

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2012**

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, 2012 and the financial position as of June 30, 2012. 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 \$82,751, which was a good overall result in light of the protested taxes from some of the County's large refineries and communication companies. Protested taxes were close to the anticipated and budgeted amount. FY12 interest collections in the general fund declined from the prior year by (\$105,016). Interest earnings in the general fund have declined from \$1,035,800 in FY08 to \$160,548 in FY12 as a result in the drop in interest rates. Clerk and recorder document filing fees, which generated about \$866,000 for the general fund is a major revenue source and increased \$7,248. Justice court fines, another significant general fund revenue source, declined (\$55,273) to \$605,206.
- The road fund balance decreased by (\$136,431) as a result of contracting out some additional road paving projects.
- The liability insurance fund balance increased \$181,919 as claims activity for FY12 was modest. Current fund reserves are considered adequate for known civil cases.
- Overall, the sheriff's public safety fund balance increased by \$597,790 in FY12 primarily as a result of increased prisoner boarding revenue. Prisoner boarding fees at the county jail increased \$805,638 over FY11. Prisoner populations from non-County sources increased in FY12 and prisoner billing rates have resulted in the increased revenues, although the sheriff doesn't believe the County will be able to fully sustain this level of revenue in FY13. The slower economy has negatively impacted motor vehicle option tax revenues in the sheriff's fund, declining (\$188,108) from \$3,681,037 in FY11 to \$3,492,929 for FY12.
- To complete the rebuild of the Metrapark arena the County funded \$7.3 million in improvements resulting in general obligation debt of \$2,000,000 and a \$1,750,000 interfund 5 year loan from the capital projects fund. Available property tax

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revenues will fund the repayment of the debt. The rebuild, as designed, did not necessitate the need to ask voters for additional tax authority.

- Protested taxes are becoming a bigger concern as refineries and communication companies are protesting their taxable valuation and associated general tax bills. Protests in FY12 amounted to about 8.2% of the County's tax base in FY12. Protests in FY13 are budgeted to be 10.2% of the countywide tax revenues. 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).

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

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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 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.

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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.

**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 39-74 of this report.

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**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 \$124,550,361 for the year ended June 30, 2012. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2012 was \$7,960,632. Most of the net asset increase was a result of the \$5.7 million increase in capital assets.

Of the County's yearend total net assets of \$124,550,361, capital assets net of the related debt accounted for \$87,879,603 or 70.6% 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 (\$618,469 or 0.5%) are those funds legally required to be used for debt service payments. Unrestricted net assets of \$36,052,289 account for 28.9% 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. The large change in unrestricted net assets in the business-type activities between FY12 and FY10 was the use of insurance proceeds and capital reserves to repair and improvement Metrapark from the tornado property damage, which changed the classification from unrestricted net assets to investment in capital assets.

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A comparison of the County's net assets follows:

**Yellowstone County Net Assets**

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 47,883,300	\$ 44,203,150	\$ 3,087,733	\$ 9,979,080	\$ 50,971,033	\$ 54,182,230
Noncurrent assets	1,920,553	1,012,592	0	0	1,920,553	1,012,592
Capital assets	48,794,355	46,727,683	40,295,915	36,686,536	89,090,270	83,414,219
<b>Total assets</b>	<b>98,598,208</b>	<b>91,943,425</b>	<b>43,383,648</b>	<b>46,665,616</b>	<b>141,981,856</b>	<b>138,609,041</b>
Current liabilities	5,375,387	5,455,691	1,079,812	5,451,687	6,455,199	10,907,378
Noncurrent liabilities	8,904,742	9,960,412	2,071,554	1,151,520	10,976,296	11,111,932
<b>Total liabilities</b>	<b>14,280,129</b>	<b>15,416,103</b>	<b>3,151,366</b>	<b>6,603,207</b>	<b>17,431,495</b>	<b>22,019,310</b>
Net assets:						
Invested in capital assets, net of related debt	47,583,688	45,413,016	40,295,915	36,686,536	87,879,603	82,099,552
Restricted for debt service	618,469	618,821	0	0	618,469	618,821
Unrestricted	36,115,922	30,495,483	(63,633)	3,375,873	36,052,289	33,871,356
<b>Total net assets</b>	<b>\$ 84,318,079</b>	<b>\$ 76,527,320</b>	<b>\$ 40,232,282</b>	<b>\$ 40,062,409</b>	<b>\$ 124,550,361</b>	<b>\$ 116,589,729</b>
<b>Change in net assets</b>	<b>\$ 7,790,759</b>		<b>\$ 169,873</b>		<b>\$ 7,960,632</b>	

**Governmental activities.**

The increase in net assets for governmental activities of \$7,790,759 was primarily a result of:

- \$903,719 increase in net assets of the health insurance fund
- \$1,285,777 increase in net assets as a result of payments on long-term debt
- (\$258,846) decrease in net assets from booking OPEB implicit rate subsidy for retiree health insurance
- \$2,170,672 increase in net capital assets
- \$1,795,351 increase in tax receivables primarily from protest tax receivables

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Special assessments	\$ 799,465	\$ 1,011,509	\$ 450,630	\$ 484,152	\$ 1,250,095	\$ 1,495,661
Licenses and permits	58,671	49,220	0	0	58,671	49,220
Intergovernmental	917,951	872,088	0	0	917,951	872,088
Fines and forfeitures	631,851	709,613	0	0	631,851	709,613
Charges for services	9,517,443	8,538,073	4,322,531	2,864,669	13,839,974	11,402,742
Operating grants and contributions	1,599,100	1,351,718	0	0	1,599,100	1,351,718
Capital grants and contributions	1,073,355	843,497	0	0	1,073,355	843,497
<b>Total program revenues</b>	<b>14,597,836</b>	<b>13,375,718</b>	<b>4,773,161</b>	<b>3,348,821</b>	<b>19,370,997</b>	<b>16,724,539</b>
<b>General revenues:</b>						
Property taxes	35,171,952	34,078,689	2,438,771	2,773,779	37,610,723	36,852,468
Licenses and permits	3,684,093	3,856,530	0	0	3,684,093	3,856,530
Intergovernmental	2,598,745	2,328,262	22,152	0	2,620,897	2,328,262
Other revenues	652,773	847,937	490,544	615,479	1,143,317	1,463,416
Gain on disposal of fixed assets	0	921,000	0	0	0	921,000
<b>Total general revenues</b>	<b>42,107,563</b>	<b>42,032,418</b>	<b>2,951,467</b>	<b>3,389,258</b>	<b>45,059,030</b>	<b>45,421,676</b>
<b>Total revenues</b>	<b>56,705,399</b>	<b>55,408,136</b>	<b>7,724,628</b>	<b>6,738,079</b>	<b>64,430,027</b>	<b>62,146,215</b>
<b>Expenses:</b>						
General government	12,002,290	13,481,058	0	0	12,002,290	13,481,058
Public Safety	22,801,598	22,680,666	0	0	22,801,598	22,680,666
Public Works	7,486,540	8,122,849	0	0	7,486,540	8,122,849
Public Health	2,973,546	3,008,217	0	0	2,973,546	3,008,217
Social and Economic	1,642,537	1,685,969	0	0	1,642,537	1,685,969
Culture and Recreation	1,321,039	3,265,026	0	0	1,321,039	3,265,026
Community Development	370,700	373,325	0	0	370,700	373,325
Conservation of Natural Resources	124,678	121,509	0	0	124,678	121,509
Interest on Long-Term Debt	257,376	245,489	0	0	257,376	245,489
Sanitation, refuse disposal	0	0	521,445	491,789	521,445	491,789
Civic center, METRA	0	0	6,967,646	5,429,653	6,967,646	5,429,653
<b>Total expenses</b>	<b>48,980,304</b>	<b>52,984,108</b>	<b>7,489,091</b>	<b>5,921,442</b>	<b>56,469,395</b>	<b>58,905,550</b>
<b>Increase (decr.) in net assets before transfers and extraordinary gain</b>	<b>7,725,095</b>	<b>2,424,028</b>	<b>235,537</b>	<b>816,637</b>	<b>7,960,632</b>	<b>3,240,665</b>
Transfers	65,664	(835,880)	(65,664)	835,880	0	0
Extraordinary gain from tornado damage event	0	0	0	3,193,484	0	3,193,484
<b>Increase (decrease) in net assets</b>	<b>7,790,759</b>	<b>1,588,148</b>	<b>169,873</b>	<b>4,846,001</b>	<b>7,960,632</b>	<b>6,434,149</b>
<b>Beginning net assets</b>	<b>76,527,320</b>	<b>74,939,172</b>	<b>40,062,409</b>	<b>35,216,408</b>	<b>116,589,729</b>	<b>110,155,580</b>
<b>Ending net assets</b>	<b>\$84,318,079</b>	<b>\$76,527,320</b>	<b>\$40,232,282</b>	<b>\$40,062,409</b>	<b>\$124,550,361</b>	<b>\$116,589,729</b>

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Of the County's \$48.98 million in expenses for governmental activities, \$14.6 million (29.8%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (83.4% of the general revenues), or the use of reserves. The major sources of program revenues (and change from prior year) include:

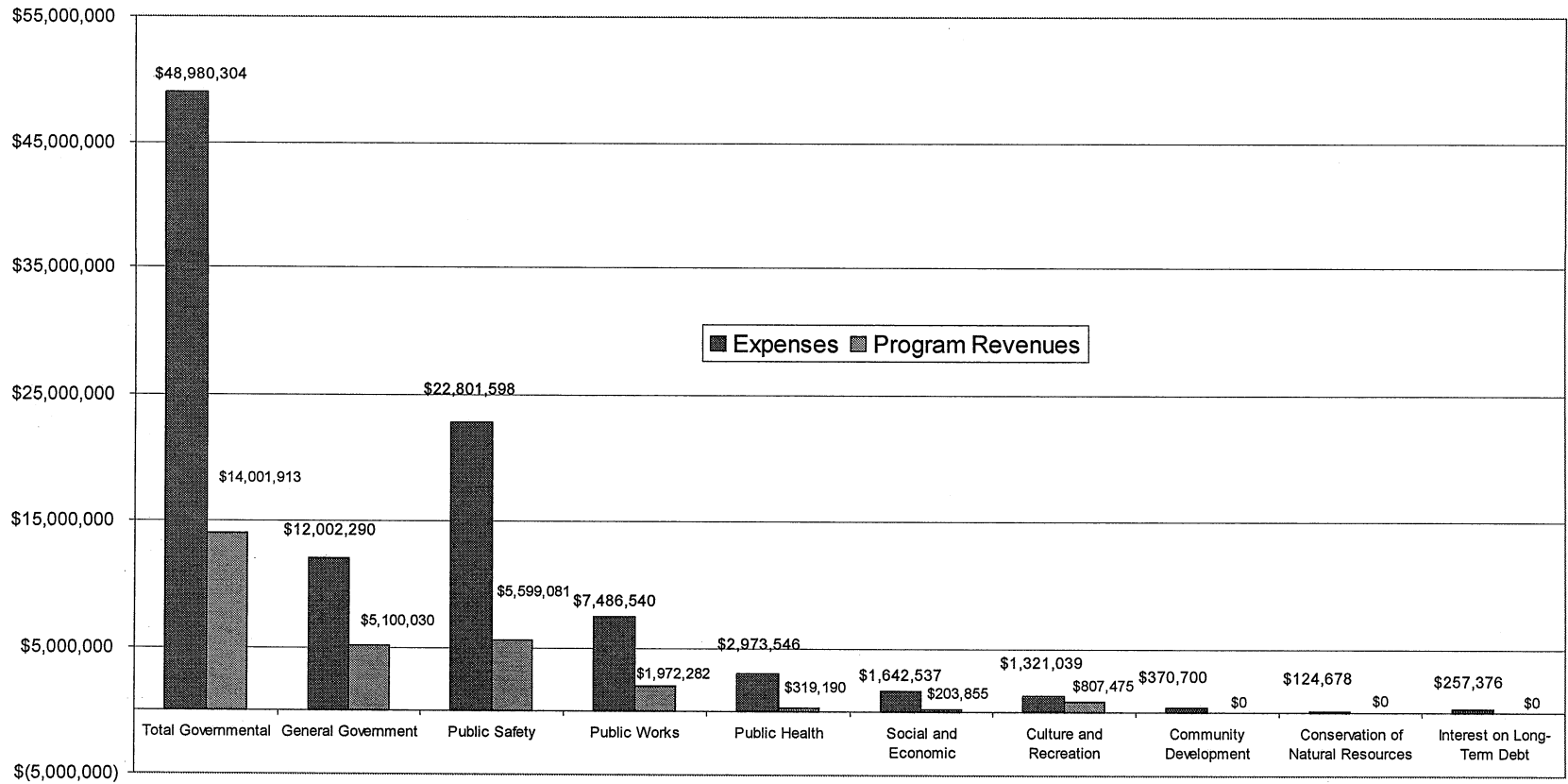
- Gas tax: \$285,478 / (+\$15,161)
- Justice Court fines: \$605,206 / (-\$55,273)
- Clerk & Recorder filing fees: \$1,058,823 / (-\$40,516)
- Health insurance premiums less County funded premium for employees: \$2,656,119 / (-\$110,262)
- Adult detention boarding fees: \$2,872,508 / (+\$805,638)
- Youth detention and secure shelter boarding and program fees: \$1,525,877 / (-\$40,068)
- RSID assessments: \$799,465 / (-\$59,257)
- Operating grants: \$1,599,100 (+\$247,382)
- Capital grants and contributions: \$1,073,355 (+\$229,858)

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



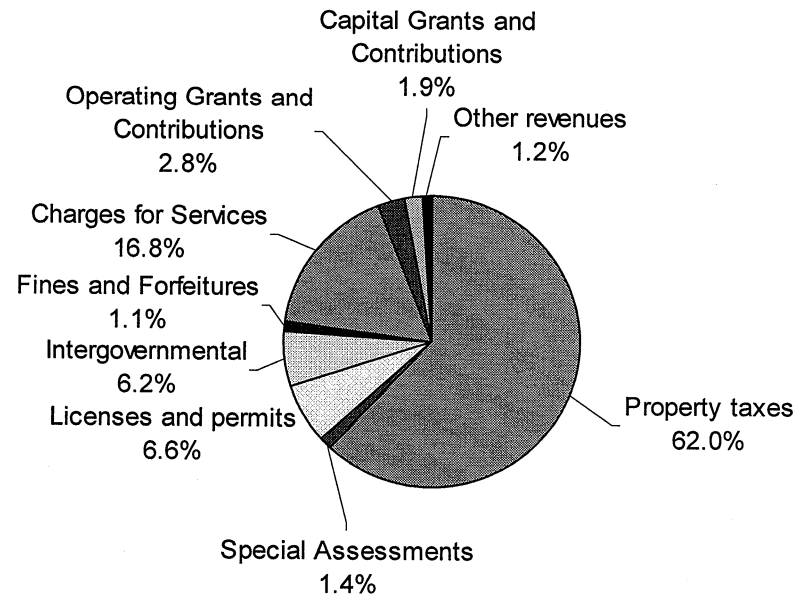
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**Expenses and Program Revenues - Governmental Activities**



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

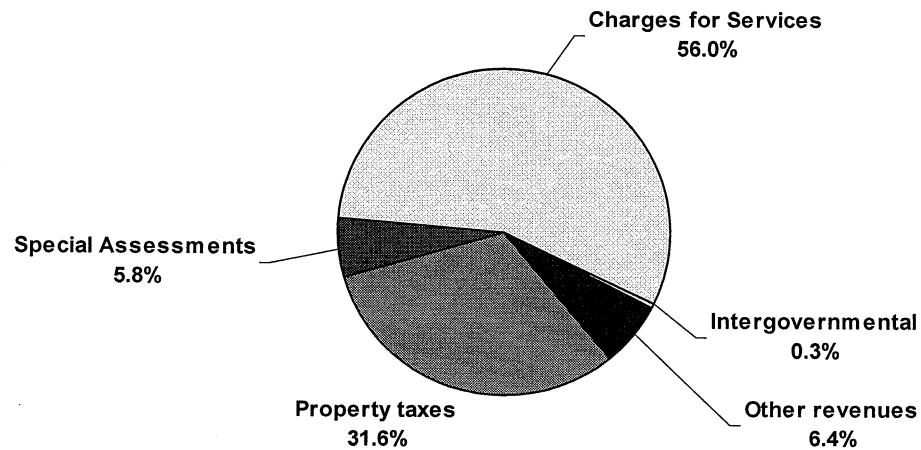


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**Business-type activities.**

Total revenues of \$7,724,628 funded total expenses of \$7,554,755, which resulted in an increase in net assets of \$169,873 for business-type activities. FY12 results of operations are more representative of a typical year than was FY11, which had many extraordinary items and is not comparable to other years. METRA had a FY12 increase of \$265,688 in net assets. The increase in net assets has four major components: \$207,339 related to operations; (\$92,365) in net loss from insurance related activity expenses and revenues; \$310,826 of assets donated from a grant; and (\$160,112) related to capital improvement and maintenance activity.

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



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**Fund Financial Statement Analysis**

**Governmental funds.**

Overall, Yellowstone County's governmental funds' change in fund balance for FY12 was an increase of \$1,984,013 resulting in an ending total governmental fund balance of \$32,700,588.

The general fund increased fund balance by \$82,751 during fiscal year 2012. The general fund is stable at the current time.

The road fund decreased its fund balance by (\$136,431). This was a result of contracting out some additional road paving projects.

Fund balance in the sheriff's public safety fund increased \$597,790. The increase was a result of increased prisoner billings (see financial highlights section above)

The property and liability insurance fund had an increase in fund balance of \$181,919. Fund balance for the fund is currently anticipated to be stable for FY13 but claims always have some level of unpredictability, however, this fund's reserves appear to be sufficient for known cases.

The youth services fund had a decrease in fund balance of (\$24,519) in FY12 due to reduced juvenile populations, even though the County infused an additional \$150,000 in a general fund transfer to shore up reserves. 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. The general fund has budgeted another contingent transfer of \$150,000 in FY13 if shortfalls continue.

Fund balance in the capital improvement fund increased \$1,501,323. Funds are set aside for future capital replacement needs.

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 (\$95,815) for FY12 as a result the landfill charge while assessments declined due to the number of units declining for commercial and residential. This fund has total net asset of \$415,714 on June 30, 2012. The targeted reserve level is \$250,000. The solid waste board increased its assessment rate from \$28 to \$35 per unit for FY13 in order to set a level that should be static for the next few years at the expected future city landfill contract levels.

METRA had an increase in net assets of \$265,688 as operations normalized in FY12. Results of operations were good for FY12 as operating cash improved from FY11 with a return to a full year of normal operations after the arena had been out of commission for most of FY11. Cash declined \$1,177,769 during FY12 as a result of completing the METRA construction projects. Operational cash levels remain adequate.

The health insurance fund had a net asset increase of \$903,719 for FY12 to bring the ending net assets to \$5,713,012. For FY12, the health plan is again funded to cover costs based on a projected cost level determined by our health plan third party administrator. The premium rates for FY12 were actually reduced about 4% from the actuary recommended rates because of the strong reserve position of the health insurance fund. The County carries specific stop-loss insurance for health claims at \$270,000 per claim. 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. On January 1, 2011 the County 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. Results have been encouraging. The County is also considering of contracting for an employee health clinic that would provide services to plan members at low cost in order to encourage preventative care that provides long term returns for health care.

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**Governmental Fund Budgetary Highlights**

Differences between original and final revised budget are primarily a result of state and federal grant awards and related match funding being added to the original budget. The original budget does not include either new or continuing grant activity and is subsequently amended into the budget by resolution of the Board of County Commissioners. New grants added \$3.9 million of revenue and expenditure appropriations to the FY12 budget. Some major grants included in the fiscal year 2012 budget were:

- \$511,214 Public Safety Interoperability Communications Grant
- \$698,515 NRCS EWP – Huntley Streambank Protection Grant
- \$315,630 HB130 Crisis Center Grant
- \$314,454 TSEP 12 Mile – S. 24<sup>th</sup> – S.44th Bridges Grant
- \$101,720 FEMA Hazard Mitigation Grant
- \$537,695 CTEP Sidewalk and Bike Path Grants
- \$450,000 CDBG Lockwood Water and Sewer Grant

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

- Tax protests impacted real estate property tax revenue collections being short of County property tax budgets by about \$2.9 million (-7.5%).
- Senate Bill 372 provided \$325,700 in State funding to County funds to offset reduced personal property taxes
- (\$200,000) of untransferred funding from general fund to sheriff's public safety fund due to mid-year implementation of contracted adult detention medical services delivery program.
- \$27,800 of additional clerk & recorder filing fees generated by activity in the local housing and real estate market and refinancings
- (\$64,500) shortfall in general fund interest earnings due to historically low interest rate environment
- (\$54,800) shortfall in general fund justice court fines
- (\$232,000) shortfall in motor vehicle option tax for public safety due to a revenue distribution correction
- \$722,500 in additional prisoner boarding fees for sheriff's detention facility due to increased populations in inmates from jurisdictions paying boarding fees and an increase in our daily rates from Federal and non-Yellowstone County prisoners
- (\$138,400) 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:

- \$3 million in contingency expenditure budgets established to account as a reserve for protest taxes
- \$125,500 in unspent general fund contingency budgets, which are budgets set aside for unforeseen expenditures
- \$200,000 of untransferred funding from general fund to sheriff's public safety fund due to mid-year implementation of new contracted adult detention medical services delivery program
- \$201,000 of unspent budget committed to funding bench connector project. Still awaiting final billing on project.
- \$110,900 savings in the election department, primarily from savings on consolidation of polling places
- \$500,000 of unspent road budget in multiple cost areas. Savings from mild winter.
- \$1,424,000 in unspent grant budgets that were carried over into FY13
- \$430,000 in county attorney staff savings and unspent operations budget
- \$8.7 million in unspent capital project fund budget, which is typically reserves appropriated in the current year but not necessarily scheduled to be spent in the current year
- \$329,000 in unspent bridge projects, which are carried forward to the next budget cycle
- \$1,400,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$380,000 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:

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Land	\$ 3,665,796	\$ 3,665,796	368,574	368,574	\$ 4,034,370	\$ 4,034,370
Buildings	11,825,454	11,570,609	37,250,614	6,441,050	49,076,068	18,011,659
Improvements other than buildings	2,929,493	2,391,258	2,248,662	1,635,893	5,178,155	4,027,151
Equipment and vehicles	8,032,779	7,722,452	407,329	331,474	8,440,108	8,053,926
Infrastructure	22,277,497	20,710,380	0	0	22,277,497	20,710,380
Construction in progress	63,336	667,188	20,736	27,909,545	84,072	28,576,733
<b>Total Capital Assets</b>	<b>\$ 48,794,355</b>	<b>\$ 46,727,683</b>	<b>\$ 40,295,915</b>	<b>\$ 36,686,536</b>	<b>\$ 89,090,270</b>	<b>\$ 83,414,219</b>

Governmental capital assets increased \$2,066,672 in total during the year as a result of the addition of new capital assets in the governmental funds of \$6,704,334 while being offset by depreciation of \$4,638,966 and a gain on disposal of assets of \$1,304.

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

- \$2.9 million in infrastructure improvements for county roads
- Bridge and culvert replacements \$1,062,884
- Huntley streambank protection - \$645,089
- Veteran's Cemetery Shop Building - \$68,660
- Tractor for Road Department \$77,752
- Tractor for Bridge Department \$110,135
- Tractor with scraper for Road Department \$297,821
- Wheel Loader for Road Department \$235,926



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

- Building repairs and improvements from tornado damage - \$12,024,004 in addition to \$21,296,917 spent in FY11
- Metra CTEP sidewalk and ramp project \$899,146
- Metra Midway bathroom project \$240,726
- Bobcat \$48,266
- Lake stage remodel \$29,433
- Handheld scanners \$35,139
- Basketball floor refinish \$12,633

See footnote 7 for additional information on capital assets.

### **Long-term Debt**

As of June 30, 2012 the County has \$11,309,770 of long-term liabilities. Governmental funds account for \$10,977,121 and the enterprise funds account for \$332,649.

The largest component of long-term debt is \$6,465,000 of general obligation (G.O.) bonds issued by the County. In 2011 the County issued a \$3,000,000 limited tax general obligation bond for the purposes of dedicating \$2,000,000 for Metrapark facility improvements and \$1,000,000 for the Bench Connector road and bridge project. The debt service for this bond which has a balance of \$2,750,000 will be funded by the general fund. The other limited tax general obligation bond, which has a balance \$2,270,000 was issued to develop the veteran's cemetery and to improve seating at Metra. The 2009 Unlimited Tax G.O. Refunding Bond for the Metra expansion has an outstanding balance \$1,445,000 on June 30, 2012. 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's bond rating from Standard and Poor's was AA+ and was reaffirmed on our \$3,000,000 2011 L.T.G.O. issue.

Another major component of long-term debt includes rural special improvement district (RSID) bonds issued to provide property improvements to properties located within a specified area. Repayment of this debt is assessed to the benefited property owners,

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which can be repaid over the life of the bond or the remaining principal assessment against the property can be repaid anytime. The County provides additional bond debt service collateralization with the County's RSID Revolving Fund and other contingent funding requirements as specified by law. As of 6/30/12 the County has \$975,945 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$276,560. The County issued no new RSID bonds during FY12; however, one new RSID bond issue was issued in September 2012 for \$1,015,433.52.

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 FY12.

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 \$250,000 for all cases. Fund balance increased by \$181,919 in FY12 in the property and liability insurance fund.

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 liability increased \$63,936 in FY12. The amount of this liability at yearend was \$2,391,278.

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 FY13 was 0.68%, which was comparatively low with prior years. The growth rate was negatively impacted by changes in centrally assessed valuation and reduced valuation on personal property.

The 2013 Legislature for the State of Montana will meet in Spring 2013. Taxation of industrial and centrally assessed properties will likely be an important issue to local governments as will public employee pension funding and benefits. Public employee pensions are severely under funded and funding solutions are likely to impact future County budgets.

The economy of Yellowstone County is helped significantly by oil development in eastern Montana and western North Dakota.

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The County is experiencing some associated growth in both commercial and residential property development as the County supports oil operations in those areas.

Some of the more significant budgeted items for fiscal year 2013 include:

- Tax protests were anticipated at 10.2% of budgeted property tax revenues, however actual November 2012 tax protests were 6.8%. It was anticipated that Exxon would protest their property taxes, but they did not protest for November 2012. The effects of the protests are currently impacting funds with lower reserves the most. This includes the sheriff's fund, museums, planning, seniors, Riverstone Health, and Library. The County is offsetting the protest impacts by utilizing available tax authority, and has not had to take drastic budget actions or advance funds from the protest tax fund to meet operational needs.
- Taxable valuation was reduced due to changes in centrally assessed properties and personal property. Countywide valuation grew only 0.68%, which was the lowest since 2001.
- The State of Montana is providing \$426,420 of revenue to the County to offset reductions in personal property taxes.
- \$150,000 for a possible general fund transfer to the youth services fund to assist with declining fund reserves and operational funding shortfalls.
- Reduction of 10.7 FTEs in overall county staffing, primarily from contracting jail medical services.
- The extreme decline in interest rates has impaired interest earnings significantly. Interest revenue has declined \$875,252 (84.5%) between FY12 and FY08. The general fund budget of \$115,000 for FY13 is \$45,000 lower than the interest received in FY12.

**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