

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2010

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, 2010 and the financial position as of June 30, 2010. 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 \$477,380. Interest rates declined substantially during FY10 as a result of continuing federal efforts to stimulate the economy. This resulted in FY10 interest collections in the general fund declining from the prior year by (\$292,584). Clerk and recorder document filing fees, which generated about \$1,129,000 for the general fund is a major revenue source and declined (\$85,525). Justice court fines, another significant general fund revenue source, are also stable at about \$677,000.
- The liability insurance fund had a loss of (\$390,110) as a result of an unfavorable court ruling on a major case. See footnote 17 for further information.
- The slower economy has negatively impacted motor vehicle option tax revenues in the sheriff's fund. Actual revenues declined in FY10 from FY09 by about \$48,000, when this revenue has typically increased by about \$125,000 - \$200,000 per year. Prisoner boarding fees at the county jail, which also helps to fund sheriff's operations declined \$96,000 from FY09. Fees for this revenue source have been declining since FY06. Overall, the sheriff's public safety fund balance declined (\$421,148) in FY10. Fiscal stress is beginning to show in this fund.
- Rebuilding and improving the Metra arena will entail a significant dedication of resources that wasn't anticipated. Fortunately, the County had some unused tax capacity that was able to be directed as a source of funds for repaying about \$3,000,000 in anticipated loans in FY11, however, the anticipated expenditure of about \$6,000,000 in arena enhancement costs and lost business will impact not only the Metra, but other County funds as well. See footnote #15 for further discussion of the tornado loss at the arena.

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- Metra's results of operations may be negatively impacted in FY11 because of inability to host arena events until about May 2011 when the arena becomes functional again. The County did have business interruption insurance that will cover some of the lost event revenues but perhaps not the full amount because of the \$1,000,000 policy limit for this type of coverage. The unrecovered portion of lost revenues from insurance is not expected to be excessive.
- Protested taxes are becoming a bigger concern as refineries and other larger taxpayers are protesting their taxable valuation and associated general tax bills. Cenex refinery protested 3.09% of the County's tax base in FY10. Protest tax resolutions can take an extended period of time to resolve, and as such, delay distribution of property taxes to the affected jurisdictions that can cause cash flow problems. School districts can be particularly hard hit by a large protest from a major taxpayer. Tax protests may grow to have an increasing impact on local taxing jurisdictions budgets. See footnote #16 & #17 for further discussion.

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).

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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.

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's statement of revenues, expenditures, and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a

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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.

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.

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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 39-71 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 in the required supplementary information section.

Government-wide Financial Analysis.

Net assets may serve as a useful indicator of a government's financial position, which is one of the reasons why the Governmental Accounting Standards Board (GASB) instituted GASB Statement #34 and required local governments to present net asset information. Yellowstone County's net assets (assets less liabilities) were \$110,155,580 for the year ended June 30, 2010. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2010 was \$26,141,579.

Of the County's yearend total net assets of \$110,155,580, capital assets net of the related debt accounted for \$53,373,264 or 48.5% 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 (\$601,415 or 0.5%) are those funds legally required to be used for debt service payments. Unrestricted net assets of \$56,180,901 account for 51.0% of the total net assets. Unrestricted 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:

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Yellowstone County Net Assets

	Governmental Activities		Business Activities		Total	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 45,175,667	\$ 40,532,500	\$ 26,410,832	\$ 3,378,352	\$ 71,586,499	\$ 43,910,852
Noncurrent assets	901,105	1,043,961	0	0	901,105	1,043,961
Capital assets	43,812,754	40,604,549	10,976,510	14,022,188	54,789,264	54,626,737
Total assets	89,889,526	82,181,010	37,387,342	17,400,540	127,276,868	99,581,550
Current liabilities	7,240,181	5,181,769	1,043,610	639,206	8,283,791	5,820,975
Noncurrent liabilities	7,710,173	8,475,140	1,127,324	1,271,434	8,837,497	9,746,574
Total liabilities	14,950,354	13,656,909	2,170,934	1,910,640	17,121,288	15,567,549
Net assets:						
Invested in capital assets, net of related debt	43,812,754	40,604,549	10,976,510	14,022,188	54,789,264	54,626,737
Restricted for debt service	601,415	617,775	0	0	601,415	617,775
Unrestricted	30,525,003	27,301,777	24,239,898	1,467,712	54,764,901	28,769,489
Total net assets	\$ 74,939,172	\$ 68,524,101	\$ 35,216,408	\$ 15,489,900	\$ 110,155,580	\$ 84,014,001
Change in net assets	\$ 6,415,071		\$ 19,726,508		\$ 26,141,579	

Governmental activities.

The increase in net assets for governmental activities of \$6,415,071 was primarily a result of:

- \$713,207 increase in net assets of the health insurance fund
- \$935,416 increase in net assets as a result of the decrease in long-term debt
- \$305,749 of unspent resources appropriated to the capital projects fund from various funds
- \$3,208,205 increase in net capital assets
- \$1,253,604 increase in tax receivables
- (\$700,000) from the increase in liability insurance claims loss reserve

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Yellowstone County's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Special assessments	\$ 711,663	\$ 685,903	\$ 479,524	\$ 308,483	\$ 1,191,187	\$ 994,386
Licenses and permits	63,422	60,511	0	0	63,422	60,511
Intergovernmental	827,862	911,158	0	0	827,862	911,158
Fines and forfeitures	726,393	703,843	0	0	726,393	703,843
Charges for services	8,229,187	8,538,144	4,202,743	4,516,429	12,431,930	13,054,573
Operating grants and contributions	1,173,444	768,114	0	0	1,173,444	768,114
Capital grants and contributions	511,327	544,528	0	0	511,327	544,528
Total program revenues	12,243,298	12,212,201	4,682,267	4,824,912	16,925,565	17,037,113
General revenues:						
Property taxes	31,781,735	30,909,532	1,401,954	1,346,630	33,183,689	32,256,162
Licenses and permits	3,923,361	3,970,264	0	0	3,923,361	3,970,264
Intergovernmental	2,252,000	2,303,482	151,800	0	2,403,800	2,303,482
Other revenues	2,218,768	2,906,251	272,437	1,475,873	2,491,205	4,382,124
Total general revenues	40,175,864	40,089,529	1,826,191	2,822,503	42,002,055	42,912,032
Total revenues	52,419,162	52,301,730	6,508,458	7,647,415	58,927,620	59,949,145
Expenses:						
General government	12,723,629	12,732,888	0	0	12,723,629	12,732,888
Public Safety	21,106,126	20,553,856	0	0	21,106,126	20,553,856
Public Works	5,740,088	7,443,234	0	0	5,740,088	7,443,234
Public Health	2,736,104	2,544,822	0	0	2,736,104	2,544,822
Social and Economic	1,583,880	1,657,830	0	0	1,583,880	1,657,830
Culture and Recreation	1,427,488	1,264,722	0	0	1,427,488	1,264,722
Community Development	360,046	146,295	0	0	360,046	146,295
Conservation of Natural Resources	128,852	400,640	0	0	128,852	400,640
Interest on Long-Term Debt	253,804	323,661	0	0	253,804	323,661
Sanitation, refuse disposal	0	0	461,326	417,017	461,326	417,017
Civic center, METRA	0	0	6,393,925	6,086,911	6,393,925	6,086,911
Total expenses	46,060,017	47,067,948	6,855,251	6,503,928	52,915,268	53,571,876
Increase (decr.) in net assets before transfers and extraordinary gain	6,359,145	5,233,782	(346,793)	1,143,487	6,012,352	6,377,269
Transfers	55,926	(74,792)	(55,926)	74,792	0	0
Extraordinary gain from insurance recovery	0	0	20,129,227	0	20,129,227	0
Increase (decrease) in net assets	6,415,071	5,158,990	19,726,508	1,218,279	26,141,579	6,377,269
Beginning net assets	68,524,101	63,365,111	15,489,900	14,271,621	84,014,001	77,636,732
Ending net assets	\$74,939,172	\$68,524,101	\$35,216,408	\$15,489,900	\$110,155,580	\$84,014,001

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Of the County's \$46.06 million in expenses for governmental activities, \$12.2 million (26.6%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (79.0% of the general revenues), or the use of reserves. The major sources of program revenues (and change from prior year) include:

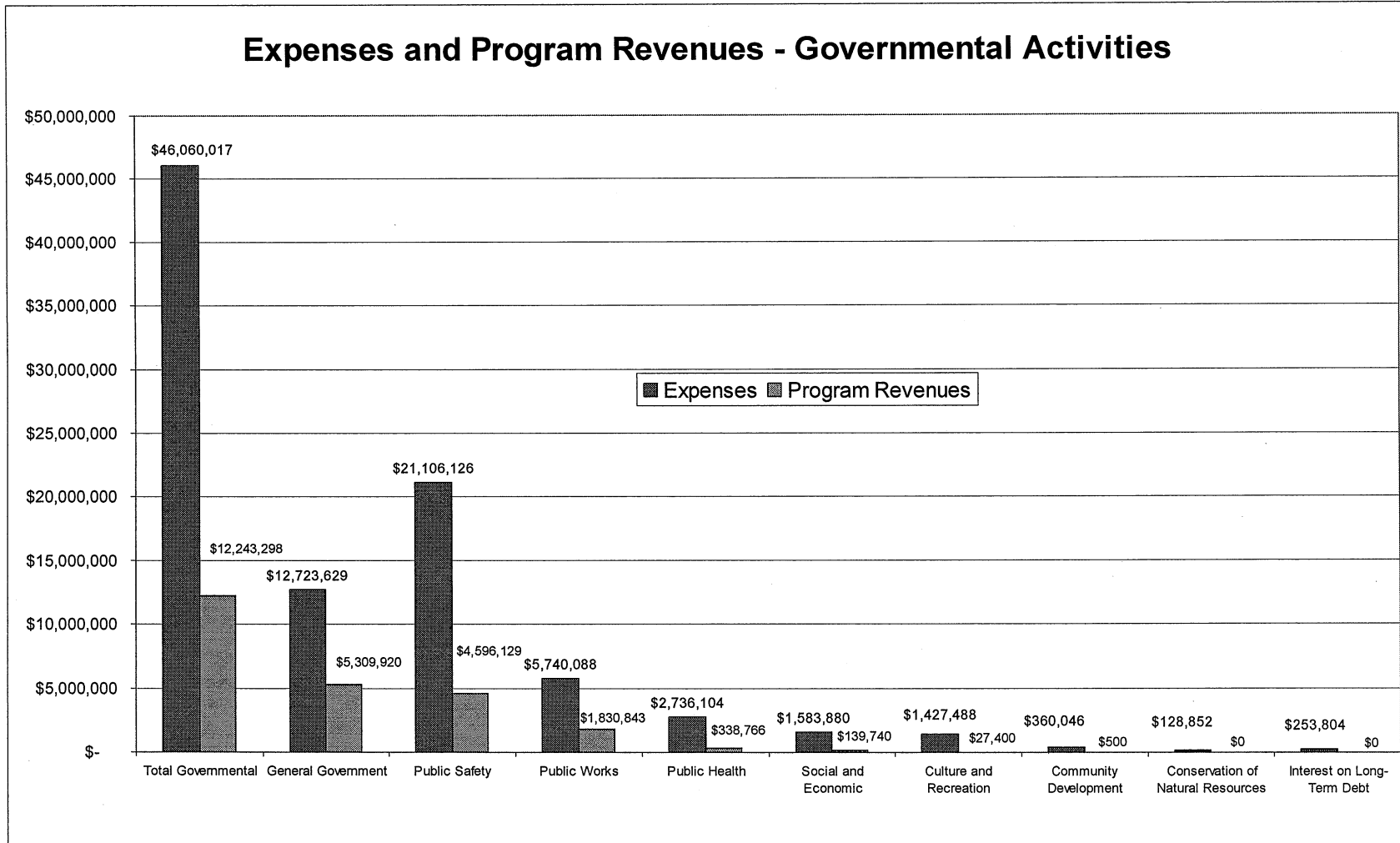
- Gas tax \$269,429 / (-\$811)
- Justice Court fines \$677,100 / (+\$1,874)
- Clerk & Recorder filing fees \$1,129,217 / (-\$85,525)
- Health insurance premiums less County funded premium for employees \$2,634,292 / (+\$13,698)
- Adult detention boarding fees \$1,763,874 / (-\$89,491)
- Youth detention and secure shelter boarding and program fees \$1,570,623 / (-\$115,152)
- RSID assessments - \$711,663 / (+\$25,760)

An unusual component of general revenues in FY10 include:

- Other revenue in the Capital Improvement Fund from the federal government for the sale of land for the new downtown federal courthouse \$866,920 / (+\$866,920)

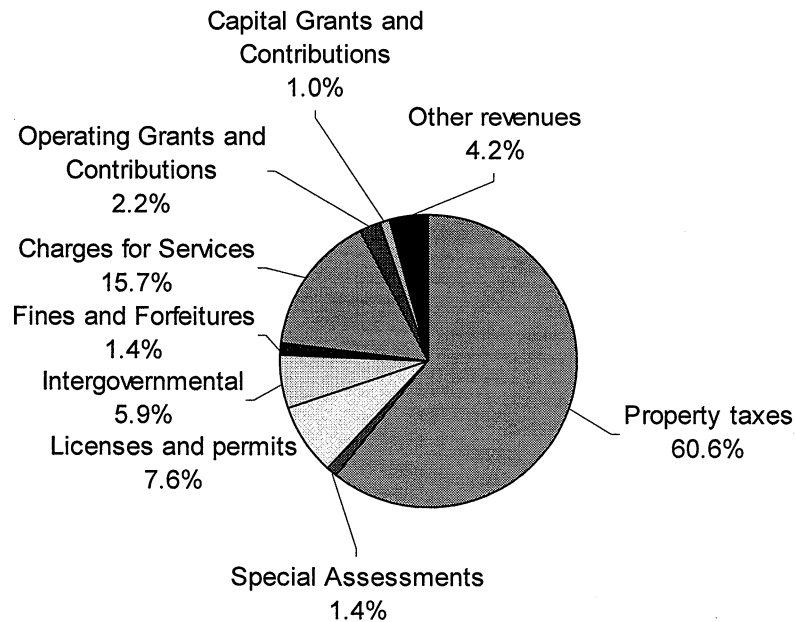
See the Statement of Activities on page #24 for additional detail information regarding revenues and expenditures.

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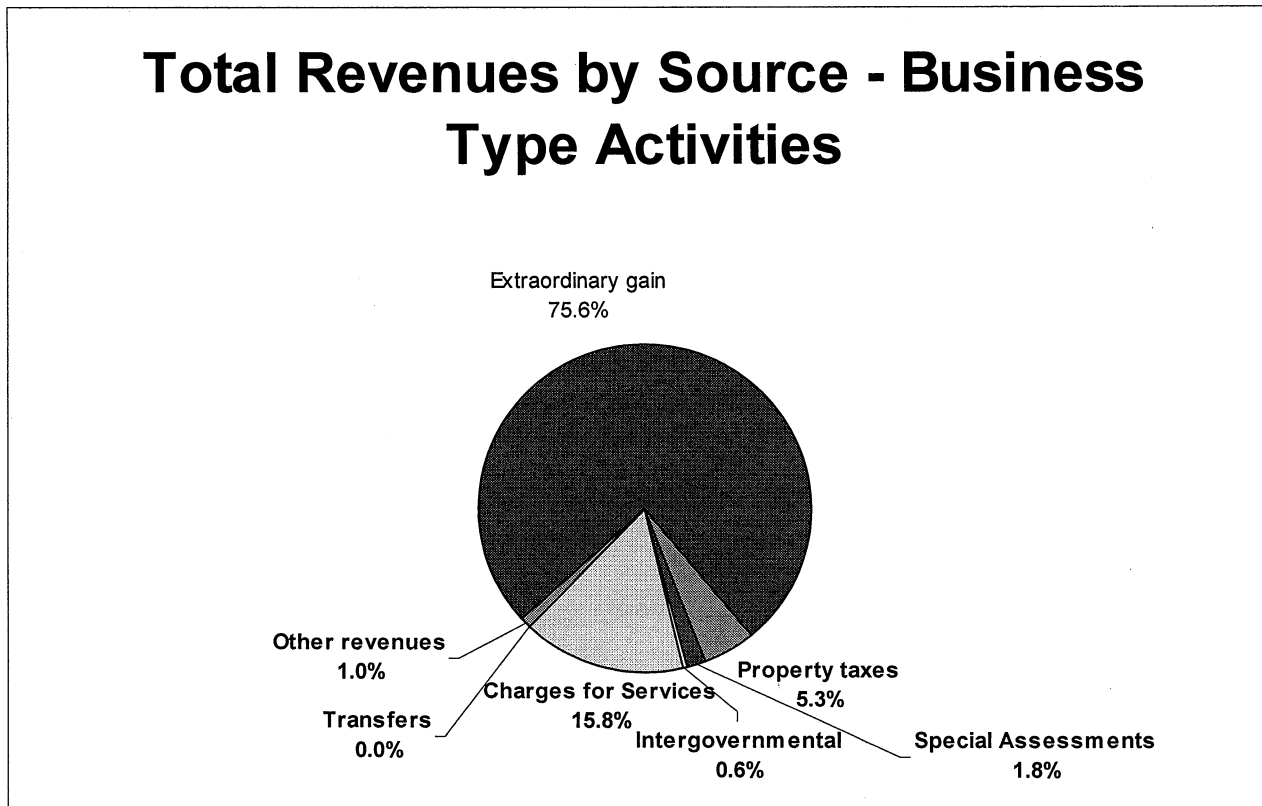
Total Revenues by Source - Governmental Activities



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Business-type activities.

Total revenues of \$26,637,685 funded total expenses of \$6,911,177, which resulted in an increase in net assets of \$19,726,508 for business-type activities. METRA had a FY10 increase of \$19,733,310 in net assets. The increase in net assets was materially impacted by the June 20, 2010 tornado because of the related property insurance receivable of \$22,786,261 offset by an impairment loss of \$2,657,034 for related building impairment damage. Depreciation expense of \$1,053,652 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.



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Fund Financial Statement Analysis

Governmental funds.

Overall, Yellowstone County's governmental funds' change in fund balance for FY10 was an increase of \$548,236 resulting in an ending total governmental fund balance of \$30,923,752.

The general fund increased fund balance by \$477,380 during fiscal year 2010 primarily as a result of the delayed implementation of Riverstone Health Department not being able to begin contracting medical services at the County adult detention facility, which was going to require general fund funding assistance to the sheriff's public safety fund of about \$400,000 annually.

The road fund decreased its fund balance by (\$132,693). This decrease is a minor change to overall fund balance is not indicative of significant budget concerns.

Fund balance in the sheriff's public safety fund decreased (\$421,148). Revenues have been declining in the motor vehicle option tax because of reduced automobile sales during the fiscal year and continued decline in prisoner billing at the adult detention facility. Expense costs have been outpacing revenues and is placing financial stress on this fund. Reserve levels have declined (\$931,684) from the fund's high point in FY07. Future budgets will need to contain any further reductions in fund balance.

The property and liability insurance fund incurred a decrease in fund balance of (\$390,110). The liability for the claims reserve was increased \$700,000 due to an unfavorable ruling on a major liability case.

The youth services fund had a decrease in fund balance of (\$123,962) due to reduced juvenile populations. The juvenile detention director believes that budget constraints on other governmental entities are causing fewer and shorter juvenile holds in our facility. Due to fund balance declines in recent years, future budgets will need to contain any further reductions in fund balance.

Fund balance in the capital improvement fund increased \$305,749 in order to help fund some sizeable capital projects that will occur in FY11. These projects include parking lot development close to the court house, courthouse remodeling to make room for another State district court judge, courthouse roof replacement, sheriff administration building HVAC improvements, detention facility smoke damper system and, and replacement of 9 motor graders.

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 had a decrease in net assets of (\$6,802) for FY10. This fund has total net asset of \$544,166 on June 30, 2010, which exceeds the amount necessary for the operation of the fund. The targeted reserve level is \$250,000. As a result, it is anticipated that future year's reserves will be reduced in order to reduce the net assets of this fund until it reaches the target reserve. The rate of fund reserves decline should slow over the next couple of years as the assessment rate is increased in order to reach a balanced budget when the desired fund reserve has been achieved.

METRA had a decrease in net assets of (\$395,917), primarily as a result of insufficient funding for depreciation of capital assets. This will be mitigated in FY11 as a result of major renovations to the arena as a result of insurance funded tornado damage repair and replacement. Another \$198,229 was from a noncash revenue transaction from the amortization of our 10 year agreement for signing rights in exchange for electronic sign enhancements both inside and outside the Metra arena. See financial highlights section above for additional discussion related to METRA.

The health insurance fund had a net asset increase of \$713,207 for FY10 to bring the ending net assets to \$4,211,241. For FY11, the health plan is again funded to cover costs based on a projected cost level determined by our health plan third party administrator. For FY11 the County switched from aggregate stop-loss reinsurance to specific stop-loss insurance for health claims. An analysis of claims history showed no utilization of aggregate stop-loss while specific loss would have provided financial benefit in some recent years. Claims history and the health insurance fund reserve level contributed to the decision to moderate costs while accepting the additional risk. Medical inflation remains a major concern and continues to present challenges to maintain a health plan that provides good benefits at competitive 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. In addition, beginning on January 1, 2011 the County has implemented as 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.

For the fiscal year ended June 30, 2009 the County implemented GASB Statement #45, Other Post Employment Benefits. See footnote #10E for a more extensive explanation of this implementation.

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Governmental Fund Budgetary Highlights

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. New grants added \$2 million of revenue and expenditure appropriations to the FY10 budget. Some major grants included in the fiscal year 2010 budget were:

- \$284,861 for American Recovery and Reinvestment Act capital projects- 2 county roads and courthouse
- \$229,467 FEMA Yell Co Pre-Disaster Mitigation (PDM) Plan Update
- \$336,060 DPHHS - Addictive and Mental Health grants
- \$100,000 for DNRC West Billings Flood Control & Groundwater Recharge Study
- \$211,795 for CDBG Lockwood Water and Sewer Grant
- \$213,812 in various weed control grants

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

- Tax protest from County's largest taxpayer resulted in property tax revenue collections being reduced in the countywide levied funds a total of \$1.04 million or 3.09% of County property tax levied for FY10.
- (\$400,000) of untransferred funding from general fund to sheriff's public safety fund due to delay in implementation of new contracted adult detention medical services delivery program
- \$104,000 of additional clerk & recorder fees (10% over budget) generated by activity in the local housing and real estate market and refinancings
- (\$61,000) shortfall in general fund interest earnings due to historically low interest rate environment
- (\$137,000) shortfall in motor vehicle option tax for public safety due to slow new motor vehicle sales
- (\$136,000) shortfall in prisoner boarding fees for sheriff's detention facility due to declining prisoner populations in inmates from jurisdictions paying boarding fees
- (\$93,600) shortfall in charges at youth services center for juvenile and shelter care daily fees

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

- \$370,000 in unspent general fund contingency budgets, which are budgets set aside for unforeseen expenditures
- \$400,000 of untransferred funding from general fund to sheriff's public safety fund due to delay in implementation of new contracted adult detention medical services delivery program
- \$176,000 in unspent sheriff's detention budget, which was offset by declining prisoner boarding revenues
- \$50,000 of savings in elections costs due to polling place consolidation
- \$5,680,000 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
- \$322,000 of capital in the road budget not delivered or ordered by June 30, 2010
- \$680,000 in unspent bridge projects, which are carried forward to the next budget cycle
- \$1,300,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$142,000 in unspent county attorney's personnel costs
- \$220,000 in unspent Clerk & Recorder hardware and software replacements
- \$645,000 in RSID Maintenance Fund because reserves are budgeted in case maintenance needs to be done

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Capital Assets

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

	Governmental Activities		Business Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 3,665,796	\$ 3,260,661	368,574	\$ 368,574	\$ 4,034,370	\$ 3,629,235
Buildings	11,218,441	10,761,604	8,434,179	10,370,959	19,652,620	21,132,563
Improvements other than buildings	2,241,738	2,204,025	1,834,499	1,937,763	4,076,237	4,141,788
Equipment and vehicles	6,480,399	6,621,139	204,717	225,858	6,685,116	6,846,997
Infrastructure	19,539,192	17,663,982	0	0	19,539,192	17,663,982
Construction in progress	667,188	93,138	134,541	1,119,034	801,729	1,212,172
Total Capital Assets	\$ 43,812,754	\$ 40,604,549	\$ 10,976,510	\$ 14,022,188	\$ 54,789,264	\$ 54,626,737

Governmental capital assets increased \$3,208,205 in total during the year as a result of the addition of new capital assets in the governmental funds of \$5,812,265 while being offset by depreciation of \$3,196,710 and a gain on disposal of assets of \$592,650.

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

- \$2.6 million in infrastructure improvements for county roads
- Land acquisition & improvements to replace county parking lot due to new Federal Bldg \$1,006,062
- Yellowstone County Detention Center clinic remodel \$601,400
- Yellowstone County Detention Center smoke damper project \$373,853
- Bridge and culvert replacements \$557,541
- Replacement of sheriff department vehicles \$118,443
- Junk vehicle remodel office \$26,792
- New IT Blade Server equipment \$231,740
- Construction in Progress projects for Courthouse includes new roof on courthouse \$54,094; remodel for new judges chambers \$133,708.

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

- New steps and sidewalk at Metra \$141,000
- Catwalk fall protection system \$136,500
- New Expo and Pavilion fire alarm control systems \$57,000
- Metra Lighting retrofit upgrade ARRA Stimulus Federal grant \$151,000
- Purchase 2010 Toyota Forklift \$33,000
- Construction in progress projects for Metra includes fiber optic cabling \$123,000; handicap path \$6,200

Metra had a building impairment of \$2,657,034 charged to accumulated depreciation as a result of the tornado.

See footnote 7 for additional information on capital assets.

Long-term Debt

As of June 30, 2010 the County has \$10,647,764 of long-term liabilities. Governmental funds account for \$10,384,337 and the enterprise funds account for \$263,427.

The largest component of long-term debt is \$5,450,000 of general obligation (G.O.) bonds issued by the County. The 2009 G.O. Refunding Bond for the Metra expansion has an outstanding balance \$2,795,000 on June 30, 2010. The other general obligation bond, which has a balance \$2,655,000 was issued to develop the veteran's cemetery and to improve seating 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. The County is beginning the process of issuing another \$3,000,000 10 year limited tax general obligation bond for Metra arena enhancements and the bench boulevard connector bridge project.

The County's latest bond rating from Standard and Poor's on the 2009 \$3,440,000 limited general obligation bond was AA+.

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 \$1,023,225 of outstanding RSID bonds and the RSID

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Revolving Fund has a fund balance of \$261,952. The County issued no new RSID bonds during FY10, however, two RSID bond issues totaling \$253,721 are scheduled to be issued as of the date of this report issuance.

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 FY10.

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 \$1,200,000 for all cases. The claims reserve was increased by \$700,000 in FY10 due to the unsuccessful defense of a major civil case.

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 \$2,355,952.

See footnote #8 for additional information on long-term debt.

Economic Factors and Next Year's Budget

New construction taxable value as determined by the Montana Department of Revenue for FY11 was 6.18%, which was much higher than expected. Much of this new construction growth came as a result of taxable valuation increases on the three local refineries. While the growth is welcome, the refineries question the appropriateness of the calculations and two of the refineries have protested 4.89% of the overall County property tax base for FY11. The third refinery may also protest in FY12 if their taxable valuation isn't justified to their satisfaction.

The 2011 Legislature for the State of Montana meets in the Spring 2011. State fiscal problems and overall economic issues may result in budget impacts for local governments. Budget caution will need to be exercised until the results of the session can be determined.

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Some of the more significant budgeted items for fiscal year 2011 include:

- The repair and replacement of the Metra arena will cost about \$23 million and be funded by the County's property insurance carrier. The County will likely spend about \$5.5-6.0 million in enhancements on the arena. The enhancements are being funded by available tax revenues; \$1,000,000 general fund transfer; and \$3-4 million in debt.
- The 2009 State legislature approved a new district court judge for Yellowstone County. The County has budgeted \$487,000 for the balance of the project cost to provide space for the judge and judge's staff. The space needed for the additional judge has necessitated some reassignment of space. The renovation will also allow for juvenile probation offices to consolidate on one floor. Juvenile probation offices are currently on two floors.
- \$439,000 for replacement of the courthouse roof.
- \$300,000 for replacement and renovation of HVAC at the sheriff's administration building.
- \$219,000 for balance of courthouse parking replacement project
- \$900,000 for cyclical replacement of 9 motor graders
- \$400,000 of additional budget to enhance the medical treatment at the detention center by transferring administration of this function to Riverstone Health.
- Projected costs for our health insurance plan rose 3.5% for FY11. As a proactive means to health claims cost control, the County began offering an employee option high-deductible health plan (HDHP) and health savings account (HSA) in addition to its traditional plan on January 1, 2011. Long term studies show HDHP/HSA plans to be cost beneficial to both employees and employers because they are consumer driven and participants become more cost and health conscious.
- The extreme decline in interest rates has impaired interest earnings significantly. The general fund has budgeted a \$360,000 (52.5%) decline in interest revenue between FY11 and FY09.

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
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