Yellowstone County

FINANCE
(406) 256-2793
(406) 256-2736 (FAX)

P.O. Box 35003
Billings, MT 59107-5003

November 01, 2002

Board of County Commissioners
Citizens of Yellowstone County
Billings, Montana

The Comprehensive Annual Financial Report of Yellowstone County (the County) for the fiscal year ended June 30, 2002 is submitted herewith. The Finance Department prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. To the best of my knowledge and belief, the data, as presented, is accurate in all material aspects and the report is presented in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds and account groups. All disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

This comprehensive annual financial report meets all required criteria specified by the State, to report the Budgetary, Accounting and Financial Reporting System (BARS), prepared in conformance with the principles and standards for financial reporting as promulgated by the Governmental Accounting Standards Board.

BACKGROUND

Yellowstone County, created by legislative enactment in 1883, is located in the southern central section of Montana and includes the incorporated City of Billings, which is the County seat and most populous city in the state, and also includes the incorporated City of Laurel and Town of Broadview. Local business activity includes agricultural, medical, retail, industrial, petroleum refining, banking, and utility enterprises, which contribute substantially to the County's economy and tax base.

REPORTING ENTITY AND ITS SERVICES

This report includes all of the funds and account groups of the County as required by the Governmental Accounting Standards Board Statement No. 14. Yellowstone County provides a full range of services as mandated by Montana statutes, including general administrative, public works, public safety, public health, social and economic, culture and recreation, and community development.

FINANCIAL STATEMENT PRESENTATION

Designed to meet the needs of a broad spectrum of financial statement readers, this Comprehensive Annual Financial Report is divided into four major sections.

1. Introductory Section: As the title indicates, this section introduces the reader to the report and includes the table of contents, transmittal letter, organization chart, and elected officials.

2. Financial Section: Four combined financial statements, together with the notes to the financial statements, compose the General Purpose Financial Statements (GPFS). The GPFS are the basic financial statements and provide an overview for users who require less detailed information about the finances than is contained in the balance of the report. The remainder of the financial section presents combining statements, individual fund statements and account group schedules, as well as the auditors' report on the financial statements and schedules.

3. Statistical Section: Although this section contains substantial financial information, these tables differ from financial statements in that they present some nonaccounting data and are designed to reflect social and economic data, as well as the fiscal capacity of the County.

4. Single Audit Section: Yellowstone County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to this single audit, including the schedule of expenditures of federal awards, schedule of findings and questioned costs, summary schedule of prior audit findings, and auditors' reports on internal controls and compliance are included in this section.

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other. Each accounting entity is accounted for in a separate "fund." A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

INTERNAL AND BUDGETARY CONTROLS

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding; (1) the safeguarding of assets against loss from unauthorized uses; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes the costs of internal control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the County's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As a recipient of Federal and State financial assistance, the County also is responsible for ensuring adequate internal control is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control is subject to periodic evaluation by management and the internal audit staff of the County.

Budgetary control is maintained through an annual budget adopted by the County Commissioners. The level of budgetary control is established at the fund level. Budgetary authority is flexible in that the Commissioners may make transfers among budget object lines within a fund and make budget amendments with statutory restrictions when considered necessary for proper administration of County government.

RECENT EVENTS

Voters approved 3.30 mills in November 2000 as additional funding for prosecutorial services in the County Attorney's office. The millage provided an additional $660,000 to the County Attorney's budget for FY02. The budget for the County Attorney was separated from the general fund in order to provide proper accounting of the voter approved funding.

The County acquired land for parking and two buildings adjacent to the county courthouse for $1,130,000 in December 2001. One of the buildings is currently being renovated to centralize the sheriff's operations, exclusive of detention. Costs of renovation are estimated at $290,000. The building will provide efficiencies for the sheriff's department and provide additional space within the courthouse from the offices vacated by the sheriff. The other building acquired by the County is being considered for different purposes, but is currently vacant.

The 2001 legislative session resulted in several actions that will have significant impacts and changes to County budgeting and revenue distributions for FY02 and later. Under HB124 (a.k.a. the Big Bill) the State will receive revenue sources such as motor vehicle tax, gambling tax, and some other state shared revenues. The County will receive an entitlement (or reimbursement) as a replacement for those revenues given to the State. The entitlement share is expected to grow at a rate of approximately 2.3%, however, the growth rate is dependent upon the performance of the State economy. The major revenue sources now distributed solely to the State had growth rates in Yellowstone County that exceeded the inflation adjustment of the entitlement. On the positive side, other legislation has transferred cost areas to the State that would likely have exceeded 3% inflation, therefore reducing the necessity of funding those costs. Those cost areas tobe transferred to the State were welfare costs in FY02 under Senate Bill 339, and several costs of the district court were transferred to the State July 1, 2002 under Senate Bill 176. A residual equity transfer of $1,141,243 was made from the Poor Fund to the General Fund on June 30, 2001 due to the transfer of the program to the State. $1 million of the residual equity transfer was transfered to the County's health insurance fund in FY02. The balance of the residual equity transfer was designated as a reserve for continuance of the County's general relief program, which provides additional rent assistance and medical assistance for qualified county residents.

In October 2002, the County did an advance refunding of our 1994 METRA expansion general obligation bond, which is not callable until June 2004. The overall savings on the new debt service is $559,000 over the life of the issue and annual savings of $40,000-$45,000. The reduced debt service requirements will reduce the dedicated mill levy used to fund the debt.

FINANCIAL POSITION OVERVIEW

The County has invested significant dollars over the last several years in renovating, improving, and maintaining capital assets. Reserves that have been acquired over that time have been used to address some building and equipment needs in order to utilize our facilities effectively over the next 5-10 years. Recurring revenue streams are mostly balanced with our recurring expenditures. Additional demands for funding above current levels will be difficult to accommodate with other existing budgeting pressures. Fiscal year 2002 was a financially sound year that resulted in stable service delivery and operations.

GOVERNMENTAL FUND TYPE FUNCTIONS

Revenues

Revenues for the governmental fund types, which include the General, Special Revenue, Debt Service, and Capital Projects funds totaled $34,468,238 for FY02. This represents a decrease of $1,135,443 or 3.2% when compared to FY01's total of $35,603,681. The amount of revenues from various sources and their increase or decrease over last year are shown in the following tabulation:

Revenue Source	Fiscal Year 2002 (FY02) Amount	Percent of Total	Increase / (Decrease) from Fiscal Year 2001	Percent Increase / (Decrease)
Taxes	$15,543,872	45.1%	$ 1,177,841	8.2%
Special assessments	632,072	1.8	35,830	6.0
Licenses and permits	2,942,234	8.5	(2,061,644)	(41.2)
Intergovernmental	7,755,981	22.5	(234,348)	(2.9)
Fines and forfeitures	698,982	2.0	36,273	5.5
Charges for services	5,638,583	16.4	908,913	19.2
Other, principally interest	1,256,514	3.7	(998,308)	(44.3)
Total	$34,468,238	100.0%	$ (1,135,443)	(3.2)%

Revenues, continued

Tax revenue increased as a result of the voter approved mill levy for county attorney prosecution and new construction valuation.

Licenses and permit revenue decreased substantially due to the change in motor vehicle license revenue being assumed by the State.

Intergovernmental revenue didn't change significantly because the State assumption of welfare was offset by motor vehicle license fees.

Charges for services increased $280,000 over FY01 from filing fees on mortgage refinancing documents because of the sharp decline in interest rates. The adult detention facility billed about $450,000 more in FY02 than FY01 for housing noncounty prisoners.

Interest revenues decreased significantly due to the dramatic decline in bond yields. Interest rates continue to remain at levels that are far below comparative rates in recent history. Interest rates have dropped to levels not seen in 30-40 years.

Expenditures

Expenditures for general governmental purposes amounted to $35,173,983 for FY02. This was an increase of $78,730 or 0.2% from the prior year's total of $35,095,253. The expenditure levels for the major functions of County government and their increase or decrease over the prior year are shown in the following tabulation:

Function	Fiscal Year 2002 (FY02) Amount	Percent of Total	Increase / (Decrease) from Fiscal Year 2001	Percent Increase (Decrease)
General government	$ 8,162,656	23.2%	$ (759,836)	(8.5)%
Public safety	14,280,356	40.6	2,280,600	19.0
Public works	4,297,603	12.2	480,063	12.6
Public health	814,831	2.3	96,973	13.5
Social and economic services	829,339	2.4	(2,281,836)	(73.3)
Culture and recreation	702,235	2.0	10,510	1.5
Other	333,204	1.0	19,458	6.2
Capital outlay	4,610,582	13.1	624,856	15.7
Debt service	1,143,177	3.2	(392,058)	(25.5)
Total	$35,173,983	100.0%	$ 78,730	0.2%

General government expenditures and public safety expenditures were impacted by the reporting of $1.65 million in county attorney costs moving from gnereal government to public safety. Because the operations of the county attorney fund are used for prosecutorial services and the mill vote was identified as a public safety use, its operations are now reported as a public safety function.

Public works expenditures increased primarily due to additional spending in the road and bridge funds.

Public health's FY02 expenditures rose above FY01 levels due to additional funding for the county's medical general relief program.

Social services costs declined dramatically with the FY02 State assumption of the county's poor fund (welfare) operations. Costs related to this program ($2.3 million) were deducted from the county's entitlement reimbursement from the State.

Capital outlay was higher in FY02 as a result of real estate purchases; heavy equipment purchases; bridge projects; the sheriff's mobile data project, which is a federally funded grant to locate interactive PCs in patrol cars; building renovation projects, and other equipment acquisitions.

Debt service requirements have declined due to bond prepayments, lower variable interest rates, and a refinancing on the METRA general obligation debt.

Fund Balance

Changes in unreserved fund balances of the governmental fund types are summarized below:

Fund Types	Unreserved Fund Balance 6-30-01	Increase (Decrease)	Unreserved Fund Balance 6-30-02
General	$ 4,408,044	$ (669,426)	$ 3,738,618
Special revenue	12,000,442	460,544	12,460,986
Debt service	0	0	0
Capital projects	0	0	0
Total	$ 16,408,486	$ (208,882)	$16,199,604

The decrease in unreserved general fund balance was a result of utilizing reserves for capital projects and funding other one-time costs. It is not reflective of recurring deficit spending.

See footnote 9 for the amounts of unreserved fund balance that is designated to balance the fiscal year 2003 budget.

ENTERPRISE OPERATIONS

The County maintains two active enterprise funds, Refuse Disposal and METRA, established to finance and account for the acquisition, operations, and maintenance of County facilities and services which are intended to be entirely or predominately self-supporting from user charges.

METRA showed some improvement in operations in FY02 as a result of hosting the 2002 American Bowling Congress national tournament. This was the largest event in terms of participants in the history of the State. The event impacted METRA operations on both the revenue and expense side of the ledger. The net result of the event was positive for both METRA and the community. Many of the costs of administering the tournament were absorbed by local nonprofit entities and the Big Sky Economic Development Authority.

One of METRA's main funding concerns is capital replacement. This large facility with its multitude of buildings and grounds needs a significant capital replacement plan, which currently does not exist to a level sufficient to maintain itself. Most of the money generated from user fees and tax sources is necessary to operate the facility and offer community events. A new revenue source is needed for this facility for capital replacement and event promotion.

INTERNAL SERVICE OPERATIONS

The general fund transferred $1 million to the health insurance fund in FY02. This money was available from reserves in the poor fund as a result of State assumption of those operations. Without the $1 million transfer, the health fund incurred a net loss of $485,678. The retained earnings of the health fund increased to $959,531 from $445,209 in FY01. Through the utilization of the permissive health insurance levy and higher contribution rates for FY03, funding for the health plan should be close to expected plan costs. The plan is funding to expected costs for FY03, however, the health plan still is exposed for approximately $500,000 before stop-loss insurance would go into effect.

The Motor Pool and Telephone Funds were established to provide a mechanism for user charges, and also to build reserves to allow for continuing replacement and improvement of assets as they deteriorate. Usage and charges for the fiscal year were in-line with projections. A transfer of$80,000 was made from the general fund in FY02 to allow for expansion of switching and system equipment that is necessary as a result of expanding digital needs.

TRUST and AGENCY

Agency funds are established to account for assets held by the County as an agent for individuals, private organizations, other governmental units, and/or other funds. The largest amounts represent funds of other incorporated taxing districts such as school, cemetery, irrigation, rural fire, water and sewer, Big Sky Economic Development Authority, and the State of Montana.

The external investment trust fund reports the amount of funds being invested on behalf of other entities or individuals by Yellowstone County.

GENERAL FIXED ASSETS

General fixed assets of the County are those fixed assets used in the performance of general governmental functions and exclude infrastructure and the fixed assets of proprietary funds. As of June 30, 2002, the general fixed assets of the County amounted to $38,452,048. This amount represents the original or estimated historical cost of the assets. Depreciation of general fixed assets is not recognized in the County's accounting system, and therefore actual market value may vary significantly from book value.

DEBT

At June 30, 2002, Yellowstone County has a number of debt issues outstanding. These issues included $7,510,000 of general obligation bonds; $990,108 of rural special improvement district bonds for which the County has limited secondary responsibility; notes payable to the State's Intercap loan program of $516,343; $37,500 owed on a noninterest bearing note for METRAPARK; and $66,715 owed on a note financing new election ballot counters. During FY02, the County did an advanced refunding on the 1994 METRA Expansion General Obligation debt saving $559,434 in future debt service costs that will be reflected in a reduced property tax for that debt (see footnote 7).

CASH MANAGEMENT

The County currently has an investment program agreement with the local schools, irrigation, cemetery, rural fire and other special districts to invest their funds as part of an investment pool. The County invests the funds at a fee of 1% of the interest proceeds received for the month. Currently the County invests in repurchase agreements; U.S. government securities; agencies of the U.S. government; and the State of Montana's Short Term Investment Pool (STIP). The rate of return for the investment pool is net of bank service fees incurred for the operational costs of the participating pool members. Investments are limited to a 5 year maturity. A comparison of previous years' investment results are as follows:

	Total Interest Earned	Average Investment Balance	Rate of Return
F.Y. 93-94	$2,672,192	$49,099,379	5.44%
F.Y. 94-95	3,322,976	53,345,580	6.23%
F.Y. 95-96	3,215,119	52,333,343	6.13%
F.Y. 96-97	3,229,540	52,136,907	6.19%
F.Y. 97-98	3,277,678	58,027,544	5.65%
F.Y. 98-99	3,254,907	60,896,852	5.34%
F.Y. 99-00	3,744,825	65,516,970	5.70%
F.Y. 00-01	3,893,699	65,881,851	5.91%
F.Y. 01-02	2,236,596	66,354,790	3.37%

The rate of return for FY03 is likely to remain low, since rates have not rebounded from historically low levels.

RISK MANAGEMENT

The County uses a self-funded Property and Liability Insurance Fund because the County considers it to be cost effective to self-insure for routine claims and reinsure for catastrophic losses. The County carries commercial liability coverage with a deductible of $100,000 and an aggregate limit of $3,000,000 per year. Coverage of $3 million per year is anticipated to provide a high degree of safety from catastrophic losses. The Property and Liability Insurance Fund has a fund balance of $2,059,682, which is considered to be a sufficient reserve to fund any incurred claims against the County. The County also carries $64.9 million of property damage coverage with a $25,000 deductible on buildings and their contents. Effective July 1 ,2002 terrorism coverage was eliminated under our property insurance policy. The county has only been able to acquire coverage for $1 million for these acts at this time. Effective October 4, 2002, the self insured retention on our liability coverage increased to $200,000.

INDEPENDENT AUDIT

The County Board of Commissioners requires an annual audit of the financial statements of the County by independent certified public accountants. The accounting firm of KPMG LLP was selected by the Board of County Commissioners.

In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. The auditors' report on the general purpose financial statements and combining and individual fund statements and schedules is included in the Financial Section of this report. The auditors' reports related specifically to the Single Audit Act are included in the Single Audit Section.

CONCLUSION

Results of FY02's operations went mostly according to plan, however, as the State's fiscal problems continue to expand from the decline in income tax revenue, the County should expect the State's problems to become our problems. Balancing the State's next biennium's budget will be no small task. Programs that are needed may be underfunded and become local government problems. In addition, revenue steams coming from the State to local governments will likely be under pressure for balancing the State's deficit. The coming years are likely to present new challenges for the community.

I would like to thank my staff for their efforts in preparing this report and the staffs of all the County offices for providing excellent work during the year. A special thanks is extended to Sherry Fagan and Dexter Sherman with their assistance in the preparation of the financial report and assistance with the audit. I would also like to thank KPMG LLP for their work auditing this report.

Respectfully submitted,

Scott Turner
Finance Director