

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2004

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, 2004 and the financial position as of June 30, 2004. 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 (\$261,141). The general fund spent \$120,000 on courthouse office projects. The general fund also transferred \$300,000 to the capital improvement fund for future capital needs. The shortfall in fiscal year 2004 was not a result of a recurring operational deficit.
- The property and liability insurance fund incurred a loss of (\$229,783) during FY04. The County spent a higher than average amount on legal fees necessitated by defending an employee related claim which was referred to private counsel as a result of an internal conflict in our civil legal defense department. Higher reinsurance rates for general liability have also become significantly more expensive due to claims activity and the higher cost of defending claims. Although the liability and property insurance fund has a fund balance of \$1,898,714, the fund is likely to sustain losses in the next few years unless we see some favorable tort reform or employer liability protections.
- The public safety fund incurred a net change to fund balance of \$300,325. The increase was primarily a result of higher than expected motor vehicle option taxes and prisoner boarding charges to other entities utilizing the county jail.
- The youth services fund incurred a reduction to fund balance of (\$78,754). Rising operating costs for the facility and a higher number of occupancy days for Yellowstone County youths have resulted in additional funding from Yellowstone County sources being dedicated to this fund for FY05 to offset the losses. Management feels the FY05 budget should be balanced based on current occupancy rates, other sources of revenue, and an additional \$100,000 of County funding support.
- The air quality fund has been transferred to the City/County Health Department for future administration as of July 1, 2004. Cash reserves remaining on June 30, 2004 that were dedicated for air quality purposes were forwarded to City/County Health.
- METRA's financial position and operational costs continued to deteriorate during FY04. At the end of FY04, the operating cash was insufficient to cover short-term payables and funds intended for capital needs were set aside in the budget in case the operating cash shortfall from FY04 was not replenished in FY05. Working capital in Metra's operating fund was (\$101,851) on June 30, 2004. The FY05 budget is forecasted to eliminate the working capital shortage existing on June 30, 2004.

The revenue dedicated to METRA capital replacement generated only about 34% of annual depreciation in FY04. The County continues to evaluate funding and spending alternatives to METRA's operations to mitigate their funding issues.

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- On June 30, 2003 the County's largest taxpayer was delinquent on its property taxes, however, this taxpayer paid the delinquency about two months after June 30, 2003 and is current on its FY04 property tax billings.

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.

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).

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 20-22 of this report.

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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 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 23-30 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

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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 31-35 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 36-37 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 38-62 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.

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 \$49,099,982 for the year ended June 30, 2004. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2004 was \$276,758. These figures do not include retroactive infrastructure capital assets, which have not been incorporated into the County's reports for fiscal year 2004.

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Of the County's yearend total net assets of \$49,099,982, capital assets net of the related debt accounted for \$33,686,288 or 68.6% of total net assets. 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 (\$541,822 or 1.1%) are those funds legally required to be used for debt service payments. Unrestricted net assets of \$14,871,872 account for 30.3% 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 Activities | | Business Activities | | Total | |
|--|----------------------------|----------------------|------------------------|----------------------|----------------------|----------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Current assets | \$ 25,030,265 | \$ 24,593,926 | \$ 1,828,497 | \$ 2,509,112 | \$ 26,858,762 | \$ 27,103,038 |
| Noncurrent assets | 616,314 | 860,332 | (96,583) | (155,700) | 519,731 | 704,632 |
| Capital assets | 21,068,109 | 21,328,972 | 13,455,823 | 13,929,917 | 34,523,932 | 35,258,889 |
| Total assets | 46,714,688 | 46,783,230 | 15,187,737 | 16,283,329 | 61,902,425 | 63,066,559 |
| Current liabilities | 3,897,761 | 4,352,922 | 504,238 | 725,375 | 4,401,999 | 5,078,297 |
| Noncurrent liabilities | 7,778,028 | 8,455,720 | 622,416 | 709,319 | 8,400,444 | 9,165,039 |
| Total liabilities | 11,675,789 | 12,808,642 | 1,126,654 | 1,434,694 | 12,802,443 | 14,243,336 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 20,981,095 | 21,271,858 | 12,705,193 | 13,041,174 | 33,686,288 | 34,313,032 |
| Restricted for debt service | 541,822 | 570,696 | 0 | 0 | 541,822 | 570,696 |
| Unrestricted | 13,515,982 | 12,132,034 | 1,355,890 | 1,807,461 | 14,871,872 | 13,939,495 |
| Total net assets | \$ 35,038,899 | \$ 33,974,588 | \$ 14,061,083 | \$ 14,848,635 | \$ 49,099,982 | \$ 48,823,223 |
| Change in Net Assets | \$ 1,064,311 | | \$ (787,552) | | \$ 276,759 | |

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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 \$312,134. All of unrestricted net assets is currently reserved for maintenance and replacement, however, further operational losses may necessitate its use for operations..

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 \$38.2 million in expenses for governmental activities, \$13.6 million (35.5%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (75.4% of the general revenues for governmental activities), or use of reserves. The major sources of program revenues include

- State District Court Reimbursement Program \$1,165,859
- Gas tax \$285,832
- Justice Court fines \$658,195
- Clerk & Recorder filing fees \$1,290,707
- Health insurance premiums less County funded premium for employees \$2,094,731
- Adult detention boarding fees \$2,561,677
- Youth detention and secure shelter boarding fees \$1,209,470
- Two Community Development Block Grant (capital) for Cattle Development Center in Custer, MT \$478,384
- Community Development Block Grant Lockwood Housing capital grant \$201,576

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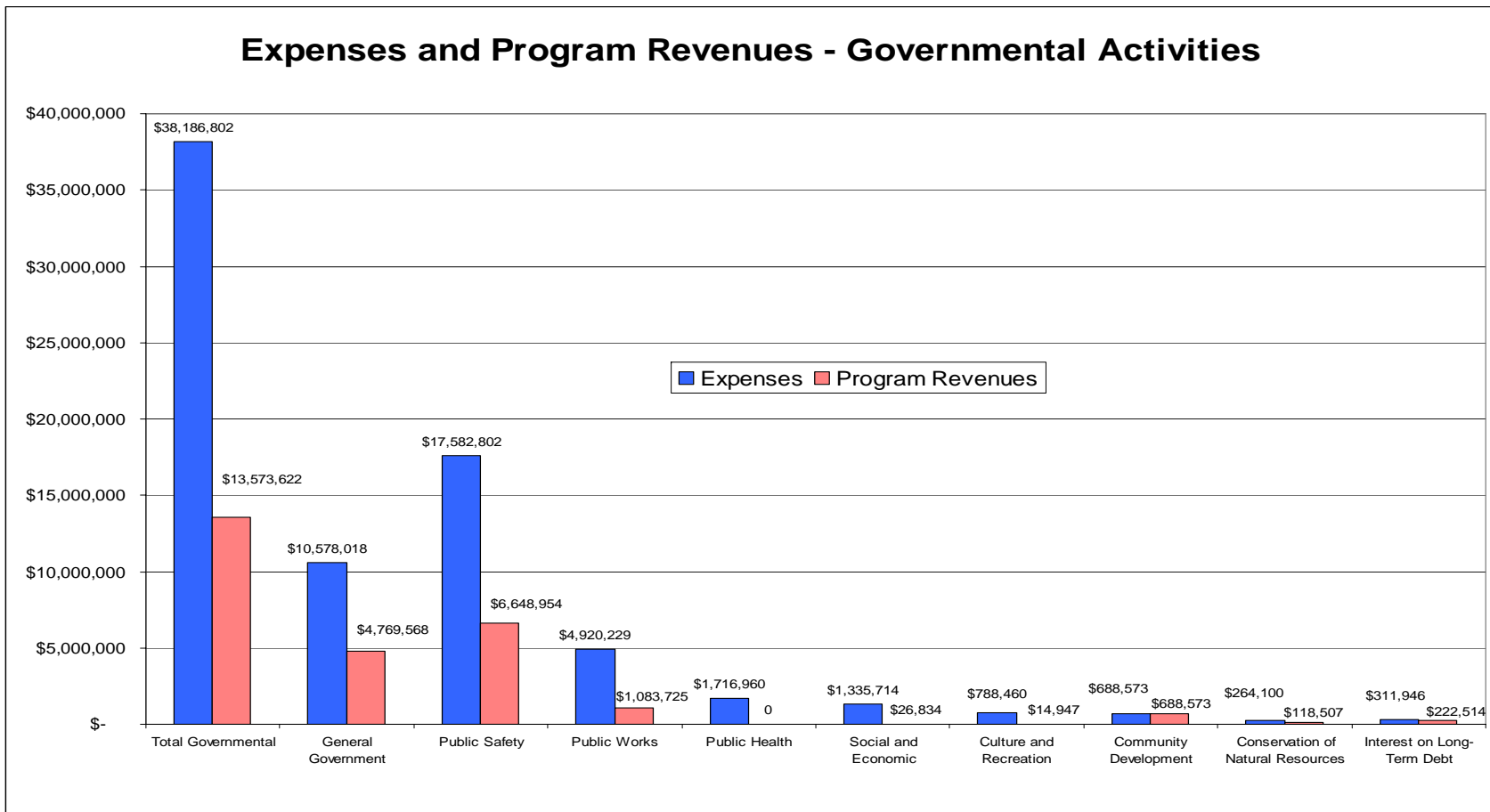
Yellowstone County's Change in Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|-------------------|--------------------------|------------------|-------------------|-------------------|
| | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Special assessments | \$533,098 | \$470,273 | \$338,277 | \$368,228 | \$871,375 | \$838,501 |
| Licenses and permits | 89,804 | 83,327 | 0 | 0 | 89,804 | 83,327 |
| Intergovernmental | 1,548,558 | 2,103,302 | 30,000 | 1,086 | 1,578,558 | 2,104,388 |
| Fines and forfeitures | 660,815 | 781,688 | 0 | 0 | 660,815 | 781,688 |
| Charges for services | 7,434,801 | 8,354,645 | 4,493,547 | 3,843,712 | 11,928,348 | 12,198,357 |
| Operating grants and contributions | 1,073,002 | 1,046,949 | 0 | 0 | 1,073,002 | 1,046,949 |
| Capital grants and contributions | 1,265,692 | 733,438 | 0 | 0 | 1,265,692 | 733,438 |
| Total program revenues | 12,605,770 | 13,573,622 | 4,861,824 | 4,213,026 | 17,467,594 | 17,786,648 |
| General revenues: | | | | | | |
| Property taxes | 19,823,871 | 19,373,352 | 783,416 | 895,059 | 20,607,287 | 20,268,411 |
| Licenses and permits | 9,685 | 3,399,278 | 0 | 0 | 9,685 | 3,399,278 |
| Intergovernmental | 2,456,924 | 2,426,492 | 37,693 | 0 | 2,494,617 | 2,426,492 |
| Other revenues | 939,152 | 505,292 | 16,229 | 9,668 | 955,381 | 514,960 |
| Total general revenues | 23,229,631 | 25,704,414 | 837,338 | 904,727 | 24,066,970 | 26,609,141 |
| Total revenues | 35,835,401 | 39,278,036 | 5,699,162 | 5,117,753 | 41,534,564 | 44,395,789 |
| Expenses: | | | | | | |
| General government | 7,670,379 | 10,578,018 | 0 | 0 | 7,670,379 | 10,578,018 |
| Public Safety | 17,798,990 | 17,582,802 | 0 | 0 | 17,798,990 | 17,582,802 |
| Public Works | 5,406,129 | 4,920,229 | 0 | 0 | 5,406,129 | 4,920,229 |
| Public Health | 688,043 | 1,716,960 | 0 | 0 | 688,043 | 1,716,960 |
| Social and Economic | 1,382,883 | 1,335,714 | 0 | 0 | 1,382,883 | 1,335,714 |
| Culture and Recreation | 1,176,837 | 788,460 | 0 | 0 | 1,176,837 | 788,460 |
| Community Development | 125,896 | 688,573 | 0 | 0 | 125,896 | 688,573 |
| Conservation of Natural Resources | 211,954 | 264,100 | 0 | 0 | 211,954 | 264,100 |
| Interest on Long-Term Debt | 348,952 | 311,946 | 0 | 0 | 348,952 | 311,946 |
| Sanitation, refuse disposal | 0 | 0 | 322,946 | 341,273 | 322,946 | 341,273 |
| Civic center, METRA | 0 | 0 | 6,047,879 | 5,590,955 | 6,047,879 | 5,590,955 |
| Total expenses | 34,810,063 | 38,186,802 | 6,370,825 | 5,932,228 | 41,180,888 | 44,119,030 |
| Increase (decr.) in net assets before transfers | 1,025,338 | 1,091,234 | (671,663) | (814,475) | 353,676 | 276,759 |
| Transfers | (413,360) | (26,922) | 413,360 | 26,922 | 0 | 0 |

Yellowstone County's Change in Net Assets, continued

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| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| Increase (decrease) in net assets | 611,979 | 1,064,312 | (258,303) | (787,553) | 353,676 | 276,759 |
| Beginning net assets | 33,564,255 | 33,974,588 | 15,106,938 | 14,848,635 | 48,671,193 | 48,823,223 |
| Prior period adjustment | (201,646) | 0 | 0 | 0 | (201,646) | 0 |
| Ending net assets | <u>\$33,974,588</u> | <u>\$35,038,900</u> | <u>\$14,848,635</u> | <u>\$14,061,082</u> | <u>\$48,823,223</u> | <u>\$49,099,982</u> |

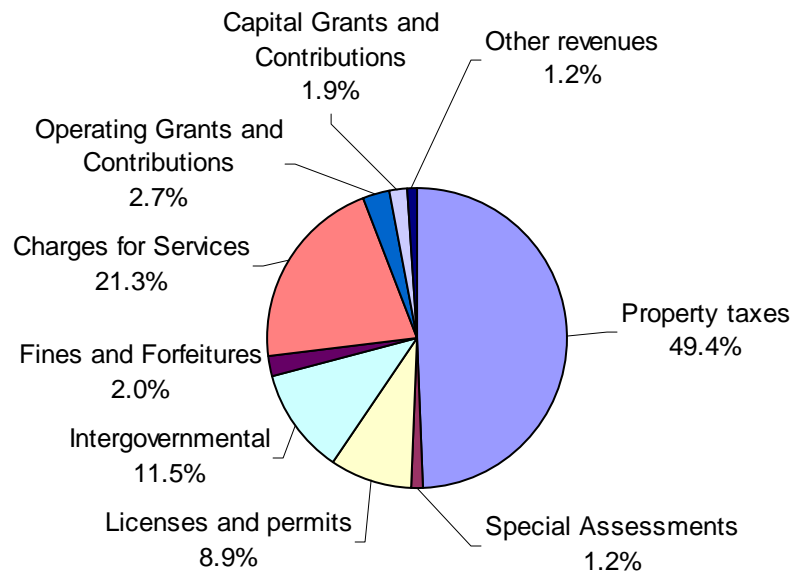


A large portion of the increase in net assets for the governmental activities is a result of collecting revenues that are applied to principal payments on the County's general obligation bond. The principal portion of the long term debt for fiscal year 2004 was

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\$715,703. Since the overall increase in net assets in the governmental funds was \$1,064,311, the remaining overall impact for the governmental funds in fiscal year 2004 was \$348,608.

Total Revenues by Source - Governmental Activities

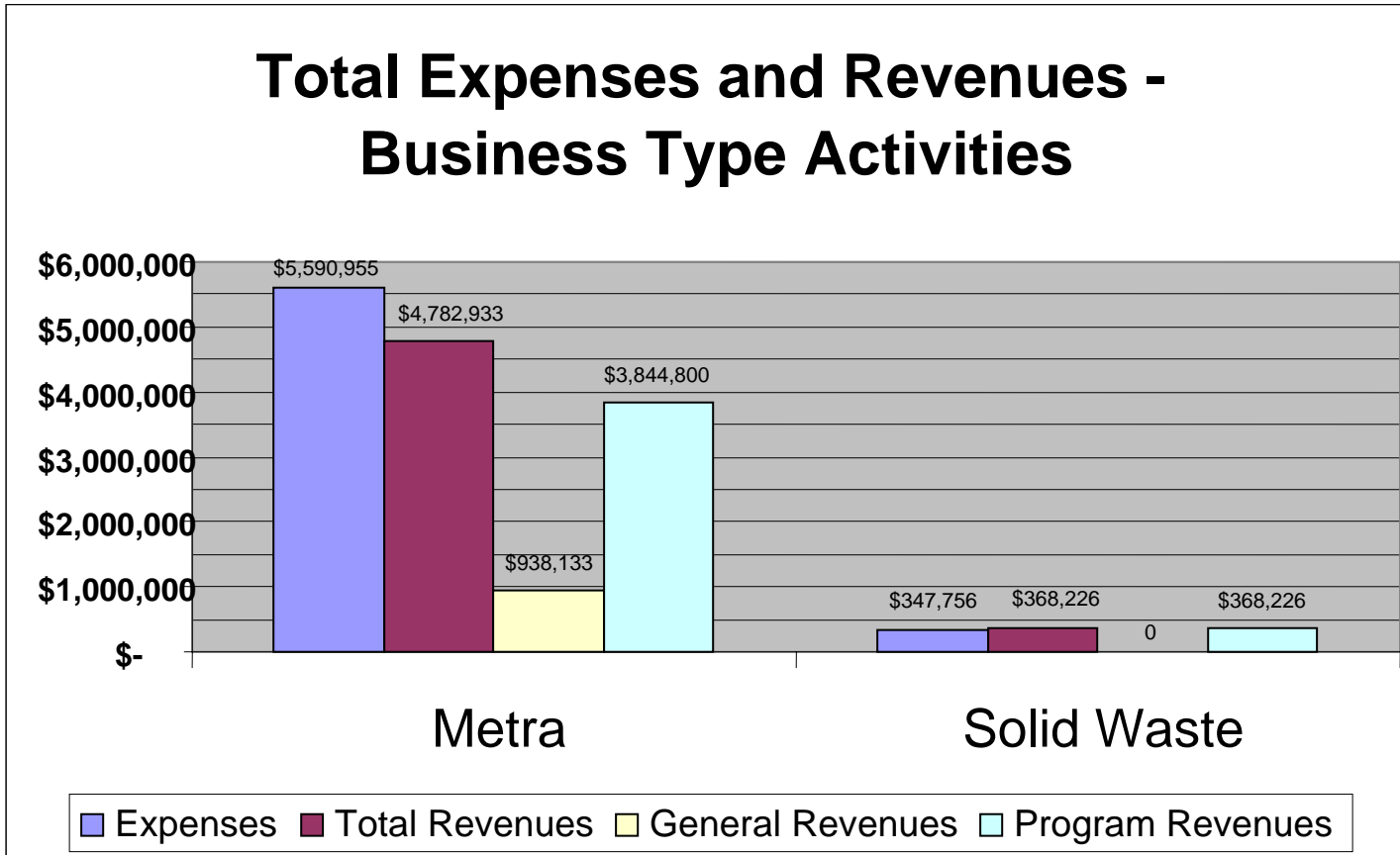


See the Statement of Activities for additional detail information regarding revenues and expenditures.

Business-type activities.

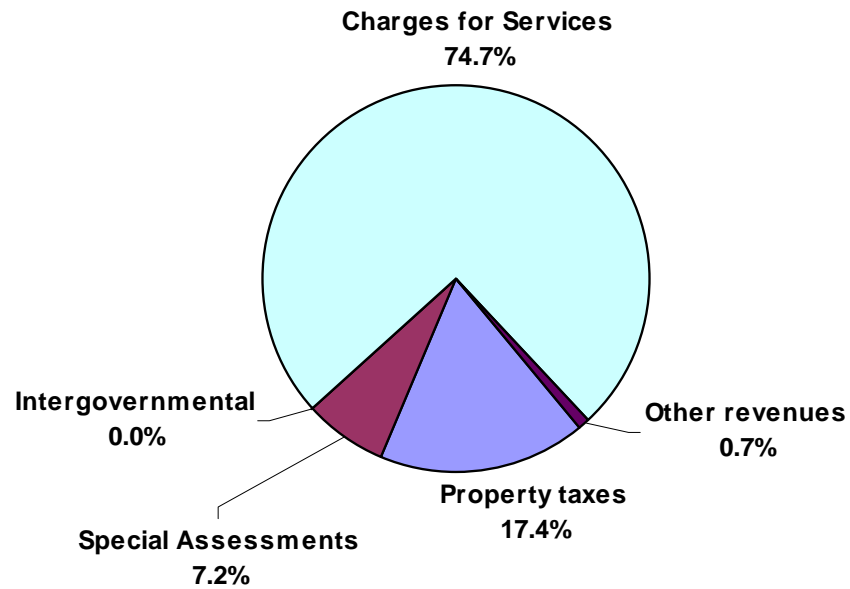
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Total expenses (\$5,932,228) exceeded total revenues (\$5,144,676) by (\$787,552). METRA had a net loss for the year of (\$808,022). Depreciation expense accounted for \$800,123 of the net loss, however, revenues of \$274,519 intended for funding capital depreciation expense is included as a revenue source. If the capital component of METRA was reported separately, it would have a net loss of (\$572,287) and operations would have had a net loss of (\$235,735). Changes in funding and operations have been included in the FY05 budget in order to attempt to balance METRA's budget.



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Total Revenues by Source - Business Type Activities



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General Fund

The general fund sustained a reduction to fund balance of (\$261,141) during fiscal year 2004. This reduction was caused funding of capital projects, such as, an office remodeling project in FY04 and replacement of the County's financial system in FY05. Replacement of the County's financial system is anticipated to cost between \$300,000 to \$350,000.

Governmental funds.

Overall, Yellowstone County's governmental funds' change in fund balance for FY04 was an increase of \$1,341,560 resulting in an ending total governmental fund balance of \$20,341,202.

The capital improvement fund increased its fund balance \$1,199,713 in 2004 as money was set aside for replacement of the County's financial system, funds for capital acquisition in the sheriff's department for possible detention center project expansion and/or communication system changes, and the motor grader replacement cycle.

The property and liability insurance fund incurred a reduction in fund balance of (\$229,783) as a result of legal defense costs with an employment claim, increases to reinsurance coverages, and settlement costs in certain general liability claims. The cost of current reinsurance policy has increased substantially and alternatives are being explored. Overall funding losses in this fund are anticipated in the near term pending some relief in tort reform and employment law, however, it is anticipated that the reserves in this fund should be able to adequately fund the County's property and liability insurance needs for the immediate future.

The youth services fund had a (\$78,754) or 20.3% reduction to fund balance in FY04. The director of the facility has requested and received additional funding FY05 from Yellowstone County as a review of the facility's users indicated that a larger share of operations needed to be borne by Yellowstone County. Additional funding from the County was budgeted in FY05 including an allocation of \$50,000 in motor vehicle option tax previously funding sheriff's operations, but redirected in FY05 for the secure detention of juveniles. The general fund also increased its allocation for juvenile detention an additional \$50,000.

The air quality control fund was transferred to the City/County Health Department as of July 1, 2004. Accordingly, all the cash reserves of this fund (\$51,946) was disbursed to City/County Health for future administration.

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

Proprietary funds.

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The refuse disposal fund has an increase in net assets of \$20,470 for FY04. This fund has accumulated total net asset of \$1,043,756 on June 30, 2004, 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 reserves will be reduced in order to reduce the net assets of this fund. The current assessment rate is set below the expected costs of operations and a reduction to reserves is expected to begin to occur starting in FY05.

The METRA fund had a reduction to net assets of (\$808,022). There is a need for a new dynamic in METRA's operations as losses of this magnitude will not be sustainable. Shortfalls in both capital replacement and operations has been occurring for the last several years. The County continues to review and evaluate METRA's operations for solutions to its fiscal problems. See financial highlights section above for additional discussion related to METRA.

Health insurance costs continue to escalate at high rates of inflation causing an undue amount of stress to employers and employees. The health insurance fund lost (\$461,096) in FY04. This loss was primarily a result of an underestimated inflation factor of 7.4% provided by our plan administrator and a higher than average rate of large claims. The loss reduced net assets from \$804,886 to \$343,790 as of June 30, 2004. This level of net assets exposes to plan to a potential negative reserve level if losses exceed the plan's expected claims as projected by our plan administrator. Any shortfall would likely be funded by cost sharing among the plan's various participating entities. 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.

General Fund Budgetary Highlights

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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 2004 budget were:

- \$1,248,684 in various emergency preparedness and mitigation grants
- \$478,384 in Community Development Block Grants for the Cattle Development Center in Custer
- \$204,926 of remaining grant authority on the Community Development Block Grant for Lockwood Housing
- \$527,575 of State funding for juvenile intervention and justice programs
- \$291,214 in various weed control grants
- \$122,538 in various COPS grants and Local Law Enforcement Block Grants
- \$94,176 in various traffic safety grants

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

- (\$1,627,103) of unearned grant revenue, which is offset by a similar amount of unexpended grant appropriations
- \$340,706 of additional clerk & recorder fees driven by a higher than normal amount of mortgage refinancings and new construction due to low interest rates and community development.
- \$461,677 of additional prisoner boarding fees at the adult detention facility due to the number of prisoners housed for non-county prisoners and the associated daily rate.
- \$276,843 in license fees from the motor vehicle option tax, which is dedicated to public safety uses

The appropriation final budget to actual variances of significance include:

- \$4,467,000 in unspent contingency and capital reserve budgets
- \$280,000 of unspent road materials budget due to cost savings from using asphalt millings from State road projects
- \$504,000 in unspent bridge projects, which are carried forward to next budget cycle

Capital Assets

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

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Yellowstone County Capital Assets
(net of accumulated depreciation)

| | Governmental Activities | | Business Activities | | Total | |
|-----------------------------------|--------------------------------|----------------------|----------------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| Land | \$ 1,132,792 | \$ 1,132,792 | \$ 368,574 | \$ 368,574 | \$ 1,501,366 | \$ 1,501,366 |
| Buildings | 12,967,042 | 12,576,021 | 12,462,661 | 12,040,950 | 25,429,703 | 24,616,971 |
| Improvements other than buildings | 274,067 | 449,953 | 905,286 | 776,043 | 1,179,353 | 1,225,996 |
| Equipment and vehicles | 5,514,124 | 5,481,748 | 193,396 | 253,742 | 5,707,520 | 5,735,490 |
| Infrastructure | 1,423,492 | 1,349,355 | 0 | 0 | 1,423,492 | 1,349,355 |
| Construction in progress | 17,455 | 78,240 | 0 | 16,514 | 17,455 | 94,754 |
| Total Capital Assets | \$21,328,972 | \$ 21,068,109 | \$13,929,917 | \$ 13,455,823 | \$ 35,258,889 | \$ 34,523,932 |

Governmental capital assets declined in total during the year as a result of the addition of new capital assets of \$1,572,237 was offset by depreciation and loss on disposal of assets of \$1,825,636.

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

- Parking lot next to the sheriff's building to be used for courthouse parking \$185,000
- Heavy equipment semi-tractors and pup trailers for road department \$576,840
- Dump truck for road department \$43,920

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

- Construction of Metra skybox kitchen \$125,000
- High voltage conduit at Metra racetrack \$22,000
- Rider sweeper/scrubber for Metra \$31,666
- Cab Tractor for Metra \$30,000

For the financial statements issued for June 30, 2004, the infrastructure for the County acquired prior to July 1, 2002 has not been reported. See footnote 7 for additional information on capital assets.

Long-term Debt

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As of June 30, 2004 the County has \$10,233,161 of outstanding long-term debt. Governmental funds account for \$9,470,045 and the enterprise funds account for \$763,116.

The largest component of long-term debt is \$6,480,000 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 \$683,926 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$162,822. The County issued one new RSID bond during the year for \$49,000.

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 \$641,881. No new notes payable were issued during FY04.

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 \$1,952,354.

Economic Factors and Next Year's Budget

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2004

New construction taxable value growth has averaged 5.17% for 2003 and 2004, which has exceeded the area's typical growth trend of 3%. Growth has been in the form of both new residential and commercial construction. The growth has probably been spurred by both low mortgage interest rates and the economic climate, which has been positive. The new construction 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 2005 include:

- 15% increase in health insurance funding. Continued inflationary rates at this level could impact labor relations and employer affordability.
- Our current liability reinsurance carrier has increased our deductible from \$250,000 to \$500,000 and increased our premium 225% over the prior year. This substantial change is reflective of a 36% increase in the reinsurance market, the County's claims experience, and the risk factors of providing coverage in the State of Montana. The County is reviewing alternative liability insurance coverages, however, the availability of affordable reinsurance coverage is questionable.
- 30-40% increase in natural gas rates.
- An additional \$100,000 of County funding was provided to Youth Services Center.

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