

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2005**

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, 2005 and the financial position as of June 30, 2005. 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 (\$325,484). The general fund spent \$45,350 on a classification and compensation study that is an infrequent expenditure. The general fund also transferred \$250,000 to the capital improvement fund for future capital needs. The net change in fiscal year 2005 for the general fund was not a result of a significant recurring operational deficit.
- The property and liability insurance fund incurred a gain of \$116,458 during FY05. The County was able to acquire a reinsurance policy for general liability that was financially similar to previous policies in terms of price and coverage levels through a new carrier. The liability and property insurance fund has a fund balance of \$2,015,172, which is anticipated to be sufficient to provide for defense and settlement costs of known existing claims; however, there is a need for reasonable tort reform and employer liability protections.
- The capital improvement fund had an increase to fund balance of \$380,235. The increase was primarily a result of the late delivery of the new motor graders, which occurred subsequent to 6/30/05. The replacement of the motor graders requires \$428,000 of funds to be expended along with the trade-in of the old motor graders.
- METRA's financial position continued to deteriorate during FY05 as a result of a shortfall in revenues designated for capital replacement, financing, and maintenance funding failing to meet those needs. Revenues for depreciation, capital maintenance costs, and capital financing were only 31.3% of the amount necessary to equal those costs. At the end of FY05, the operating cash was insufficient to cover short-term payables. Funds intended for capital needs (\$250,000) were set aside in the budget in case the operating cash shortfall from FY05 was not replenished in FY06. Metra's operating fund's net cash reserve was (\$103,553) on June 30, 2005. The FY06 budget is forecasted to eliminate the working capital shortage existing on June 30, 2005. The County continues to evaluate funding and spending alternatives to METRA's operations to mitigate their funding issues.

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**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 23-29 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 30-34 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 35-36 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 in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-61 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 \$51,855,114 for the year ended June 30, 2005. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2005 was \$2,755,132. These figures do not include retroactive infrastructure capital assets, which have not been incorporated into the County's reports for fiscal year 2005.

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Of the County's yearend total net assets of \$51,855,114, capital assets net of the related debt accounted for \$33,665,398 or 64.9% 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 (\$792,684 or 1.5%) are those funds legally required to be used for debt service payments. Unrestricted net assets of \$17,397,032 account for 33.6% 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 Capital Assets**  
(net of accumulated depreciation)

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current assets	\$ 25,030,265	\$ 28,210,569	\$ 1,828,497	\$ 1,726,369	\$ 26,858,762	\$ 29,936,938
Noncurrent assets	616,314	1,271,363	(96,583)	0	519,731	1,271,363
Capital assets	21,068,109	21,481,087	13,455,823	12,773,081	34,523,932	34,254,168
<b>Total assets</b>	<b>46,714,688</b>	<b>50,963,019</b>	<b>15,187,737</b>	<b>14,499,450</b>	<b>61,902,425</b>	<b>65,462,469</b>
Current liabilities	3,897,761	4,273,980	504,238	411,695	4,401,999	4,685,675
Noncurrent liabilities	7,778,028	8,397,113	622,416	524,567	8,400,444	8,921,680
<b>Total liabilities</b>	<b>11,675,789</b>	<b>12,671,093</b>	<b>1,126,654</b>	<b>936,262</b>	<b>12,802,443</b>	<b>13,607,355</b>
Net assets:						
Invested in capital assets, net of related debt	20,981,095	21,388,592	12,705,193	12,276,806	33,686,288	33,665,398
Restricted for debt service	541,822	792,684	0	0	541,822	792,684
Unrestricted	13,515,982	16,110,650	1,355,890	1,286,382	14,871,872	17,397,032
<b>Total net assets</b>	<b>\$ 35,038,899</b>	<b>\$ 38,291,926</b>	<b>\$ 14,061,083</b>	<b>\$ 13,563,188</b>	<b>\$ 49,099,982</b>	<b>\$ 51,855,114</b>
<b>Change in net assets</b>		<u><u>\$ 3,253,027</u></u>		<u><u>\$ (497,895)</u></u>		<u><u>\$ 2,755,132</u></u>

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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 \$316,668, which is an increase of \$4,534 from FY04. 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 (METRA buildings and grounds improvements funded with general obligation debt). 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 \$39.1 million in expenses for governmental activities, \$13.4 million (34.3%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (71.8% of the general revenues for governmental activities), or use of reserves. The major sources of program revenues (and change from prior year) include:

- State District Court Reimbursement Program \$1,211,371 / (+\$45,512)
- Gas tax \$286,480 / (+\$648)
- Justice Court fines \$649,117 / (-\$9,078)
- Clerk & Recorder filing fees \$1,062,334 / (-\$228,373)
- Health insurance premiums less County funded premium for employees \$1,923,321 / (+\$82,249)
- Adult detention boarding fees \$2,243,498 (-\$318,179)
- Youth detention and secure shelter boarding and program fees \$1,454,649 / (+\$71,132)

The increase in net assets for governmental activities of \$3,253,027 was primarily a result of:

- \$794,247 increase in net assets of internal service funds
- \$465,076 increase in net assets of road fund, which was impacted by unspent budget for a building project that was carried over to FY06
- \$440,367 increase in net assets in the RSID Construction Fund due to uncompleted construction work
- \$380,235 increase in net assets in the Capital Projects Fund due to the late delivery of road graders
- \$447,979 in growth of capital assets due to grants

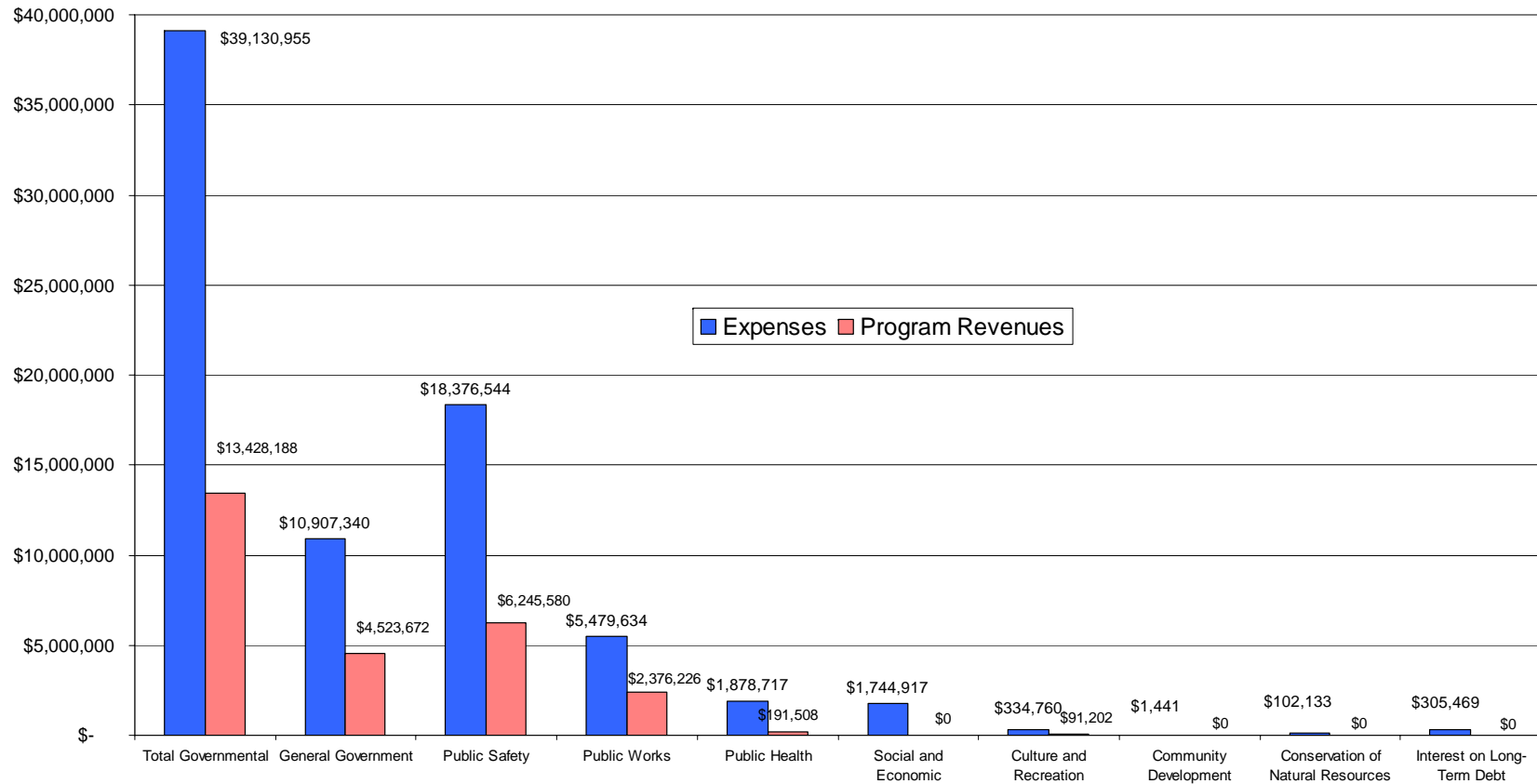
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**Yellowstone County's Change in Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
<b><u>Revenues:</u></b>						
<b><u>Program revenues:</u></b>						
Special assessments	\$ 470,273	\$ 1,402,391	\$ 368,228	\$ 300,927	\$ 838,501	\$ 1,703,318
Licenses and permits	83,327	97,598	0	0	83,327	97,598
Intergovernmental	2,103,302	576,923	1,086	0	2,104,388	576,923
Fines and forfeitures	781,688	686,062	0	0	781,688	686,062
Charges for services	8,354,645	8,109,116	3,843,712	3,791,856	12,198,357	11,900,972
Operating grants and contributions	1,046,949	1,229,062	0	0	1,046,949	1,229,062
Capital grants and contributions	733,438	1,327,036	0	0	733,438	1,327,036
<b>Total program revenues</b>	<b>13,573,622</b>	<b>13,428,188</b>	<b>4,213,026</b>	<b>4,092,783</b>	<b>17,786,648</b>	<b>17,520,971</b>
General revenues:						
Property taxes	19,373,352	20,919,057	895,059	933,731	20,268,411	21,852,788
Licenses and permits	3,399,278	3,542,973	0	0	3,399,278	3,542,973
Intergovernmental	2,426,492	3,660,561	0	24,874	2,426,492	3,685,435
Other revenues	505,292	1,004,988	9,668	13,431	514,960	1,018,419
<b>Total general revenues</b>	<b>25,704,414</b>	<b>29,127,579</b>	<b>904,727</b>	<b>972,036</b>	<b>26,609,141</b>	<b>30,099,615</b>
<b>Total revenues</b>	<b>39,278,036</b>	<b>42,555,767</b>	<b>5,117,753</b>	<b>5,064,819</b>	<b>44,395,789</b>	<b>47,620,586</b>
<b><u>Expenses:</u></b>						
General government	10,578,018	10,907,340	0	0	10,578,018	10,907,340
Public Safety	17,582,802	18,376,544	0	0	17,582,802	18,376,544
Public Works	4,920,229	5,479,634	0	0	4,920,229	5,479,634
Public Health	1,716,960	1,878,717	0	0	1,716,960	1,878,717
Social and Economic	1,335,714	1,744,917	0	0	1,335,714	1,744,917
Culture and Recreation	788,460	334,760	0	0	788,460	334,760
Community Development	688,573	1,441	0	0	688,573	1,441
Conservation of Natural Resources	264,100	102,133	0	0	264,100	102,133
Interest on Long-Term Debt	311,946	305,469	0	0	311,946	305,469
Sanitation, refuse disposal	0	0	341,273	351,469	341,273	351,469
Civic center, METRA	0	0	5,590,955	5,383,030	5,590,955	5,383,030
<b>Total expenses</b>	<b>38,186,802</b>	<b>39,130,955</b>	<b>5,932,228</b>	<b>5,734,499</b>	<b>44,119,030</b>	<b>44,865,454</b>
<b>Increase (decr.) in net assets before transfers</b>	<b>1,091,234</b>	<b>3,424,812</b>	<b>(814,475)</b>	<b>(669,680)</b>	<b>276,759</b>	<b>2,755,132</b>
Transfers	(26,923)	(171,785)	26,923	171,785	0	0
<b>Increase (decrease) in net assets</b>	<b>1,064,311</b>	<b>3,253,027</b>	<b>(787,552)</b>	<b>(497,895)</b>	<b>276,759</b>	<b>2,755,132</b>
<b>Beginning net assets</b>	<b>33,974,588</b>	<b>35,038,899</b>	<b>14,848,635</b>	<b>14,061,083</b>	<b>48,823,223</b>	<b>49,099,982</b>
<b>Ending net assets</b>	<b>\$35,038,899</b>	<b>\$38,291,926</b>	<b>14,061,083</b>	<b>13,563,188</b>	<b>\$49,099,982</b>	<b>\$51,855,114</b>

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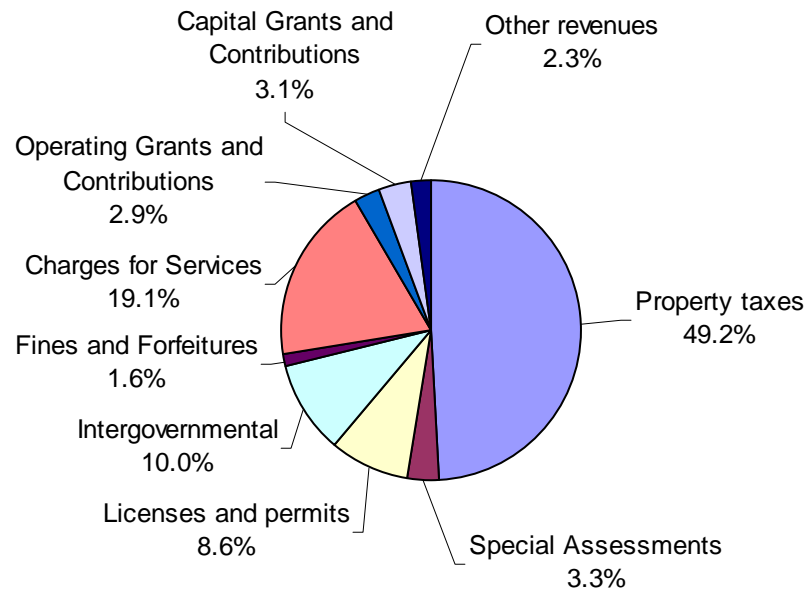
**Expenses and Program Revenues - Governmental Activities**





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## **Total Revenues by Source - Governmental Activities**

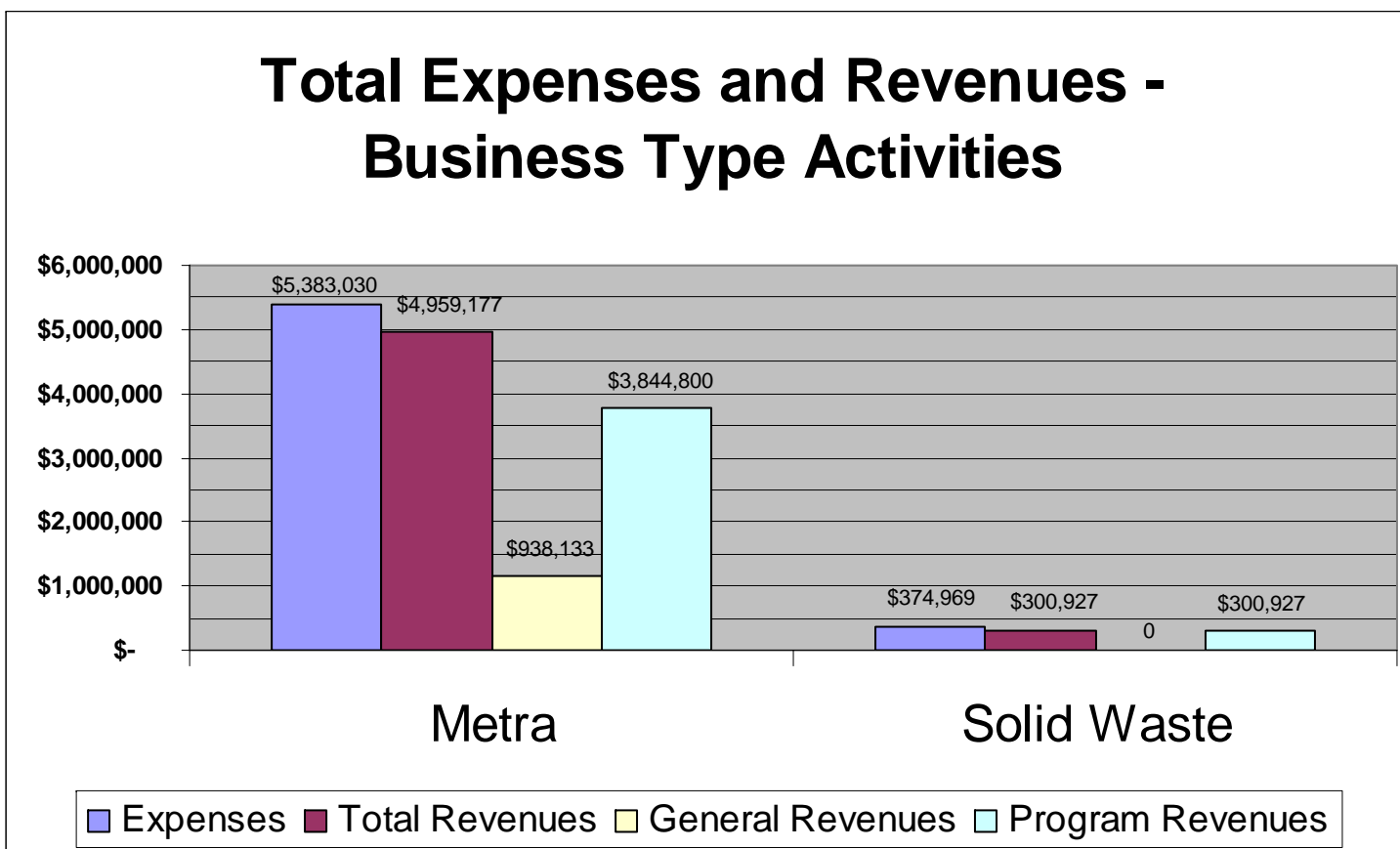


See the Statement of Activities for additional detail information regarding revenues and expenditures.

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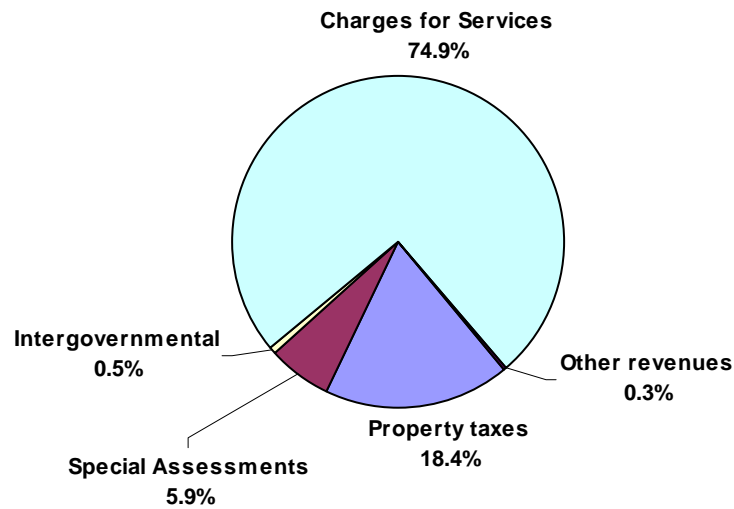
**Business-type activities.**

Total expenses of \$5,734,499 exceeded total revenues of \$5,236,604, which resulted in a net loss of (\$497,895) for business-type activities. METRA had a FY05 net loss of (\$423,853). Depreciation expense accounted for \$800,087 of the net loss, however, revenues of \$293,375 intended for funding capital depreciation expense is included as a revenue source. If the capital replacement and maintenance and financing activities of METRA were reported separately, it would have a net loss of (\$640,628). Operations would have had a net gain of \$216,775, however, \$155,700 of the gain was resulted to a one-time transfer as a result of forgiveness of debt on the skybox advance (County interfund loan).



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



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**Fund Financial Statement Analysis**

**Governmental funds.**

Overall, Yellowstone County's governmental funds' change in fund balance for FY05 was an increase of \$1,815,883 resulting in an ending total governmental fund balance of \$22,157,085.

The general fund sustained a reduction to fund balance of (\$325,484) during fiscal year 2005. Most of the reduction to fund balance was a result of transferring \$250,000 to the capital improvement fund, which is set aside for future building projects and technology. Another one-time impact to the general fund's FY05 budget was an expenditure of \$45,000 for a new employee compensation and classification system.

The road fund increased its fund balance by \$465,076 due a delay in construction of a new equipment storage building at the County shops and savings in road materials from using State road millings. The FY05 winter season was also mild.

The property and liability insurance fund incurred a increase in fund balance of \$116,458 as a result of reduced settlement costs. Although the County was able to obtain reinsurance coverages at similar premiums to recent years, there is still concern about future funding losses in this fund without some improvement in tort reform and employment law. 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 RSID bond fund increased fund balance by \$198,325 because of \$1,148,000 of new RSID bonds issued in FY05. New issues typically have higher payoffs of assessments from property owners desiring not to time pay. These revenues will be used to call bonds at the beginning of FY06. Unspent construction funds from one of the RSID also increased fund balance in the RSID construction fund by \$440,367.

The capital improvement fund increased its fund balance \$380,235. A planned expenditure of \$428,580 for the cyclical replacement of the County's motor graders did not occur in FY05 due to the delayed delivered of the machines, which occurred after the end of the fiscal year.

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 decrease in net assets of (\$74,042) for FY05. This fund has total net asset of \$969,714 on June 30, 2005, 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 began occurring in FY05.

In FY05, the METRA fund had an overall reduction to net assets of (\$423,853). The operations component of METRA improved \$62,193 during FY05, while the capital replacement component of METRA had a net asset reduction of (\$486,046). The reduction to net assets in the capital component would have been larger, however, the County forgave \$155,700 of METRA debt on an interdepartmental loan. The capital replacement component of METRA includes capital replacement and depreciation, capital maintenance expenses, and capital financing. Most of the loss in the capital replacement fund is a result of annual depreciation, which was \$800,087. It should be noted that the FY05 loss was less than the FY04 loss of (\$808,022). The recurring revenues dedicated for capital replacement generated only 31.3% of the related expenses incurred for FY05. Management is focusing attention on improving and reviewing the operations at the facility. An expert consultant has also been contracted with to provide the County with a concise report regarding recommendations for METRA management structure and a comparison of METRA operations with best industry practices. See financial highlights section above for additional discussion related to METRA.

The health insurance fund had a net asset increase of \$735,006 for FY05 to bring the ending net assets to \$1,078,796. This was a result of better than expected claims for the year, and a planned building of reserves by funding an additional \$200,000 to the plan above the FY05 projected claims level. For FY06 the health plan is again funded to cover costs based on a projected cost level determined by our health plan third party administrator plus \$200,000. The County's FY06 exposure for claims above funding is approximately \$560,000. The aggregate stop-loss would pay claims after that amount. Medical inflation remains a major concern and continues to present challenges to maintain a health plan that provides good benefits at affordable premiums. The County systematically reviews the health plan every year to review premium rates, benefits, and plan administration.

**Governmental 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 2005 budget were:

- \$2,184,042 in various Homeland Security, emergency preparedness and mitigation grants
- \$228,989 in various weed control grants
- \$386,764 in various crime control grants, primarily for juvenile programs and gun violence
- \$78,653 in various COPS grants and Local Law Enforcement Block Grants
- \$31,551 in various traffic safety grants

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

- (\$1,133,212) of unearned grant revenue, which is offset by a similar amount of unexpended grant appropriations
- \$52,784 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.
- \$66,230 of interest earnings in the general fund, and \$46,720 of additional interest in the capital projects fund due to increasing interest rates.
- \$155,629 in RSID special assessment collections due to assessment payoffs on new RSID construction projects

The appropriation final budget to actual variances of significance include:

- \$1,295,000 in unspent contingency budgets
- \$3,968,000 in unspent capital reserve budgets
- \$818,000 of unspent road budget due to cost savings from using asphalt millings from State road projects, the mild winter, and a building project budgeted in FY05 that will be done in FY06
- \$666,000 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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	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>
Land	\$ 1,132,792	\$ 1,132,792	\$ 368,574	\$ 368,574	\$ 1,501,366	\$ 1,501,366
Buildings	12,576,021	12,164,352	12,040,950	11,461,234	24,616,971	23,625,586
Improvements other than buildings	449,953	480,638	776,043	668,997	1,225,996	1,149,635
Equipment and vehicles	5,481,748	5,326,845	253,742	274,276	5,735,490	5,601,121
Infrastructure	1,349,355	1,909,632	0	0	1,349,355	1,909,632
Construction in progress	78,240	466,828	16,514	0	94,754	466,828
<b>Total Capital Assets</b>	<b>\$ 21,068,109</b>	<b>\$ 21,481,087</b>	<b>\$ 13,455,823</b>	<b>\$ 12,773,081</b>	<b>\$ 34,523,932</b>	<b>\$ 34,254,168</b>

Governmental capital assets increased \$412,978 in total during the year as a result of the addition of new capital assets of \$2,350,123 while being offset by depreciation and loss on disposal of assets of \$1,937,145.

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

- Siren system upgrade \$209,544 (Construction-in-progress)
- New financial software \$234,534 (Construction-in-progress)
- Heavy equipment for road department \$338,070
- Replacement of sheriff patrol vehicles \$154,570
- Sheriff rescue boat \$28,003
- Jail intercom replacement \$58,167

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

- Bus stop improvements for Metra \$23,780
- Metra arena handrails \$13,844
- Metra ticketing software \$17,122
- Metra stages \$21,789

For the financial statements issued for June 30, 2005, the infrastructure for the County acquired prior to July 1, 2002 has not been reported. See footnote 7 for additional information on capital assets.

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2005**

**Long-term Debt**

As of June 30, 2005 the County has \$10,720,925 of outstanding long-term debt. Governmental funds account for \$10,050,543 and the enterprise funds account for \$670,382.

The largest component of long-term debt is \$5,925,000 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 \$1,649,740 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$237,613. The County issued two new RSID bonds during the year for \$1,148,000.

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 year end were \$563,223. One new note payable was issued during FY05 in the amount of \$35,000.

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 year end 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 \$2,115,187.

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



**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2005**

New construction taxable value growth has averaged 5.24% for 2005 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. Billings' downtown is seeing revitalization. The refineries, which represent major taxpayers, continue to enhance their facilities. 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 2006 include:

- 12.5% increase in health insurance funding. Continued inflationary rates at this level could impact labor relations and employer affordability.
- Implementation of the employee classification and compensation study resulted in approximately a 1.5% overall cost impact to salary and benefit cost to adjust individuals who were being compensated below market value as determined by the study.
- Worker's compensation FY06 cost is projected to cost approximately \$175,000 over FY05 due primarily to changes in claims settlement and medical costs. Pending Montana Supreme Court decisions regarding work comp cases can also have significant negative impact on future rates.
- 30-40% increase in natural gas rates.
- Gasoline and diesel costs will cause budget line shortfalls in the sheriff's and road funds unless prices moderate for the remainder of FY06.
- An additional \$150,000 of County funding was provided to Youth Services Center (YSC). YSC had a strong budget impact as a result of the employee compensation study.

**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