 for the district court fund is \$875,507 and is considered to be an acceptable level.
  - The property and liability insurance fund increased its reserve for pending claims to \$475,000 from \$378,930. This reserve level for pending claims results in a remaining fund balance of \$2,128,497, which is anticipated to be sufficient for future liability and property claims activity in the near term.
  - The public safety fund incurred a net change to fund balance of (\$341,491). This reduction was the result of \$470,000 being transferred to the capital projects fund for future capital needs within the sheriff's operations. The shortfall in fiscal year was not a result of a recurring operational deficit.
  - The Youth Services Fund incurred a reduction to fund balance of (\$240,877). Occupancy rates in the secure detention portion of the facility had not met the levels necessary to continue operating 24 youth detention beds. As a result one unit of 8 beds was closed in late fiscal year 2003 in order to provide operational savings. Significant losses for fiscal year 2004 are not anticipated.
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- METRA's financial position and operational costs continue to be problematic. Operating cash continues to decline even though the facility's utilization is stable. The revenue dedicated to capital replacement generates only about 40% of annual

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depreciation. The County has unsuccessfully attempted to find a new revenue source for the facility that was event related, such as a local option tax. METRA is unlikely to sustain a positive operating cash position with the current revenues and expenses. A yearend operating cash position of \$262,173 (4.9% of FY04 operating expenditure budget) is insufficient and is short of the desired minimum 20% of appropriations reserve level for METRA.

- The recent bankruptcy by the County's largest taxpayer raises cash flow concerns, although at the time of this narrative this taxpayer is not delinquent with their property tax charges from fiscal year 2003. The financial issues related to this taxpayer, who is also the State of Montana's main electric utility provider, causes concern from both the cost of future electricity prices and their ability to make timely property tax payments.
- The County continues to maintain its major governmental buildings in a good state of condition. Significant funds have been expended in recent years to keep major capital equipment and buildings in good functional condition. Space needs for administrative functions have been alleviated with last year's purchase of the sheriff's administration building, which freed up needed space within the courthouse. Although the adult detention facility is in good condition, detention populations continue to exceed its desired occupancy and solutions continue to be discussed.

### **Explanation of the Financial Statements**

The MD&A is intended to serve as an introduction to the basic financial statements of Yellowstone County. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other unaudited supplementary information in addition to the basic financial statements. In future years, comparative information of government wide data will be presented in the supplementary information.

**Government-wide financial statements.** The Government-wide financial statements are designed to provide readers with a broad overview of Yellowstone County's finances, in a manner similar to a private sector business on a full accrual accounting basis.

The statement of net assets presents information on all of Yellowstone County's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of Yellowstone County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (example: uncollected property taxes, and earned but unused vacation leave).

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Both of the government-wide financial statements distinguish functions of Yellowstone County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs from user fees and charges (business-type activities). The governmental activities of Yellowstone County include general government, public safety, public works (roads and bridges), public health, social and economic programs, cultural and recreational programs, conservation of natural resources, and community/economic development. The business-type activities include refuse disposal and METRA civic center.

The government-wide financial statements can be found on pages 21-23 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control and account for resources that have been segregated for specific activities or objectives. Yellowstone County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal or contractual requirements. All of the funds of Yellowstone County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current fiscal year inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's recent financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's recent financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Yellowstone County maintains many individual governmental funds. The general fund, road fund, property and liability insurance fund, public safety-sheriff fund, RSID Bond Fund, and capital improvement fund are all reported as major funds. Information for the major funds is reported separately in the governmental fund balance sheet and in the governmental fund of revenues, expenditures, and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a comparative basis with the annually appropriated budget both original and revised to demonstrate compliance with this budget. The remaining

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governmental funds are combined in a single aggregate presentation titled other nonmajor governmental funds. Individual fund reports for each of the nonmajor governmental funds are presented in the combining financial statements in this report.

The basic governmental fund financial statements can be found on pages 24-31 of this report.

**Proprietary funds.** Yellowstone County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Yellowstone County uses enterprise funds to account for operations of the refuse disposal fund and METRA civic center both of which are reported as major funds. Internal service funds are used to accumulate and allocate costs internally among various government department users or affiliated organizations. The three internal service funds utilized by the county include the health insurance fund, motor pool, and telephone fund. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Interdepartmental charges for internal service funds have been eliminated from the Statement of Activities.

Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities, but provide more detail in addition to a cash flow statement. Internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund statements for the internal service funds are presented in the combining statements in this report.

The basic proprietary fund financial statements can be found on pages 32-36 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties and entities outside the government of Yellowstone County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Yellowstone County's own programs.

The basic fiduciary fund financial statements can be found on pages 37-38 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data and reports presented government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-63 of this report.

**Required supplementary information.** All required supplementary information precedes the basic financial statements or is included in the basic financial statements and accompanying notes, therefore no other information is presented in the section for required supplementary information.

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**Government-wide Financial Analysis.**

Net assets may serve as a useful indicator of a government's financial position, which is one of the reasons why the Governmental Accounting Standards Board (GASB) instituted GASB Statement #34 and required local governments to present net asset information. Yellowstone County's net assets (assets less liabilities) were \$48,823,223 for the year ended June 30, 2003. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2003 was \$353,676. These figures do not include retroactive infrastructure capital assets, which have not been incorporated into the County's reports for fiscal year 2003.

Of the County's yearend total net assets of \$48,823,223, capital assets net of the related debt accounted for \$34,313,032 or 70.3%. Capital assets reflect the large investments in facilities and equipment that are necessary to provide large scale programs and services for the community. The restricted net assets (\$570,696 or 1.1%) are those funds legally required to be used for debt service payments. Unrestricted reserved net assets (\$4,043,386 or 8.3%) are those assets set aside for capital replacement and maintenance needs, and money that has already been spent on inventory or advanced as loans to other funds. Unrestricted unreserved net assets account for \$9,896,109 or 20.3% of the total net assets. Unrestricted unreserved net assets are primarily used as reserves that are used for cash flow purposes in between property tax collections, which are due in 50% installments in November 30 and May 31 of each year, and also as reserves to provide against large unforeseen costs or events. A comparison of the County's net assets follows:

**Yellowstone County Net Assets**

Governmental	Business
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	<b>Activities</b>		<b>Activities</b>		<b>Total</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Current assets	\$ 24,593,926	\$ 23,470,115	\$ 2,509,112	\$ 2,378,808	\$ 27,103,038	\$ 25,848,923
Noncurrent assets	860,332	974,559	(115,700)	0	744,632	974,559
Capital assets	21,328,972	21,354,157	13,929,917	14,222,899	35,258,889	35,577,056
<b>Total assets</b>	<b>46,783,230</b>	<b>45,798,831</b>	<b>16,323,329</b>	<b>16,601,707</b>	<b>63,106,559</b>	<b>62,400,538</b>
Current liabilities	4,352,922	2,763,344	687,245	648,182	5,040,167	3,411,526
Noncurrent liabilities	8,455,720	9,672,878	747,449	846,587	9,203,169	10,519,465
<b>Total liabilities</b>	<b>12,808,642</b>	<b>12,436,222</b>	<b>1,434,694</b>	<b>1,494,769</b>	<b>14,243,336</b>	<b>13,930,991</b>
Net assets:						
Invested in capital assets, net of related debt	21,271,858	21,287,442	13,041,174	13,406,651	34,313,032	34,694,093
Restricted for debt service	570,696	609,723	0	0	570,696	609,723
Unrestricted reserved	3,366,758	2,486,915	676,628	267,158	4,043,386	2,754,073
Unrestricted	8,765,276	8,978,529	1,130,833	1,433,129	9,896,109	10,411,658
<b>Total net assets</b>	<b>\$ 33,974,588</b>	<b>\$ 33,362,609</b>	<b>\$ 14,848,635</b>	<b>\$ 15,106,938</b>	<b>\$ 48,823,223</b>	<b>\$ 48,469,547</b>
<b>Change in Net Assets</b>	<b>\$ 611,979</b>		<b>\$ (258,303)</b>		<b>\$ 353,676</b>	

The decrease in net assets for business-type activities was primarily a result of METRA's operations. The unrestricted portion of net assets for business-type activities related to METRA is only \$107,547. This amount is unlikely to absorb any further losses of significance. METRA is likely to need additional assistance from the County's general fund by the end of fiscal year 2004.

The ending net asset position of the Interest on Long-Term Debt category on the Statement of Activities is a result of the related assets being donated to a business-type activity. The negative net asset position will be funded in future years with taxing authority previously approved by local residents.

**Governmental activities.**

Of the County's \$34.8 million in expenses for governmental activities, \$12.6 million (36.2%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (86.9% of the general revenues for governmental activities), or use of reserves. The major sources of program revenues include

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- State District Court Reimbursement Program \$1,159,475
- Gas tax \$285,834
- Justice Court fines \$660,815
- Clerk & Recorder filing fees \$1,386,040
- Health insurance premiums less County funded premium for employees \$1,320,990
- Adult detention boarding fees \$2,098,510
- Youth detention boarding fees \$1,195,751
- Mobile data capital grant for computerizing sheriff patrol vehicles \$355,433
- Domestic Preparedness capital grant \$98,530
- Youth Intake and Assistance operating grant \$113,517
- Lockwood Community Development Block Grant (capital) \$108,947
- Community Transportation Enhancement Program, Downtown Bike Trail capital grant \$309,890

**Yellowstone County's Change in Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Special assessments	\$ 533,098	-	\$ 338,277	-	\$ 871,375	-
Licenses and permits	89,804	-	0	-	89,804	-
Intergovernmental	1,548,558	-	30,000	-	1,578,558	-
Fines and forfeitures	660,815	-	0	-	660,815	-
Charges for services	7,434,801	-	4,493,547	-	11,928,348	-
Operating grants and contributions	1,073,002	-	0	-	1,073,002	-
Capital grants and contributions	1,265,692	-	0	-	1,265,692	-
<b>Total program revenues</b>	<b><u>12,605,770</u></b>	<b>-</b>	<b><u>4,861,824</u></b>	<b>-</b>	<b><u>17,467,594</u></b>	<b>-</b>

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General revenues:

Property taxes	19,823,871	-	783,416	-	20,607,287	-
Licenses and permits	9,685	-	0	-	9,685	-
Intergovernmental	2,456,924	-	37,693	-	2,494,617	-
Other revenues	<u>939,152</u>	-	<u>16,229</u>	-	<u>955,381</u>	-
<b>Total general revenues</b>	<b><u>23,229,631</u></b>	-	<b><u>837,338</u></b>	-	<b><u>24,066,970</u></b>	-
<b>Total revenues</b>	<b><u>35,835,401</u></b>	-	<b><u>5,699,162</u></b>	-	<b><u>41,534,564</u></b>	-

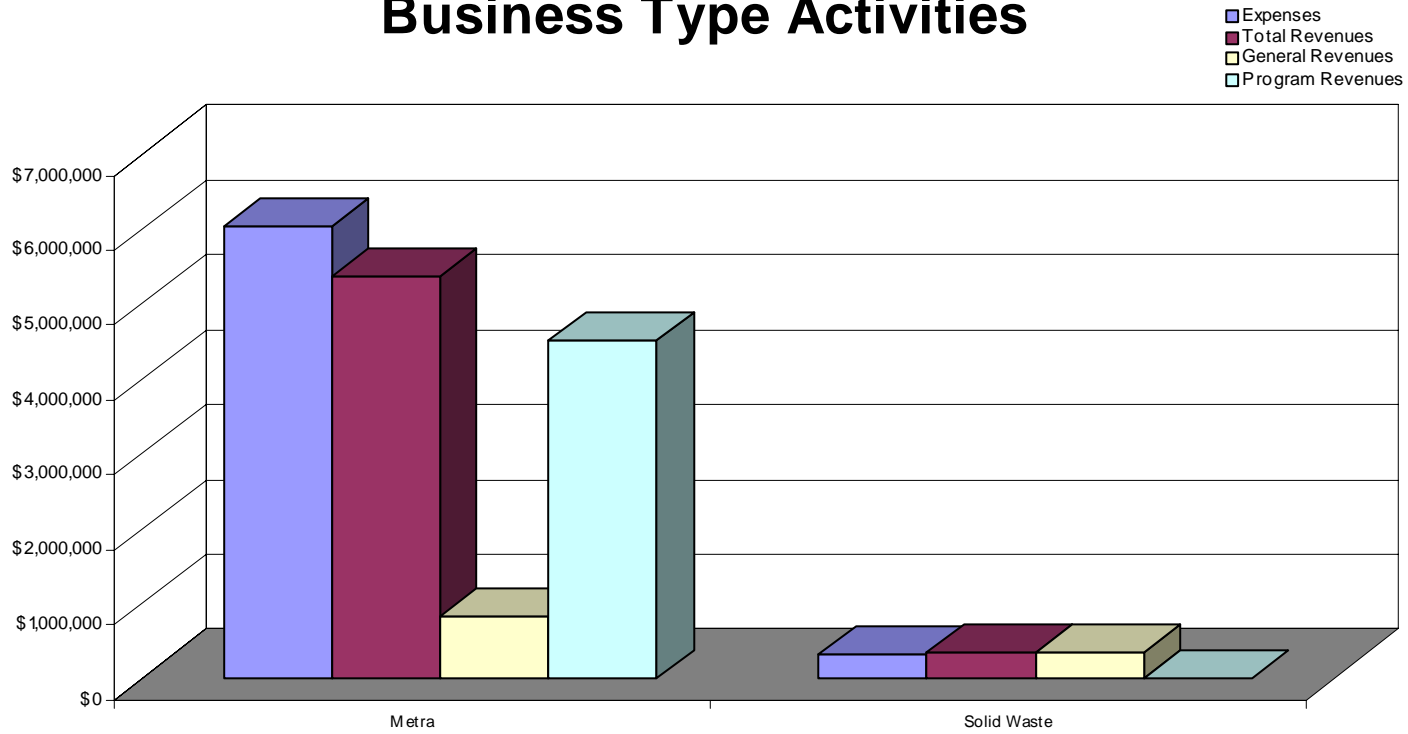
**Expenses:**

General government	7,670,379	-	0	-	7,670,379	-
Public Safety	17,798,990	-	0	-	17,798,990	-
Public Works	5,406,129	-	0	-	5,406,129	-
Public Health	688,043	-	0	-	688,043	-
Social and Economic	1,382,883	-	0	-	1,382,883	-
Culture and Recreation	1,176,837	-	0	-	1,176,837	-
Community Development	125,896	-	0	-	125,896	-
Conservation of Natural Resources	211,954	-	0	-	211,954	-
Interest on Long-Term Debt	348,952	-	0	-	348,952	-
Sanitation, refuse disposal	0	-	322,946	-	322,946	-
Civic center, METRA	<u>0</u>	-	<u>6,047,879</u>	-	<u>6,047,879</u>	-
<b>Total expenses</b>	<b><u>34,810,063</u></b>	-	<b><u>6,370,825</u></b>	-	<b><u>41,180,888</u></b>	-
<b>Increase in net assets before transfers</b>	<b>1,025,338</b>	-	<b>(671,663)</b>	-	<b>353,676</b>	-
Transfers	<u>(413,360)</u>	-	<u>413,360</u>	-	<u>0</u>	-
<b>Increase in net assets</b>	<b>611,979</b>	-	<b>(258,303)</b>	-	<b>353,676</b>	-
<b>Net assets July 1, 2002</b>	<b>33,564,255</b>	-	<b>15,106,938</b>	-	<b>48,671,193</b>	-
Prior period adjustment	<u>(201,646)</u>	-	<u>0</u>	-	<u>(201,646)</u>	-
<b>Net assets June 30, 2003</b>	<b><u>\$ 33,974,588</u></b>	-	<b><u>\$ 14,848,635</u></b>	-	<b><u>\$ 48,823,223</u></b>	-



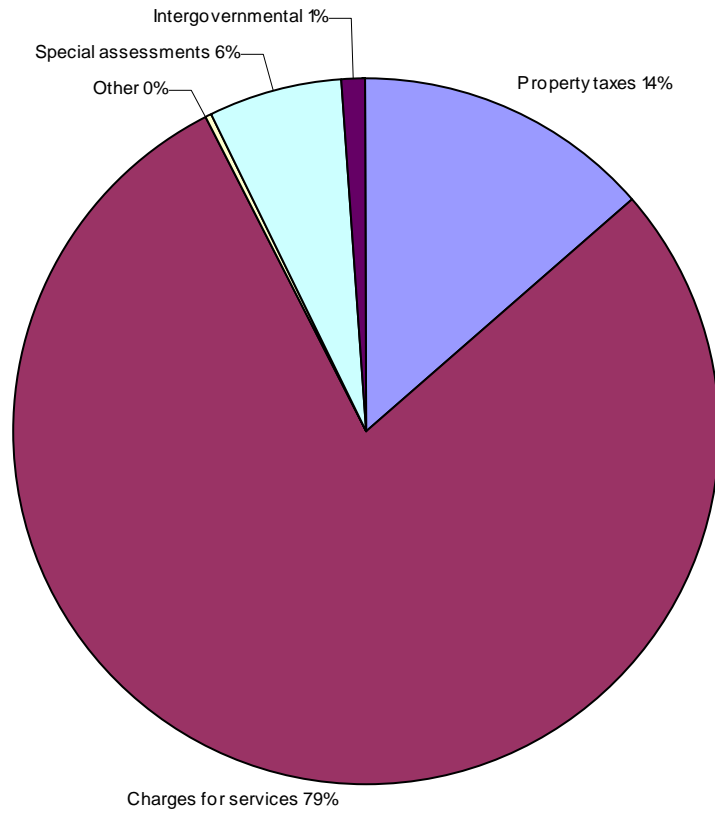
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## Total Expenses and Revenues- Business Type Activities



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**Total Revenues by Source-  
Business Type Activities**



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**Fund Financial Statement Analysis**

**General Fund**

The general fund sustained a reduction to fund balance of (\$596,165) during fiscal year 2003. This reduction was caused by the combination of \$400,000 being transferred to METRA for financial assistance in replacing the heating and cooling system for the main arena building. Another \$150,000 was expended from the general fund for the courthouse boiler replacement project. These and other nonrecurring expenditures combined to reduce the general fund's fund balance. Future reductions to the general fund's fund balance are not currently not anticipated as the budget for fiscal year 2004 is viewed as being balanced as this time.

**Governmental funds.**

Overall, Yellowstone County's governmental funds' change in fund balance for FY03 was a decrease of \$94,954 resulting in an ending total governmental fund balance of \$18,899,642.

Two of the more significant individual fund impacts for fiscal year 2003 were the loss of fund balance in the youth services fund of (\$240,877) due to low occupancy rates and a (\$223,853) loss in district court fund that was mostly related to unreimbursed costs in the public defender's office.

As a result of the change, the Youth Services Center closed 8 detention beds that were generally not being occupied. Because the beds were not being utilized and consequently not generating revenues to offset the associated operational costs (such as staffing requirements), it was necessary to close the 8 bed unit and reduce staff. Similar losses for FY04 are not anticipated. The fund balance remaining at June 30, 2003 of \$388,271 is still sufficient for this fund, but any further significant reductions to fund balance could put the fund below an acceptable fund balance reserve position.

The district court fund is not anticipated to sustain as large a loss for fiscal year 2004, since the State of Montana has assumed additional direct funding responsibility for cost areas such as conflict criminal legal defense, involuntary commitment (sanity) legal defense, civil jury fees, and guardian-ad-litem (children legal representation in termination of parental rights cases) legal defense. Other eligible program costs that are paid by the County no longer have an overall funding limit imposed by the State.

The other notable governmental fund is the Air Quality Control Fund that had a fund balance at June 30, 2003 of \$51,946. A financial concern has been noted regarding obtaining a balanced budget in this fund in order to avoid any further decreases to its fund balance position. Management has been addressing revising the funding and expenditures for this fund in fiscal year 2004.

See financial highlights section above for discussion related to other notable changes to governmental fund balances.

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**Proprietary funds.**

The refuse disposal fund has an increase in net assets of \$15,331 for FY03. This fund has accumulated total net asset of \$1,023,286 on June 30, 2003, which substantially exceeds the amount necessary for the operation of the fund. The fund accumulated this amount as a result of anticipation of funding landfill contract costs that did not occur. As a result, it is anticipated that future year's assessments and charges will be reduced in order to reduce the net assets of this fund.

The METRA fund had a reduction to net assets of \$273,634 for FY03 even though the general fund contributed \$400,000 for replacement of METRA arena building capital replacement costs. METRA's operating net cash (cash less accounts payable and wages payable) declined \$287,719 even though the facility was generally considered to have had a successful event year. I believe it will be difficult for management to complete fiscal year 2004 without additional funding or changes to its operations. See financial highlights section above for additional discussion related to METRA.

Like all employers, health insurance costs and the funding of those costs remains an ongoing concern. The health insurance fund remained relatively stable during FY03. Although the fund incurred a reduction in net assets of \$154,645, this loss was considered to be within tolerable levels because health insurance costs can tend to be highly erratic and costs for FY03 were close to projections.. The loss reduced net assets to \$804,886 from \$959,531 in the prior year. This level of net assets could sustain one year of maximum exposure losses before plan changes would be necessitated. The health plan is funded to cover costs based on a projected cost level determined by our health plan third party administrator. However, costs exceeding this expected claims level would be funded from reserves until aggregate stop loss coverage goes into effect at a level 15% above expected claims.

Phone system replacement and operating costs are accounted for in the Phone Fund. Although sufficient cost allocation has occurred to cover operating costs and built some reserves for capital replacement, system replacement costs have exceeded the original system replacement costs due to technology advancements and the integration with data systems. The Phone Fund may require supplemental funding in the near future to handle the communications needs of the County. System enhancement and replacement solutions are currently being researched.

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**General Fund Budgetary Highlights**

Differences between original and final revised budget were a result of state and federal grant awards and related match funding being added to the original budget. The original budget does not include either new or continuing grant activity and is subsequently amended into the budget by resolution of the Board of County Commissioners. The major grants included in the fiscal year 2003 budget were:

- \$809,171 of remaining grant authority on the downtown bike trail funded through the Community Transportation Enhancement Program (CTEP)
- \$313,873 of remaining grant authority on the Community Development Block Grant for Lockwood Housing
- \$296,620 of State funding for juvenile intervention programs
- \$225,346 in various emergency preparedness and mitigation grants

Some of the significant final budget to actual revenue variances include:

- (\$80,878) shortfall in property tax collections caused by the late payment of property taxes by the County's largest taxpayer
- (\$734,674) of unearned grant revenue, which is offset by a similar amount of unexpended grant appropriations
- (\$256,633) of unearned miscellaneous revenue from grant matching revenues
- \$596,040 of additional clerk & recorder fees driven by the extraordinary amount of mortgage refinancings due to low interest rates
- (\$340,191) shortfall in interest earnings due to record low interest rates during FY03.

The appropriation final budget to actual variances of significance were caused from unutilized contingency budgets or unexpended grant funds.

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**Capital Assets**

A comparison of capital assets for the last two fiscal years is presented below:

**Yellowstone County Capital Assets**  
(net of accumulated depreciation)

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Land	\$ 1,132,792	\$ 882,792	\$ 368,574	\$ 368,574	\$ 1,501,366	\$ 1,251,366
Buildings	12,967,042	12,439,254	12,462,661	12,714,972	25,429,703	25,154,226
Improvements other than buildings	274,067	306,808	905,286	1,012,648	1,179,353	1,319,456
Equipment and vehicles	5,514,124	5,716,826	193,396	126,705	5,707,520	5,843,531
Infrastructure	1,423,492	997,345	0	0	1,423,492	997,345
Construction in progress	17,455	1,011,132	0	0	17,455	1,011,132
<b>Total Capital Assets</b>	<b>\$ 21,328,972</b>	<b>\$ 21,354,157</b>	<b>\$ 13,929,917</b>	<b>\$ 14,222,899</b>	<b>\$ 35,258,889</b>	<b>\$ 35,577,056</b>

Governmental capital assets changed only a small amount in total during the year. The addition of new capital assets of \$2,214,706 was offset by depreciation and loss on disposal of assets.

Some of the larger capital acquisitions in the governmental activities were:

- Acquisition of a building contiguous to the courthouse used exclusively for the sheriff's department \$859,038
- Land acquisition next to the sheriff's building to be used for courthouse parking \$250,000
- Courthouse Boiler replacement \$150,247
- Grant funded (Community Transportation Enhancement Program) bike trail \$500,287
- Grant funded mobile data software for sheriff's patrol \$250,852
- Heavy equipment loader for road department \$226,020

Some of the larger capital acquisitions in the business activities were:

- Replacement of heating and cooling units for METRA arena \$317,194
- Heavy equipment loader for METRA \$105,500

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- Forklift for METRA \$31,435
- Arena signage \$28,914

For the financial statements issued for June 30, 2003, the infrastructure for the County acquired prior to this fiscal year has not been reported.

See footnote 7 for additional information on capital assets.

### **Long-term Debt**

As of June 30, 2003 the County has \$11,075,582 of outstanding long-term debt. Governmental funds account for \$10,245,206 and the enterprise funds account for \$830,376.

The largest component of long-term debt is \$7,005,000 of general obligation bonds issued by the County to expand and improve the event facilities located at METRA. This voter approved debt is being funded by an annual tax levy on citizens within the County. Law requires an annual levy sufficient to service the general obligation bond.

Another major component of long-term debt includes rural special improvement district (RSID) bonds issued to provide property improvements to properties located within a specified area. Repayment of this debt is assessed to the benefited property owners, which can be repaid over the life of the bond or the remaining principal assessment against the property can be repaid anytime. The County provides additional bond debt service collateralization with the County's RSID Revolving Fund and other contingent funding requirements as specified by law. The County currently has \$864,467 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$155,958. The County issued one new RSID bond during the year for \$174,000.

Notes payable are occasionally used to finance equipment that a particular fund may not have adequate reserves or funding to acquire within a budget cycle. Outstanding notes payable at yearend were \$734,970. The County issued one new note for METRA equipment during the year for \$191,859.

Claims and judgments represent the amount of the estimated liability established that is expected to pay for the known liability cases pending against the County. The amount of the estimated liability at yearend was \$475,000 for all cases.

Compensated absences is the amount of the liability for unpaid vacation and sick leave at yearend. The amount of the liability generally increases on an annual basis as a result of increasing wages and a general growth in number of total compensable hours. The amount of this liability at yearend was \$1,721,145.

### **Economic Factors and Next Year's Budget**

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2003**

The community continues to grow at historical levels of 2-3% (although the current year reflected a new construction taxable value growth of 5.7%), which provides some property tax revenue growth to offset inflationary trends in salaries and other operating costs. As with many local government entities, the growth provides funding to help offset inflation trends with existing programs but often leaves little for new or enhanced programs or services. The government often has to find ways to be more efficient at service delivery.

Some of the more significant projected financial changes to operations for fiscal year 2004 include:

- 55% increase in worker's compensation rates
- 10-25% in natural gas and electric rates
- 7% increase in health insurance (although the County has a funding mechanism to offset employer medical inflation, future availability and cost impact is a major concern)..
- Investment earnings are currently at about 1.50%, which is dramatically less than in recent history.

**Comparative Information**

Comparative totals will be provided in future years when prior year information is available.

**Requests for Information**

This financial report is designed to provide a general overview of Yellowstone County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Yellowstone County Finance Director  
P.O. Box 35003  
Billings, MT 59107