

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

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, 2007 and the financial position as of June 30, 2007. 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 \$1,274,513. The investment pool yield continued to rise during FY07 as higher yielding securities replaced matured investments at lower rates. This resulted in interest collections exceeding budget by \$477,000. Clerk and recorder document filing fees stayed stronger than expected with this revenue source exceeding budget by \$206,000. Excluding the grant funds, which had no impact on fund balance, general fund expenditures were \$809,000 less than budgeted for the year.
- The property and liability insurance fund incurred a loss of (\$357,630) as a result of reserving additional claim reserves for active unsettled claims. The liability and property insurance fund has a fund balance of \$1,779,818, which is anticipated to be sufficient to provide for defense and settlement costs of known existing claims.
- The capital improvement fund had expenditures for \$732,695 in land acquisition. The land purchases were for property adjacent to the county adult detention and road shop. The land was acquired to allow for future expansion projects at these sites.
- District court fund had a fund balance decrease of (\$421,654) in FY07 as a result of a planned reserve decrease due to transfer of public defender's operations to the State of Montana on July 1, 2006. District court functions have been reduced in past years and current operations reflect primarily the clerk of court's functions for FY07.
- METRA had a change in net assets of \$1,260,511, however, the increase was a result of tax levied roof replacement contribution of \$942,141 and a one-time general fund transfer of \$380,600 to eliminate Metra debt. The elimination of debt improved Metra's unrestricted net asset position, as did the results of operations this year. Metra's unrestricted net assets were \$1,088,917 on June 30, 2007 and \$517,017 on June 30, 2006. Hopefully, improved operations will again allow for improvement in the operations reserve and provide additional funding for capital, although capital needs still are expected to exceed anticipated revenue streams by a significant margin.

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**

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 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 22-24 of this report.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

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 25-31 of this report.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data and reports presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-64 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.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

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 \$71,660,588 for the year ended June 30, 2007. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2007 was \$2,550,449, excluding the retroactive restatement for infrastructure of \$14,013,291.

Of the County's yearend total net assets of \$71,660,588, capital assets net of the related debt accounted for \$48,182,901 or 67.2% 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 (\$752,553 or 1.1%) are those funds legally required to be used for debt service payments. Unrestricted net assets of \$22,725,134 account for 31.7% of the total net assets. The ratios of net assets were impacted by the retroactive infrastructure of \$14,013,291 now being reported. 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 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 assets follows:

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

Yellowstone County Net Assets

	Governmental Activities		Business Activities		Total	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Current assets	\$ 30,150,690	\$ 32,942,950	\$ 2,199,621	\$ 2,433,867	\$ 32,350,311	\$ 35,376,817
Noncurrent assets	1,122,423	1,284,939	0	0	1,122,423	1,284,939
Capital assets	22,360,602	35,698,315	12,189,962	12,484,586	34,550,564	48,182,901
Total assets	53,633,715	69,926,204	14,389,583	14,918,453	68,023,298	84,844,657
Current liabilities	4,291,775	5,559,022	774,294	437,979	5,066,069	5,997,001
Noncurrent liabilities	7,441,695	7,050,234	418,686	136,834	7,860,381	7,187,068
Total liabilities	11,733,470	12,609,256	1,192,980	574,813	12,926,450	13,184,069
Net assets:						
Invested in capital assets, net of						
related debt before retroactive infrastructure	22,114,187	21,685,024	11,795,975	12,484,586	33,910,162	34,169,610
Infrastructure - retroactive	0	14,013,291	0	0	0	14,013,291
Invested in capital assets, net of related debt	22,114,187	35,698,315	11,795,975	12,484,586	33,910,162	48,182,901
Restricted for debt service	640,467	752,553	0	0	640,467	752,553
Unrestricted	19,145,591	20,866,080	1,400,628	1,859,054	20,546,219	22,725,134
Total net assets	\$ 41,900,245	\$ 57,316,948	\$ 13,196,603	\$ 14,343,640	\$ 55,096,848	\$ 71,660,588
Change in net assets		\$ 15,416,703		\$ 1,147,037		\$ 16,563,740
Infrastructure - retroactive reported						
in Invested in capital assets		\$14,013,291		\$0		14,013,291
Change in net assets before retroactive infrastructure		1,403,412		1,147,037		2,550,449
Change in net assets		\$ 15,416,703		\$ 1,147,037		\$ 16,563,740

The increase in net assets for business-type activities was the result of METRA receiving \$380,600 from the general fund to payoff notes payable and other one-time revenues of \$942,141 from levy revenues to repair Metra's roof. Metra's net asset change without those two one-time items would have been a decrease of \$62,230. The unrestricted portion of net assets for business-type activities related to METRA is \$1,088,917, which is an increase of \$571,900 from FY06. Unrestricted net assets of \$570,454 or 52.4% is

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

currently reserved for capital maintenance and replacement at Metra, and approximately half of this is budgeted to be used in FY08.

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 \$45.18 million in expenses for governmental activities, \$13.1 million (29.0%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (76.5% 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 \$0 / (-\$1,355,770)
- Gas tax \$271,284 / (-\$3,562)
- Justice Court fines \$679,438 / (+\$15,704)
- Clerk & Recorder filing fees \$1,297,005 / (-\$8,314)
- Health insurance premiums less County funded premium for employees \$2,228,773 / (-\$53,510)
- Adult detention boarding fees \$2,259,297 (-244,686)
- Youth detention and secure shelter boarding and program fees \$1,637,637 / (+\$46,024)

The increase in net assets for governmental activities of \$1,403,412 was primarily a result of:

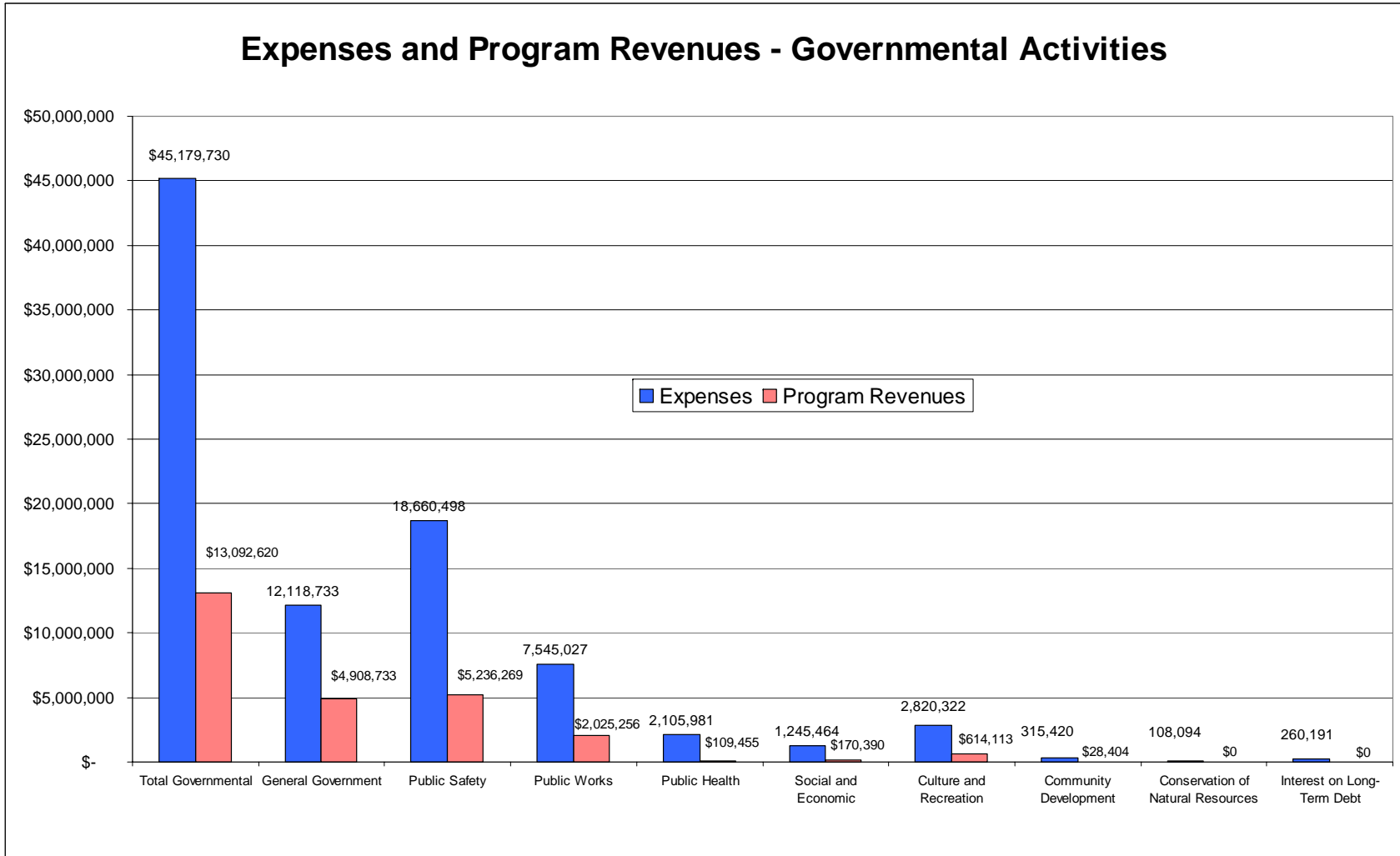
- \$418,410 decrease in net assets of the health insurance fund
- \$1,274,513 increase in fund balance of general fund as a result of increased interest revenues and document recording fees and budget savings
- \$404,809 increase in net assets as a result of the decrease in long-term debt
- \$648,559 decline in net capital assets, excluding retroactive infrastructure addition
- \$694,200 increase in tax receivables

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

Yellowstone County's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenues:						
Program revenues:						
Special assessments	\$ 458,768	\$ 796,551	\$ 292,318	\$ 293,875	\$ 751,086	\$ 1,090,426
Licenses and permits	81,756	72,056	0	0	81,756	72,056
Intergovernmental	1,745,996	1,105,290	0	0	1,745,996	1,105,290
Fines and forfeitures	691,857	717,034	0	0	691,857	717,034
Charges for services	8,806,718	8,486,563	3,639,749	4,312,825	12,446,467	12,799,388
Operating grants and contributions	811,661	953,399	0	0	811,661	953,399
Capital grants and contributions	1,358,787	961,727	0	0	1,358,787	961,727
Total program revenues	13,955,543	13,092,620	3,932,067	4,606,700	17,887,610	17,699,320
General revenues:						
Property taxes	22,808,060	25,612,508	1,024,514	1,109,239	23,832,574	26,721,747
Licenses and permits	3,718,188	3,954,725	0	0	3,718,188	3,954,725
Intergovernmental	2,718,038	2,047,651	18,656	12,437	2,736,694	2,060,088
Other revenues	1,413,477	2,285,729	-72	996,089	1,413,405	3,281,818
Total general revenues	30,657,763	33,900,613	1,043,098	2,117,765	31,700,861	36,018,378
Total revenues	44,613,306	46,993,233	4,975,165	6,724,465	49,588,471	53,717,698
Expenses:						
General government	10,503,566	12,118,733	0	0	10,503,566	12,118,733
Public Safety	19,342,793	18,660,498	0	0	19,342,793	18,660,498
Public Works	5,641,739	7,545,027	0	0	5,641,739	7,545,027
Public Health	2,045,662	2,105,981	0	0	2,045,662	2,105,981
Social and Economic	1,191,158	1,245,464	0	0	1,191,158	1,245,464
Culture and Recreation	950,266	2,820,322	0	0	950,266	2,820,322
Community Development	102,905	315,420	0	0	102,905	315,420
Conservation of Natural Resources	594,534	108,094	0	0	594,534	108,094
Interest on Long-Term Debt	274,528	260,191	0	0	274,528	260,191
Sanitation, refuse disposal	0	0	353,421	376,562	353,421	376,562
Civic center, METRA	0	0	5,346,165	5,610,957	5,346,165	5,610,957
Total expenses	40,647,151	45,179,730	5,699,586	5,987,519	46,346,737	51,167,249
Increase (decr.) in net assets before transfers	3,966,155	1,813,503	(724,421)	736,946	3,241,734	2,550,449
Transfers	(357,836)	(410,091)	357,836	410,091	0	0
Increase (decrease) in net assets	3,608,319	1,403,412	(366,585)	1,147,037	3,241,734	2,550,449
Beginning net assets	38,291,926	41,900,245	13,563,188	13,196,603	51,855,114	55,096,848
Retroactive restatement of infrastructure	0	14,013,291	0	0	0	14,013,291
Ending net assets	\$41,900,245	\$57,316,948	\$13,196,603	\$14,343,640	\$55,096,848	\$71,660,588

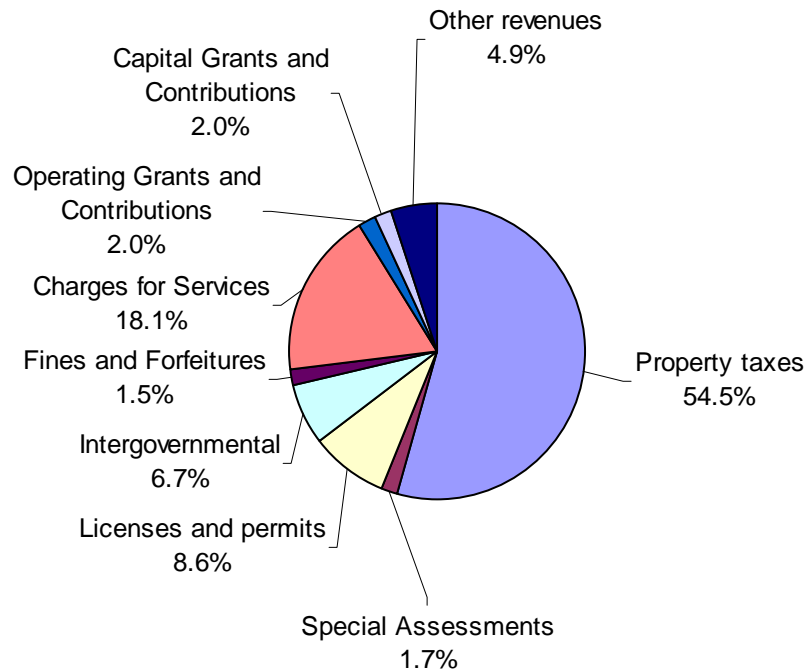
**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**



**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**

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

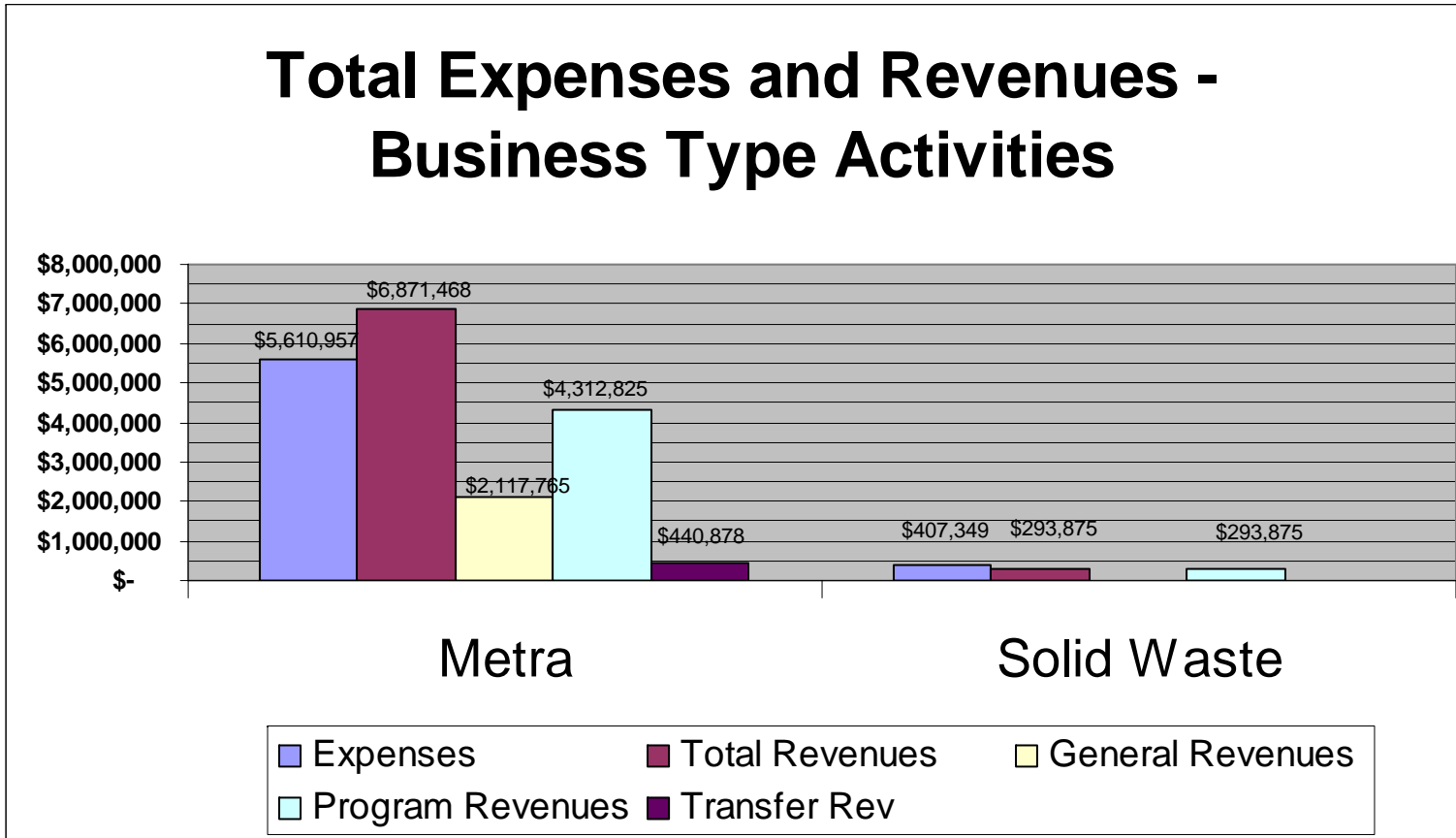
Total Revenues by Source - Governmental Activities



Business-type activities.

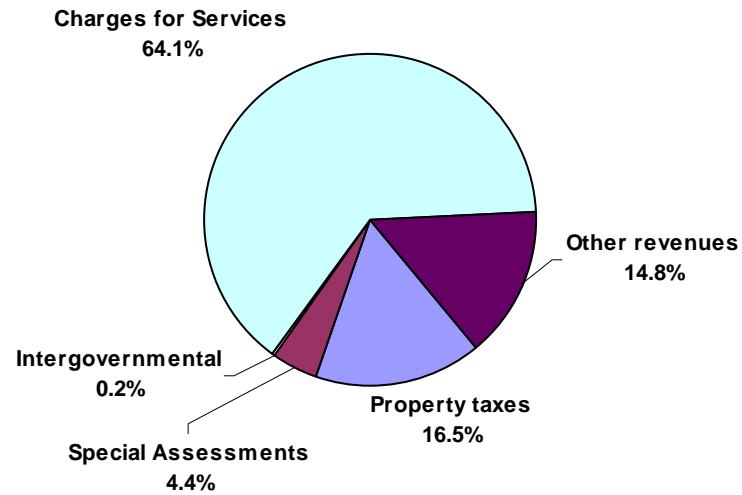
**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**

Total revenues of \$7,134,556 exceeded total expenses of \$5,987,519, which resulted in a net increase of \$1,147,037 for business-type activities. METRA had a FY07 net increase of \$1,260,511. One-time contributions of revenues accounted for \$1,322,741. Without the one-time revenues, the change in net assets would have been a decrease of (\$62,230). Depreciation expense of \$809,940 has a major impact in the capital intensive fund since the facility does not generate sufficient revenues to provide for long-term capital maintenance and replacement.



**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**

Total Revenues by Source - Business Type Activities



**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**

Fund Financial Statement Analysis

Governmental funds.

Overall, Yellowstone County's governmental funds' change in fund balance for FY07 was an increase of \$1,394,198 resulting in an ending total governmental fund balance of \$24,335,313.

The general fund increased fund balance by \$1,274,513 during fiscal year 2007. The primary causes of the increase are explained in MD&A financial highlights section above.

The road fund increased its fund balance by \$263,590. This increase is re-budgeted into road materials for FY08 projects. Road operations and project completion were generally on schedule.

The property and liability insurance fund incurred a decrease in fund balance of (\$357,630) as a result of increasing reserve estimates for unsettled claims.

The district court fund decreased in fund balance by (\$421,654) because of reduced county functions within the fund. Reductions in fund balance were planned and not indicative of a funding concern.

The youth services fund had a 21% increase in fund balance \$94,786 primarily due to exceeding budget service revenues. The increase raised the fund balance to a more desirable level of expenditure ratio.

The Metra Expansion Bond Fund received a transfer of \$32,082 from unspent Metra roof replacement levy dollars. The additional funding helped to reduce the levy requirement for FY08 in the Metra Expansion Bond Fund.

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

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**

Proprietary funds.

The refuse disposal fund had a decrease in net assets of (\$113,474) for FY07. This fund has total net asset of \$770,137 on June 30, 2007, which 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. The rate of fund reserves decline should slow in FY08 as the assessment rate is increased in order to reach breakeven in the next couple of years when the desired fund reserve has been achieved.

In FY07, the METRA fund had an overall increase to net assets of \$1,260,511, however, the increase was a result of tax levied roof replacement contribution of \$942,141 and a one-time general fund transfer of \$380,600 to eliminate Metra debt. The elimination of debt improved Metra's unrestricted net asset position, as did the results of operations this year. Metra's unrestricted net assets were \$1,088,917 on June 30, 2007 and \$517,017 on June 30, 2006. The capital replacement component of METRA includes capital replacement and depreciation, capital maintenance expenses, and capital financing. The recurring revenues dedicated for capital replacement generated only 37.9% of the related expenses incurred for FY07. It is a goal for Metra to generate additional operational revenues to assist with capital maintenance and replacement needs, although it is likely that additional revenues will be necessary to fund long term facility capital maintenance and replacement. See financial highlights section above for additional discussion related to METRA.

The health insurance fund had a net asset decrease of (\$418,410) for FY07 to bring the ending net assets to \$1,853,158. For FY07 the health plan is again funded to cover costs based on a projected cost level determined by our health plan third party administrator. The County's FY08 exposure for claims above funding is approximately \$589,000. 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. Health insurance viability is a nationwide systemic concern. The County reviews the health plan every year to review premium rates, benefits, and plan administration.

Governmental Fund Budgetary Highlights

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

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 2007 budget were:

- \$136,693 in various Homeland Security, emergency preparedness and mitigation grants
- \$1,048,843 in multiple grants for Pompey's Pillar improvements and grants for the Lewis and Clark bicentennial event
- \$129,265 for fuels mitigation grants to reduce fire risks for residential properties
- \$500,000 for a CDBG Town of Custer sewer improvement grant
- \$142,754 for residential substance abuse treatment programs
- \$212,680 in various crime control grants, primarily for juvenile programs and gun violence

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

- (\$1,130,729) of unearned grant revenue, which is offset by a similar amount of unexpended grant appropriations
- \$362,037 of additional clerk & recorder fees driven by the local housing and real estate market
- \$130,239 in additional motor vehicle option tax for public safety
- \$140,703 shortfall in prisoner boarding fees for sheriff's detention facility
- \$81,936 in boarding and program fees for youth services and detention
- \$377,092 of interest earnings in the general fund due to increasing interest rates.
- \$53,438 of additional justice court fines. A new collections program generated some additional revenues.
- A 2.5-3.0% shortfall in tax revenues due to protests on a couple of large centrally assessed taxpayers
- The emergency levy fund budgeted \$172.724 in tax revenues, however, none were collected due to a billing error, which will be corrected in FY08.

The appropriation final budget to actual variances of significance include:

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**

- \$1,153,892 in unspent contingency budgets, which are budgets set aside for unforeseen expenditures
- \$3,928,739 in unspent capital project budgets, which are typically reserves appropriated in the current year but not necessarily scheduled to be spent in the current year.
- \$876,489 of unspent road budget due to staffing available to complete
- \$427,510 in unspent bridge projects, which are carried forward to next budget cycle
- \$757,013 in unspent sheriff's budget. Unspent contingency budget of \$164,000, as well as jail costs being down due to reduced prisoner populations from prior years contributed to the savings.

Capital Assets

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

	Governmental Activities		Business Activities		Total	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Land	\$ 1,215,292	\$ 1,947,987	\$ 368,574	\$ 368,574	\$ 1,583,866	\$ 2,316,561
Buildings	11,988,421	11,501,939	10,980,388	11,405,998	22,968,809	22,907,937
Improvements other than buildings	434,727	381,816	555,141	469,513	989,868	851,329
Equipment and vehicles	6,291,437	6,076,314	251,925	240,501	6,543,362	6,316,815
Retroactive Infrastructure	0	12,877,303	0	0	0	12,877,303
Infrastructure	2,198,200	2,908,386	0	0	2,198,200	2,908,386
Construction in progress	232,525	4,570	33,934	0	266,459	4,570
Total Capital Assets	\$ 22,360,602	\$ 35,698,315	\$ 12,189,962	\$ 12,484,586	\$ 34,550,564	\$ 48,182,901

Governmental capital assets increased \$13,337,713 in total during the year as a result of the addition of new capital assets in the governmental funds of \$2,632,970 and the addition of retroactive infrastructure being reported of \$14,013,291 while being offset by depreciation of \$2,991,836 and a loss on disposal of assets of \$289,693 and decreasing net capital assets in the internal service funds by \$27,019.

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

- Election optical scanner machines \$152,250

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

- Land acquisition located by jail and road shops \$732,695
- Power supply for county computer networks \$68,558
- Heavy equipment for road department \$472,565
- Bridge and culvert replacements \$351,159
- Replacement of sheriff patrol vehicles \$263,312

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

- Metra arena roof replacement \$1,002,576
- Metra storage building \$69,039

See footnote 7 for additional information on capital assets.

Long-term Debt

As of June 30, 2007 the County has \$9,403,903 of outstanding long-term debt. Governmental funds account for \$9,221,458 and the enterprise funds account for \$182,445.

The largest component of long-term debt is \$4,765,000 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 \$1,518,225 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$261,952. The County issued one new RSID bond during the year for \$373,000.

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. All notes payable were paid off during fiscal year 2007. No new notes payable were issued during FY07.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007

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 \$1,075,000 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 \$2,052,903.

Economic Factors and Next Year's Budget

New construction taxable value growth has ranged between 4.58-7.18% for the years 2004 to 2007. The new construction growth rate has been strong lately, although there could be signs of weakness in residential housing. Local growth has been in the form of both new residential and commercial construction. Local refineries, which represent major taxpayers, continue to enhance their facilities with major additions. Local medical facilities have been expanding their operations. While the medical facilities do not add to the property tax base, they do add to the local economy. The new construction provides some property tax revenue growth to offset inflationary trends in salaries and other operating costs. Some of the new growth revenue has been designated to enhance county capital facilities.

Some of the more significant projected financial changes to operations for fiscal year 2008 include:

- Metra has \$1,325,000 in seating improvements budgeted for FY08. Tax revenues are dedicated to support the financing. Other Metra enhancements include funding for ticketing, internet access, and a "half-house" configuration to attract medium sized concerts.
- Voters approved property tax increases for a veteran's cemetery and senior citizen programs, funded at \$225,000 each annually.
- The County has been discussing with the federal government the possibility of a replacement federal courthouse being sited on county property. The concept involves building replacement facilities for sheriff administration and county parking in addition to possible county space expansion.
- Projected costs for our health insurance plan rose 17.5% for FY08. This cost center remains a tremendous national problem.

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2007**

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