

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2015**

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, 2015 and the financial position as of June 30, 2015. 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 increased fund balance by \$130,570. A \$772,500 increase in real estate taxes were mainly due to further resolution of multi-year tax protests with several centrally assessed taxpayers. This resulted in a \$550,000 transfer to capital improvement funds over last year. FY15 interest collections in the general fund increased from the prior year by \$188,700 as interest rates increased, raising our annual average yield from .51% in FY14 to .74% in FY15.
- The road fund balance decreased by (\$293,464). Collections from protest tax distributions were used to do additional contracted road improvement projects. In FY15 the road fund spent about \$123,000 more on road projects than a typical year.
- The liability insurance fund balance decreased (\$133,557). Reserves were adjusted at the end of the fiscal year to reflect for the number of potential claims against the County.
- Overall, the sheriff's public safety fund balance increased by \$991,006 in FY15. Prisoner boarding fees at the county jail increased \$119,700 over FY14. Prisoner populations from non-County sources increased in FY15 and prisoner billing rates have resulted in the increased revenues. Jail population continues to be an area of concern, and with the recent voter rejection of a proposed levy to staff and maintain a jail expansion, the County is currently reassessing options to address this growing issue. The rebound in the local economy has improved motor vehicle option tax revenues in the sheriff's fund, improving to \$4,334,000 in FY15 from \$4,038,000 for FY14. Cash generated from the additional revenues and savings in the operations budget allowed an additional \$1,250,000 to be transferred to the capital improvement fund, giving the County additional options when dealing with future jail population levels.
- The county attorney's fund continues to see stress due to the department's services to the community increasing across the board, most notably in major felony crime. The FY16 budget continues to increase funding for the county attorney at a

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higher level than revenues in this area alone can sustain. Transfers from the General Fund of approximately \$2 million per year have allowed the reserves in this area to remain somewhat stable.

- Metra had a successful year with its operations and events as its net position increased \$478,603. This was due to materially higher facility use fees and greatly improved concession revenues at events. The FY16 operational budget shows a \$420,437 deficit, however Metra management expresses confidence that actual results will show higher revenues due to likelihood of booking additional events. Reserve levels are adequate.
- The County has seen some significant resolution to protested taxes with the large tax protests. In FY15, protests of about \$18.5 million were resolved, which resulted in almost \$3.7 million being distributed to County funds. Subsequent to the end of the year, another large protest was resolved and distributed in the amount of \$3.75 million. This provided \$550,000 in collections to County funds. As of this writing, total protests continue to exceed \$6.3 million, with additional protests a certainty in the November, 2015 and May, 2016 collection cycles.

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**PROTEST FUND ACTIVITY  
FOR THE PERIOD 6/30/14 - 09/30/15**

	<u>Tax Years Resolved</u>	<u>All Tax Jurisdictions - Protested Tax Total</u>	<u>Portion Refunded to taxpayer</u>	<u>Distributed to Taxing Entities</u>	<u>% Distr to Taxing Entities</u>	<u>County Portion of Distribution</u>
<b>Total Protested Taxes 6/30/14</b>		\$ 28,530,530.04				
Bresnan / Charter	2010-2013	\$ (11,358,300.52)	\$ (2,527,076.68)	\$ (8,831,223.84)	77.75%	\$ 1,634,754
Verizon	2009-2013	\$ (4,298,514.92)	\$ (1,186,894.95)	\$ (3,111,619.97)	72.39%	\$ 664,526
Conoco - Phillips 66	2010-2012	\$ (6,488,490.00)	\$ (3,338,740.74)	\$ (3,149,749.26)	48.54%	\$ 888,404
	2013	\$ (3,295,970.00)	\$ (1,824,115.23)	\$ (1,471,854.77)	44.66%	\$ 448,764
Other Protests Resolved FY15		\$ (9,486.88)				
Additional Protests - FY15		\$ 7,036,176.96				
<b>Total Protested Taxes 6/30/15</b>		<u>\$ 10,115,944.68</u>			<b>FY15</b>	<u>\$ 3,636,448</u>
AT&T	2011-2014	\$ (3,754,489.15)	\$ (1,277,663.76)	\$ (2,476,825.39)	65.97%	\$ 550,031
<b>Total Protested Taxes 9/30/15</b>		<u>\$ 6,361,455.53</u>				

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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 required 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 position presents information on all of Yellowstone County's assets and liabilities, with the difference between the two reported as our net position. Increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 24-26 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 what is called 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.

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**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 financial performance.

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 financial 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's statement 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 27-33 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, with refuse disposal and METRA 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

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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 position 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 34-38 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 39-40 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 41-96 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, except the Employee Group Benefits Plan – Other Postemployment Benefits (OPEB) schedule and the Schedule of Proportionate Share of the Net Pension Liability. These schedules are located in the required supplementary information section.

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**Government-wide Financial Analysis.**

Net position 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 position information. Yellowstone County's net position (assets less liabilities) was \$115,631,967 for the year ended June 30, 2015. The change to net position for governmental and business-type activities for the fiscal year ended June 30, 2015 was \$4,370,470 before the prior period adjustment related to the implementation of GASB 68, Accounting and Financial Reporting for Pensions. The implementation of this new standard resulted in a prior period adjustment of (\$25,964,667), net decrease of (\$21,594,197). The net position increase from FY14 to FY15 was due, in the broadest sense, to overall revenues from all sources exceeding expenditures. However, it should be noted that this increase was at a lower level than witnessed in FY14. The way this increase was reflected in the activity involving our asset and liability accounts throughout our operations follows. Primarily, our cash and investment positions increased from unspent appropriations, while we witnessed a net increase in capital assets of \$1.6 million and a continued pay down of long-term debt. More detail is provided on the comparison on the next page.

Of the County's yearend total net position of \$115,631,697, net investment in capital assets accounted for \$89,407,765 or 77.3% of total net position. 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 position of \$11,374,754 or 9.8% are those funds legally required to be used for a specific purpose. Unrestricted net position of \$14,849,448 accounts for 12.9% of the total net position. Unrestricted net position is primarily used as reserves for cash flow purposes in between property tax collections, which are due in 50% installments on November 30 and May 31 of each year, and as reserves to provide against large unforeseen costs or events.

A comparison of the County's net position follows:

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**Yellowstone County Net Position**

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 61,132,698	\$ 59,134,989	\$ 5,708,590	\$ 4,815,807	\$ 66,841,288	\$ 63,950,796
Noncurrent assets	1,137,294	1,659,471	0	0	1,137,294	1,659,471
Capital assets	52,021,414	50,310,355	38,253,018	38,339,718	90,274,432	88,650,073
Deferred Outflows	1,618,713	0	144,115	0	1,762,828	-
<b>Total assets</b>	<b>115,910,119</b>	<b>111,104,815</b>	<b>44,105,723</b>	<b>43,155,525</b>	<b>160,015,842</b>	<b>154,260,340</b>
Current liabilities	6,311,364	5,954,327	2,711,179	1,908,351	9,022,543	7,862,678
Noncurrent liabilities	23,800,571	8,076,270	2,457,056	1,095,228	26,257,627	9,171,498
Deferred Inflows	8,642,090	0	461,615	0	9,103,705	0
<b>Total liabilities</b>	<b>38,754,025</b>	<b>14,030,597</b>	<b>5,629,850</b>	<b>3,003,579</b>	<b>44,383,875</b>	<b>17,034,176</b>
Net position:						
Net investment in capital assets	51,154,747	49,323,688	38,253,018	38,339,718	89,407,765	87,663,406
Restricted	11,374,754	9,857,707	0	0	11,374,754	9,857,707
Unrestricted	14,626,593	37,892,823	222,855	1,812,228	14,849,448	39,705,051
<b>Total net position</b>	<b>\$ 77,156,094</b>	<b>\$ 97,074,218</b>	<b>\$ 38,475,873</b>	<b>\$ 40,151,946</b>	<b>\$ 115,631,967</b>	<b>\$ 137,226,164</b>
<b>Change in net position</b>	<b>\$ (19,918,124)</b>		<b>\$ (1,676,073)</b>		<b>\$ (21,594,197)</b>	

**Governmental activities.**

The decrease in net position for governmental activities of \$(19,918,124) was primarily a result of GASB 68 which required a prior period adjustment of \$(23,803,977) for pension liability.

- \$699,000 increase in net position as a result of payments on long-term debt
- (\$314,401) decrease in net position from booking OPEB implicit rate subsidy for retiree health insurance
- \$1,711,058 increase in net capital assets
- Distributions of protest tax receivables and unspent appropriations

**Business activities.**

The decrease in net position for business activities of \$1,676,073 was in large part a result of GASB68 which required a prior period adjustment of \$(2,160,690) for pension liability.



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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
<b>Program revenues:</b>						
Special assessments	\$ 905,851	\$ 852,064	\$ 214,216	\$ 565,997	\$ 1,120,067	\$ 1,418,061
Licenses and permits	63,804	49,558	0	0	63,804	49,558
Intergovernmental	1,361,946	866,506	0	0	1,361,946	866,506
Fines and forfeitures	761,279	695,445	0	0	761,279	695,445
Charges for services	10,303,441	10,218,178	4,921,521	4,201,044	15,224,962	14,419,222
Operating grants and contributions	1,044,089	1,137,483	0	0	1,044,089	1,137,483
Capital grants and contributions	164,913	372,062	0	0	164,913	372,062
<b>Total program revenues</b>	<b>14,605,323</b>	<b>14,191,296</b>	<b>5,135,737</b>	<b>4,767,041</b>	<b>19,741,060</b>	<b>18,958,337</b>
<b>General revenues:</b>						
Property taxes	37,321,803	38,467,664	2,667,477	2,676,347	39,989,280	41,144,011
Licenses and permits	4,527,657	4,225,977	0	0	4,527,657	4,225,977
Intergovernmental	3,622,161	3,275,028	134,291	66,408	3,756,452	3,341,436
Other revenues	1,147,635	731,134	222,017	228,133	1,369,652	959,267
<b>Total general revenues</b>	<b>46,619,256</b>	<b>46,699,803</b>	<b>3,023,785</b>	<b>2,970,888</b>	<b>49,643,041</b>	<b>49,670,691</b>
<b>Total revenues</b>	<b>61,224,579</b>	<b>60,891,099</b>	<b>8,159,522</b>	<b>7,737,929</b>	<b>69,384,101</b>	<b>68,629,028</b>
<b>Expenses:</b>						
General government	15,503,344	14,060,917	0	0	15,503,344	14,060,917
Public Safety	25,680,633	25,149,487	0	0	25,680,633	25,149,487
Public Works	8,380,581	7,849,946	0	0	8,380,581	7,849,946
Public Health	3,428,311	3,214,277	0	0	3,428,311	3,214,277
Social and Economic	1,831,444	3,390,554	0	0	1,831,444	3,390,554
Culture and Recreation	1,521,973	1,561,252	0	0	1,521,973	1,561,252
Community Development	530,260	458,829	0	0	530,260	458,829
Conservation of Natural Resources	130,976	113,224	0	0	130,976	113,224
Interest on Long-Term Debt	238,315	203,027	0	0	238,315	203,027
Sanitation, refuse disposal	0	0	188,202	617,095	188,202	617,095
Civic center, METRA	0	0	7,579,592	7,133,099	7,579,592	7,133,099
<b>Total expenses</b>	<b>57,245,837</b>	<b>56,001,513</b>	<b>7,767,794</b>	<b>7,750,194</b>	<b>65,013,631</b>	<b>63,751,707</b>
<b>Increase (decr.) in net position before transfers and extraordinary gain</b>	<b>3,978,742</b>	<b>4,889,586</b>	<b>391,728</b>	<b>(12,265)</b>	<b>4,370,470</b>	<b>4,877,321</b>
Transfers	(92,889)	55,658	92,889	(55,658)	0	0
<b>Increase (decrease) in net position</b>	<b>3,885,853</b>	<b>4,945,244</b>	<b>484,617</b>	<b>(67,923)</b>	<b>4,370,470</b>	<b>4,877,321</b>
Prior Period Adjustment	(23,803,977)	0	(2,160,690)	0	(25,964,667)	0
<b>Beginning net position</b>	<b>97,074,218</b>	<b>92,128,974</b>	<b>40,151,946</b>	<b>40,219,869</b>	<b>137,226,164</b>	<b>132,348,843</b>
<b>Ending net position</b>	<b>\$77,156,094</b>	<b>\$97,074,218</b>	<b>\$38,475,873</b>	<b>\$40,151,946</b>	<b>\$115,631,967</b>	<b>\$137,226,164</b>

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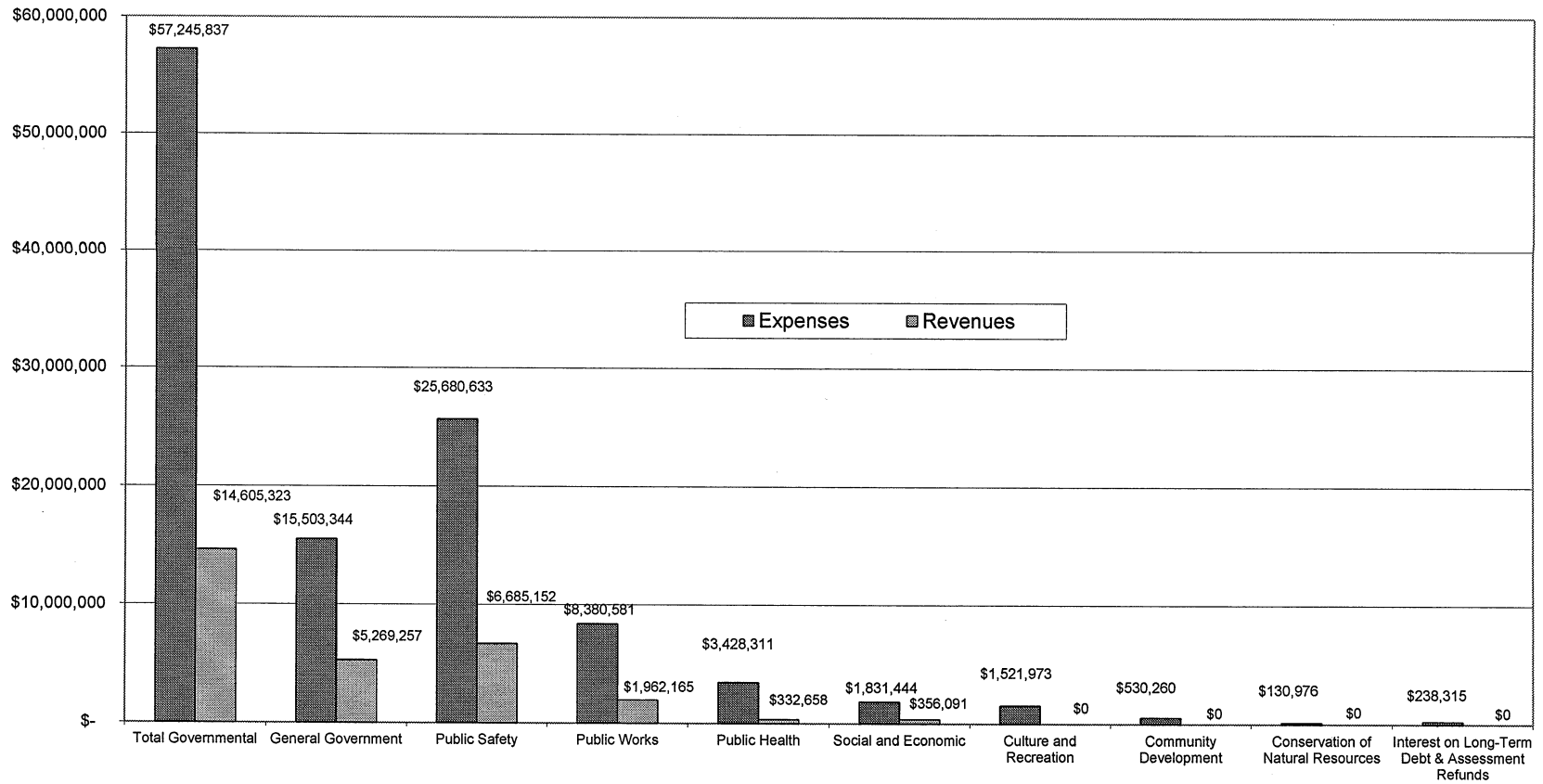
Of the County's \$57.2 million in expenses for governmental activities, \$14.6 million (25.6%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (80.1% of the general revenues), or the use of reserves. The major sources of program revenues (and change from prior year) include:

- Gas tax: \$288,362 / (-\$537)
- Clerk & Recorder filing fees: \$1,012,875 / (+\$58,422)
- Adult detention boarding fees: \$3,342,008 / (+\$119,723)
- Youth detention and secure shelter boarding and program fees: \$1,785,877 / (+\$70,018)
- RSID assessments: \$1,099,418 / (\$70,240)
- Operating grants: \$1,044,089 (-\$93,394)
- Capital grants and contributions: \$164,913 (-\$207,148)

See the Statement of Activities on page #26 for additional detail information regarding revenues and expenditures.

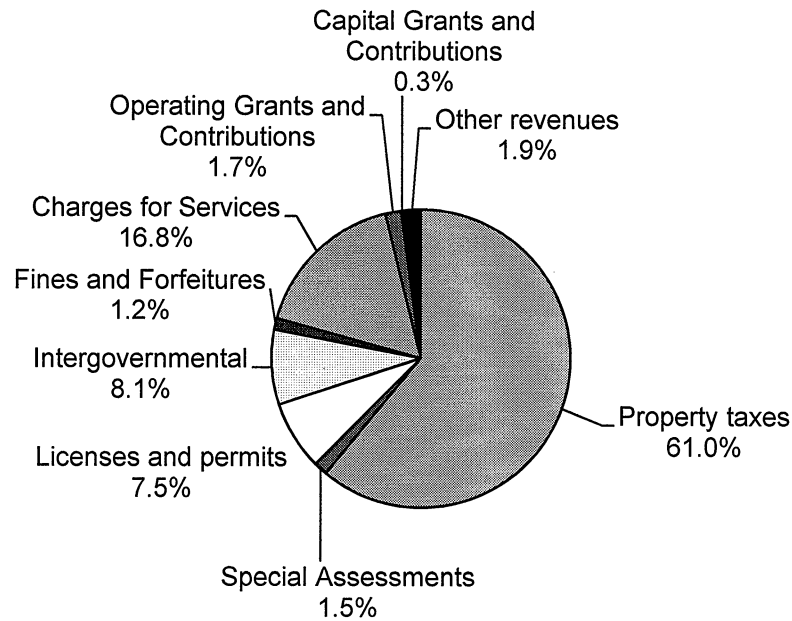
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**Expenses and Program Revenues - Governmental Activities**



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## Total Revenues by Source - Governmental Activities

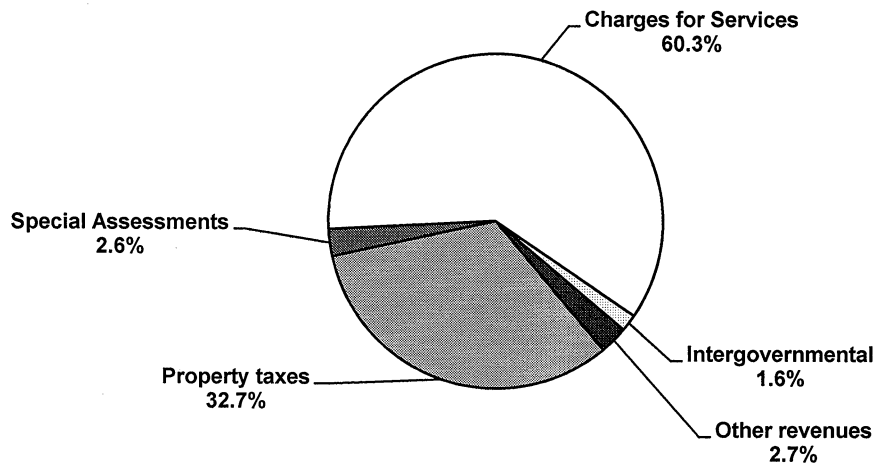


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**Business-type activities.**

Total revenues of \$8,159,522 funded total expenses of \$7,767,794, which resulted in an increase in net position of \$484,617 before a prior period adjustment for Pension Liability for business-type activities. The increase in net position for METRA has two major components: \$412,969 related to operations and \$63,780 related to facility maintenance and capital depreciation.

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



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**Fund Financial Statement Analysis**

**Governmental funds.**

Yellowstone County's governmental funds' change in fund balance for FY15 was an increase of \$4,652,721 resulting in an ending total governmental fund balance of \$45,823,336. As was true in FY14, funds that receive property tax revenues benefitted from the settlement of long-awaited large tax protests and a resultant decrease in current year tax protests.

The general fund increased fund balance by \$130,570 during fiscal year 2015 due primarily to the continued reduction in protested taxes and protest tax settlements (see financial highlights section above).

The road fund decreased its fund balance by (\$293,464) due primarily to most of the FY15 settlements having a reduced impact on revenues vs. FY14, and a slight increase in overall expenditures from FY14.

The public safety fund balance increased \$991,006 due primarily to the reduction in protested taxes, a slight increase in prisoner billings and strong, continued growth in motor vehicle option taxes (see financial highlights section above).

The property and liability insurance fund had a decrease in fund balance of (\$133,557). This is due to the increasing of loss reserves to meet anticipated costs of potential claims analyzed through 6/30/15. Reserves are deemed adequate.

The fund balance in the capital improvement fund increased \$3,818,657. This is due to continued allocation of protest collections diverted for capital needs, but also the fact that many projects slated for FY15 did not get completed. FY16 expenditures will see a significant increase from the prior year, and will likely result in a decline in reserves as of 6/30/16. Increased reserves have been sought by the Board of County Commissioners to provide flexibility in dealing with several deferred capital projects, the largest being that of jail expansion. The jail issue remains a significant need.

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 remained almost unchanged in FY15, ending at \$365,038. The targeted reserve level is \$250,000. The solid waste board contracted with the City of Billings to revise the methodology for charging for commercial waste beginning in FY15. Commercial properties contract with a refuse hauler or pay the City directly for disposal. This allowed the solid waste board to decrease its residential assessment rate from \$35 to \$15 per unit, beginning in FY15.

The health insurance fund had a fund balance decrease of (\$106,701), ending at \$6,552,809 at fiscal year's end. For FY16, the health plan is again funded to cover costs based on a projected cost level determined by our health plan third party administrator. The premium rates for FY16 were increased about 10% over FY15 for most coverages. The County carries specific stop-loss insurance for health claims at \$270,000 per claim. The County reviews the health plan every year to review premium rates, benefits, and plan administration. The County offers an option to participating members, the option to select a high-deductible health savings plan at a reduced premium. The choice was made available to encourage participants to move to consumer driven health care, which studies show substantive savings over traditional plan designs. Health insurance options to retirees over 65 for Medicare advantage or supplement plans is likely to reduce enrollment of retirees in the County's health plan. Options to retirees under 65 in the health insurance exchange may provide viable health insurance alternatives to those individuals as well.

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**Governmental Fund Budgetary Highlights**

Differences between original and final revised budget are primarily 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. New & carry-over grants added \$1.2 million of revenue and expenditure appropriations to the FY15 budget. Some major grants included in the fiscal year 2015 budget were:

- \$450,000 CDBG Lockwood Water and Sewer Grant
- \$315,217 Strategic Crisis Intervention Grant
- \$117,289 Yellowstone County Victim Witness Program
- \$111,983 Yellowstone County Salt Cedar Management Projects (2)

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

- Tax protest settlement distributions netted with FY15 tax protests resulted real estate property tax revenue being more than the original County property tax budgets (see financial highlights section above)..
- \$245,000 over budget in general fund and \$65,000 extra in capital improvement fund interest earnings due to improving interest rate environment
- Motor vehicle option tax revenues in the sheriff's fund was \$334,000 over budget

The appropriation final budget to actual expenditure variances of significance include:

- \$1,000,000 of unspent road budget in multiple cost areas. Savings from fuel costs and various other operational costs, and budgeted equipment not expended or delivered by end of FY15
- \$110,000 in various Sheriff's detention food budget through more favorable pricing in negotiated contract
- \$11.6 million in unspent capital project fund budget, which is typically reserves appropriated in the current year but not necessarily scheduled to be spent in the current year
- Almost \$600,000 in unspent bridge budget, in various line items, of which project related expenditures are carried into FY16 budget
- \$1,692,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$447,000 in unspent budget from the county attorney's office from vacancy savings and delayed capital items
- \$100,000 in unspent RSID Maintenance Fund budgets



**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2015**

**Capital Assets**

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

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Land	\$ 3,526,624	\$ 3,665,796	368,574	368,574	\$ 3,895,198	\$ 4,034,370
Buildings	10,076,614	10,762,706	34,044,507	35,283,638	44,121,121	46,046,344
Improvements other than buildings	1,705,428	1,760,262	1,768,385	1,885,634	3,473,813	3,645,896
Equipment and vehicles	8,096,207	8,199,572	881,845	724,369	8,978,052	8,923,941
Infrastructure	28,344,252	25,865,923	0	0	28,344,252	25,865,923
Construction in progress	272,289	56,097	1,189,707	77,503	1,461,996	133,600
<b>Total Capital Assets</b>	<b>\$ 52,021,414</b>	<b>\$ 50,310,356</b>	<b>\$ 38,253,018</b>	<b>\$ 38,339,718</b>	<b>\$ 90,274,431</b>	<b>\$ 88,650,074</b>

Governmental capital assets increased \$1,711,058 in total during the year as a result of the addition of new capital assets in the governmental funds of \$7,205,184 while being offset by depreciation of \$5,049,313 and a net loss on disposal of assets of \$305,641 and the sale of land of \$139,172.

Some of the larger capital acquisitions / (dispositions) in the governmental activities were:

- \$4.5 million in infrastructure improvements for county roads
- Bridge and culvert replacements \$710,503
- Wheel Loader for Road Department- \$319,490
- HVAC upgrade for County Courthouse \$201,405

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

- Security Cameras- \$74,611
- Telehandler - \$96,750
- Grandstand Improvements- \$118,123

See footnote 7 (pages 60-61) for additional information on capital assets.

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
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**Long-term Debt**

As of June 30, 2015 the County has \$10,305,862 of long-term liabilities. Governmental funds account for \$9,915,751 and the enterprise funds account for \$390,111.

The largest component of long-term debt is \$3,525,000 of limited general obligation (G.O.) bonds issued by the County. In 2011 the County issued a \$3,000,000 limited tax general obligation bond for the purposes of dedicating \$2,000,000 for Metrapark facility improvements and \$1,000,000 for the Bench Connector road and bridge project. The debt service for this bond which has a balance of \$1,900,00 is funded by the general fund. The other limited tax general obligation bond, which has a balance \$1,625,000 was issued to develop the veteran's cemetery and to improve seating at Metra.

The County's bond rating from Standard and Poor's is AA+, and was reaffirmed on our \$3,000,000 2011 L.T.G.O. issue.

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. As of 6/30/15 the County has \$1,313,225 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$327,309. The County issued no new RSID bonds during FY15.

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. The County has no outstanding notes payable and no new notes payable were issued during FY15.

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 \$950,000 for all cases. Fund balance decreased by (\$136,805) in FY15.

Compensated absences is the amount of the liability for unpaid vacation and sick leave at yearend. The liability increased \$79,167 (3.4%) in FY15. The amount of this liability at yearend was \$2,410,998. The amount of the liability normally increases on an annual basis as a result of increasing wages and a general growth in number of total compensable hours.

See footnote #8 (pages 62-66) for additional information on long-term debt.

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
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**Economic Factors and Next Year's Budget**

Overall countywide taxable value, as determined by the Montana Department of Revenue for FY16, grew 14.7%, which was substantially over FY15's growth rate of .55%. This was due to the recently completed statewide reappraisal process. Much of this increase will be offset by reduced mill levies at the county level, as required by Montana law.

The economy of Yellowstone County continues to be driven by oil development and refining, strong agricultural prices, the benefits of being a regional retail hub, transportation industry, and the expansive medical facilities in Billings.

Energy development in the Bakken region and surrounding areas are definitely supporting business and trade activity in the Yellowstone County region, although price declines in the past year has caused some slowing in employment and capital expenditure growth in that industry. Unemployment is low at 3.3% as of June, 2015. Many sectors are challenged by the tight labor market, both in attracting and retaining qualified personnel.

Some of the more significant financial items for fiscal year 2016 include:

- Tax protests are budgeted at 4.1% of FY15 property tax revenues. This is an increase from last year's estimate of 2.0% because, mainly due to continuing protested payments from one of our area's refineries.
- Countywide FY16 taxable valuation grew at 14.7, which was up from FY15's .55%. Overall growth was driven by the completion of the above-mentioned 6 year reappraisal cycle, the last of its kind as of this writing. Future reappraisals will take place every two years, which should flatten year to year fluctuations in values over the long-term. New construction contributed a little over 3% of this year's increase, which is a strong and positive sign for both the economy, and this County's ability to adequately fund increases in demands for services.
- \$50,000 for a general fund transfer to the youth services fund to assist with declining fund reserves and operational funding shortfalls.

**YELLOWSTONE COUNTY, MONTANA  
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- Community growth is impacting public safety issues. The Board of County Commissioners are faced with the results of the recently rejected mill levy request to staff a detention facility expansion. The issue of expansion remains, albeit with more limited options. The facility recently set a new record with 501 inmates, although the average is slightly less than that amount. Reserves have been set aside to cover a material portion of such an expansion, but the County will need to incur debt to properly address the expansion for the long-term benefit of this County's citizens. Decisions as to how to operationally fund operations for this endeavor without significantly eroding more reserves will be a major point of study and concern.
- The County has completed construction of a large, new building at Metrapark to be used for agricultural events. This should grant Metra operations more flexibility and draw with future events and bookings.
- Office space within the courthouse will continue to require attention as the next Legislature looks to add one or two new district court judges to Yellowstone County's current total. By law, we are obligated to provide office space for those positions mandated by the State of Montana, along with any support staff required to carry on those judicial functions.

The budget remains in good overall condition with public safety needs, particularly the detention facility, and future demands for office space as required by legislative action remaining as funding concerns.

#### 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