

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2009

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, 2009 and the financial position as of June 30, 2009. 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 \$13,453. Interest rates declined substantially during FY09 as a result of federal efforts to stimulate the economy. This resulted in FY09 interest collections declining from the prior year by about \$350,000. Clerk and recorder document filing fees, which generates about \$1,215,000 for the general fund is a major revenue source and has stayed stable. Justice court fines, another significant general fund revenue source, are also stable at about \$675,000.
- The liability insurance fund had a gain of \$575,000 as a result of reducing the claims loss reserve from \$1,075,000 to \$500,000 as a result of a favorable court ruling on a major case. The case was appealed by the plaintiff to the Ninth Circuit Court of Appeals and the County prevailed in that Court's ruling as well.
- The slower economy has negatively impacted motor vehicle option tax revenues in the sheriff's fund. Actual revenues declined in FY09 from FY08 by about \$115,000, 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 \$100,000 from FY08. Fees for this revenue source have been declining since FY06.
- The County has been involved in several property transactions at fair market value involving land sales and exchanges to facilitate an \$80 million federal courthouse project that is located adjacent to the County courthouse. The property exchanges resulted in the federal government obtaining their desired site location and the County did obtain the land directly adjacent to the County courthouse, which may someday provide the footprint for a County building project.
- In June 2008, the County issued a \$3,000,000 limited tax general obligation bond. The proceeds were divided with \$1,400,000 being utilized for seating improvements at Metra and \$1,600,000 being utilized for a voter approved veteran's

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cemetery in Laurel. These projects were mostly completed by the end of fiscal year 2009. Debt repayment will come from a \$225,000 voter approved levy for the veteran's cemetery and from existing levy authority on the Metra seating improvements.

- METRA had a change in net assets of \$1,351,813, which included \$1,215,383 in revenues contributed or supported by the general fund (financed seating improvements). Another \$215,240 was the result of revenue recognition in amortizing signage equipment acquired thru advertising agreements, which is a noncash revenue source. The cash position of Metra, exclusive of trust fund cash, increased \$579,609 from FY08 to a total of \$2,331,910. The total Metra cash position includes \$1,170,401 of funds allocated for capital improvements at Metra. Metra has improved its financial position significantly over the last couple of years, however, Metra still has to generate additional funds or save costs to become self-supporting. The County has also invested in significant capital expenditures in recent years to maintain and improve the facility, including facility signing, seating enhancements, barn maintenance, data communication systems, and on-line ticketing systems.
- For the fiscal year ended June 30, 2009 the County implemented GASB Statement #45, Other Post Employment Benefits. See footnote #10B for a more extensive explanation of this implementation.

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.

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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 23-25 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.

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Yellowstone County maintains many individual governmental funds. The general fund, road fund, property and liability insurance fund, public safety-sheriff fund, RSID Bond Fund, and capital improvement fund are all reported as major funds. Information for the major funds is reported separately in the governmental fund balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a comparative basis with the annually appropriated budget both original and revised to demonstrate compliance with this budget. The remaining governmental funds are combined in a single aggregate presentation titled other nonmajor governmental funds. Individual fund reports for each of the nonmajor governmental funds are presented in the combining financial statements in this report.

The basic governmental fund financial statements can be found on pages 26-32 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.

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The basic proprietary fund financial statements can be found on pages 33-37 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 38-39 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 40-71 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, therefore no other information is presented in the section for required supplementary information.

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 \$84,014,001 for the year ended June 30, 2009. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2009 was \$6,377,269.

Of the County's yearend total net assets of \$84,014,001, capital assets net of the related debt accounted for \$54,626,737 or 65.0% 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 (\$617,775 or 0.7%) are those funds legally required to be used for debt service payments. Unrestricted net assets of \$28,769,489 account for 34.3% of the total net assets. 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:

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Yellowstone County Net Assets

	Governmental Activities		Business Activities		Total	
	2008	2009	2008	2009	2008	2009
Current assets	\$ 39,110,579	\$ 40,532,500	\$ 3,057,622	\$ 3,378,352	\$ 42,168,201	\$ 43,910,852
Noncurrent assets	1,163,345	1,043,961	0	0	1,163,345	1,043,961
Capital assets	38,042,462	40,604,549	13,544,268	14,022,188	51,586,730	54,626,737
Total assets	78,316,386	82,181,010	16,601,890	17,400,540	94,918,276	99,581,550
Current liabilities	5,848,302	5,181,769	898,061	639,206	6,746,363	5,820,975
Noncurrent liabilities	9,102,973	8,475,140	1,432,208	1,271,434	10,535,181	9,746,574
Total liabilities	14,951,275	13,656,909	2,330,269	1,910,640	17,281,544	15,567,549
Net assets:						
Invested in capital assets, net of related debt	38,042,462	40,604,549	13,544,268	14,022,188	51,586,730	54,626,737
Restricted for debt service	629,854	617,775	0	0	629,854	617,775
Unrestricted	24,692,795	27,301,777	727,353	1,467,712	25,420,148	28,769,489
Total net assets	\$ 63,365,111	\$ 68,524,101	\$ 14,271,621	\$ 15,489,900	\$ 77,636,732	\$ 84,014,001
Change in net assets		<u>\$ 5,158,990</u>		<u>\$ 1,218,279</u>		<u>\$ 6,377,269</u>

Governmental activities.

The increase in net assets for governmental activities of \$5,158,990 was primarily a result of:

- \$469,191 increase in net assets of the health insurance fund
- \$926,425 increase in net assets as a result of the decrease in long-term debt
- \$2,981,177 of unspent resources appropriated to the capital projects fund from various funds
- (\$1,240,383) of funds governmental capital costs spent on Metra projects
- \$558,298 in revenue from sale of land proceeds for the federal courthouse project
- \$2,585,967 increase in net capital assets
- (\$746,422) decrease in tax receivables
- \$575,000 from the reduction in liability insurance claims loss reserve

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Yellowstone County's Change in Net Assets

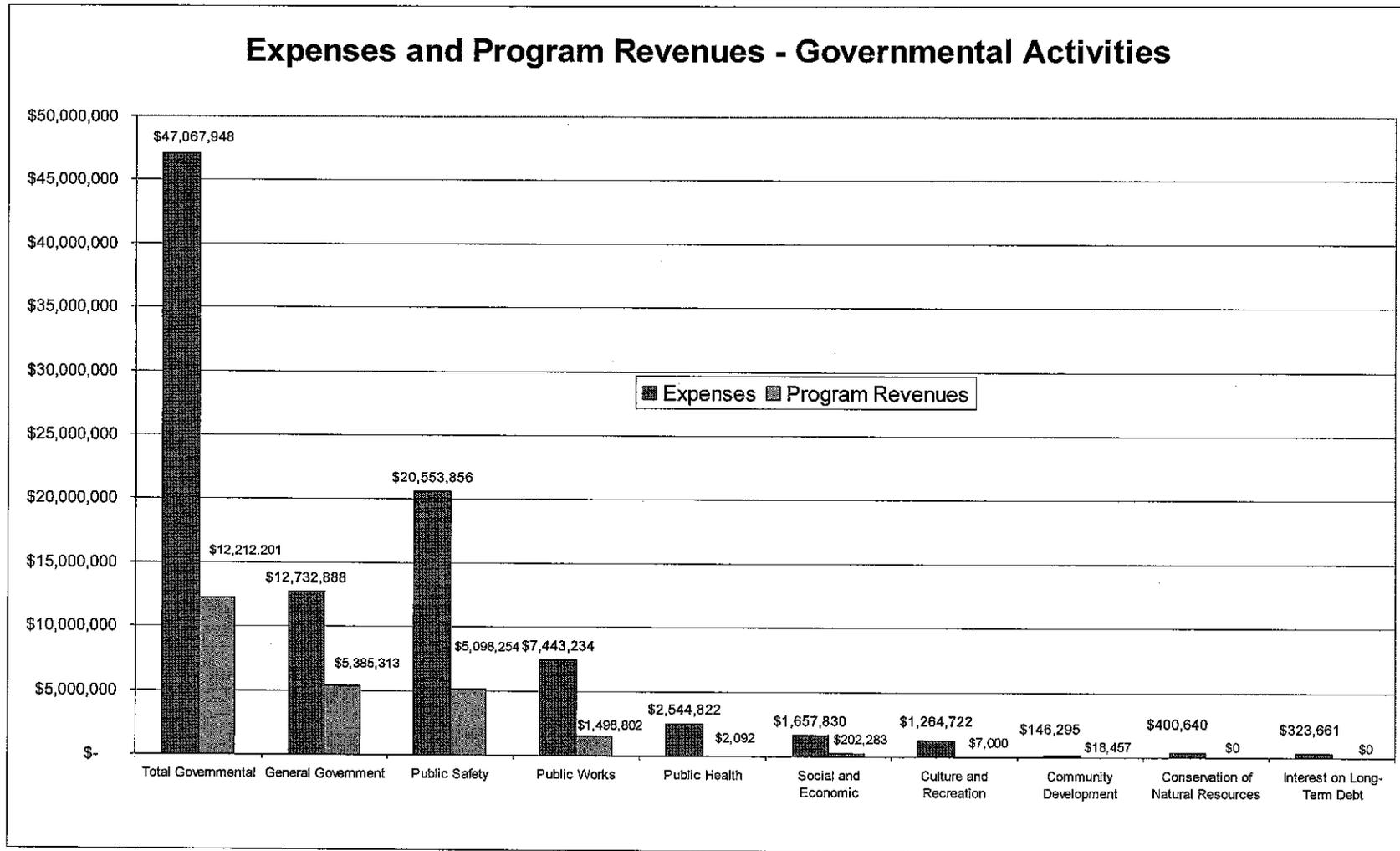
	Governmental Activities		Business-type Activities		Total	
	2008	2009	2008	2009	2008	2009
Revenues:						
Program revenues:						
Special assessments	\$ 554,539	\$ 685,903	\$ 331,357	\$ 308,483	\$ 885,896	\$ 994,386
Licenses and permits	71,464	60,511	0	0	71,464	60,511
Intergovernmental	1,348,338	911,158	0	0	1,348,338	911,158
Fines and forfeitures	738,133	703,843	0	0	738,133	703,843
Charges for services	8,601,503	8,538,144	4,115,283	4,516,429	12,716,786	13,054,573
Operating grants and contributions	915,682	768,114	0	0	915,682	768,114
Capital grants and contributions	641,992	544,528	0	0	641,992	544,528
Total program revenues	12,871,651	12,212,201	4,446,640	4,824,912	17,318,291	17,037,113
General revenues:						
Property taxes	27,934,463	30,909,532	1,228,459	1,346,630	29,162,922	32,256,162
Licenses and permits	4,083,512	3,970,264	0	0	4,083,512	3,970,264
Intergovernmental	2,023,698	2,303,482	6,219	0	2,029,917	2,303,482
Other revenues	2,063,062	2,906,251	329,966	1,475,873	2,393,028	4,382,124
Total general revenues	36,104,735	40,089,529	1,564,644	2,822,503	37,669,379	42,912,032
Total revenues	48,976,386	52,301,730	6,011,284	7,647,415	54,987,670	59,949,145
Expenses:						
General government	11,345,680	12,732,888	0	0	11,345,680	12,732,888
Public Safety	19,928,041	20,553,856	0	0	19,928,041	20,553,856
Public Works	5,515,461	7,443,234	0	0	5,515,461	7,443,234
Public Health	2,222,118	2,544,822	0	0	2,222,118	2,544,822
Social and Economic	1,217,047	1,657,830	0	0	1,217,047	1,657,830
Culture and Recreation	1,412,366	1,264,722	0	0	1,412,366	1,264,722
Community Development	826,617	146,295	0	0	826,617	146,295
Conservation of Natural Resources	111,840	400,640	0	0	111,840	400,640
Interest on Long-Term Debt	250,888	323,661	0	0	250,888	323,661
Sanitation, refuse disposal	0	0	391,992	417,017	391,992	417,017
Civic center, METRA	0	0	5,789,476	6,086,911	5,789,476	6,086,911
Total expenses	42,830,058	47,067,948	6,181,468	6,503,928	49,011,526	53,571,876
Increase (decr.) in net assets before transfers	6,146,328	5,233,782	(170,184)	1,143,487	5,976,144	6,377,269
Transfers	(98,165)	(74,792)	98,165	74,792	0	0
Increase (decrease) in net assets	6,048,163	5,158,990	(72,019)	1,218,279	5,976,144	6,377,269
Beginning net assets	57,316,948	63,365,111	14,343,640	14,271,621	71,660,588	77,636,732
Ending net assets	\$63,365,111	\$68,524,101	\$14,271,621	\$15,489,900	\$77,636,732	\$84,014,001

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Of the County's \$47.07 million in expenses for governmental activities, \$12.2 million (25.9%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (74.1% of the general revenues), or the use of reserves. The major sources of program revenues (and change from prior year) include:

- Gas tax \$270,240 / (-\$717)
- Justice Court fines \$675,226 / (-\$22,470)
- Clerk & Recorder filing fees \$1,214,742 / (+\$37,195)
- Health insurance premiums less County funded premium for employees \$2,620,594 / (-\$67,657)
- Adult detention boarding fees \$1,853,365 / (-94,391)
- Youth detention and secure shelter boarding and program fees \$1,685,775 / (-\$243,321)
- RSID assessments - \$685,903 / (\$131,364)
- Intergovernmental revenue from City of Billings for parking replacement \$0 / (-\$446,200)

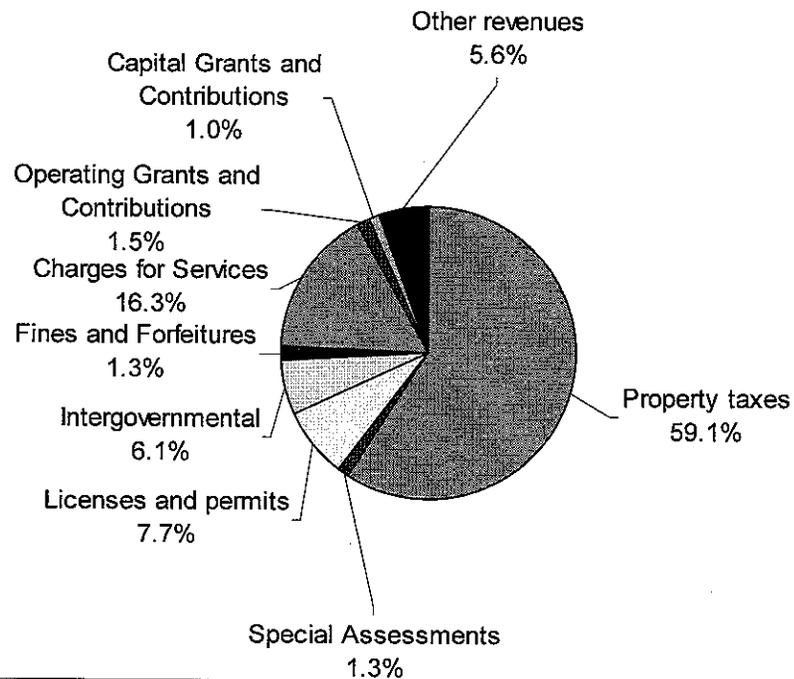
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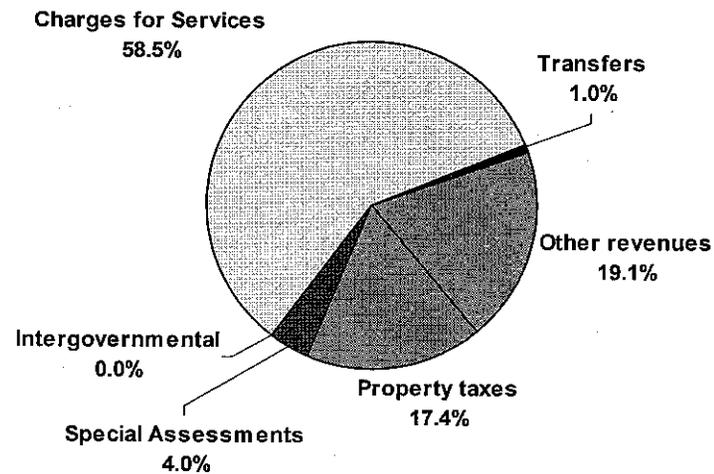
See the Statement of Activities for additional detail information regarding revenues and expenditures.

Total Revenues by Source - Governmental Activities



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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 FY09 was an increase of \$2,232,367 resulting in an ending total governmental fund balance of \$30,375,516.

The \$3,000,000 G.O. Construction Bond Fund spent \$2,751,311 of last year's fund balance of \$2,780,752. The Veteran's Cemetery and Metra seating projects were largely complete by June 30, 2009.

The general fund increased fund balance by \$13,453 during fiscal year 2009, however, the general fund did direct \$1,551,000 to the capital projects fund to be used courthouse remodeling, roof repair, computer network data storage and backup projects, and property acquisition.

The road fund increased its fund balance by \$312,750. This increase is re-budgeted into road materials for FY10 projects. Another \$860,000 was budgeted as a transfer to the capital projects fund to be used on heavy equipment replacement.

The sheriff's public safety fund motor vehicle option tax was impacted by reduced automobile sales during the fiscal year and continued decline in prisoner billing at the adult detention facility, however, fund balance still managed an increase of \$70,436.

The property and liability insurance fund incurred an increase in fund balance of \$815,101. The claims reserve was reduced \$575,000 due to a favorable ruling on a major liability case.

The youth services fund had a decrease in fund balance of (\$170,302) due to reduced juvenile populations. There have been some additional juvenile detention facilities open within Montana that may now house juveniles that previously may have come to the County youth services center.

The capital improvement fund had an infusion of revenues in order to fund some sizeable capital projects that will occur in FY10 and FY11. These projects include land acquisition and parking lot development close to the court house, courthouse remodeling to

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make room for another State district court judge, courthouse roof replacement, computer network storage and backup systems, smoke damper system and medical facilities at the jail, and replacement of 9 motor graders.

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

Proprietary funds.

The refuse disposal fund had a decrease in net assets of (\$133,534) for FY09. This fund has total net asset of \$550,968 on June 30, 2009, 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 change in net assets of \$1,351,813, however, most of the increase was not a result of operations. Seating improvements of \$1,215,383 were contributed from bond proceeds that are being funded by governmental funds. Another \$215,240 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. It is hoped that recent investment in METRA facilities will continue to produce community events and the associated revenues to support the facility without the need for additional tax revenues. 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 revenue sources 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 increase of \$469,191 for FY09 to bring the ending net assets to \$3,498,034. For FY10, 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 FY10 exposure for claims above funding is approximately \$983,000. The aggregate stop-loss would pay claims after that amount. The County accepted an increase to the level of exposure to moderate the cost of aggregate stop-loss insurance. Claims history and the health insurance fund reserve level contributed to the discussion 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. On July 1, 2008, the County made a Medicare advantage plan available to eligible Medicare retirees at no cost to the retiree or the County. Eligible Medicare retirees will have an annual election to participate in the Medicare advantage plan or to return to the County's health plan. As of June 30, 2009 over 41% of eligible retirees have elected the Medicare advantage plan.

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

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 \$1 million of revenue and expenditure appropriations to the FY09 budget. Some major grants included in the fiscal year 2009 budget were:

- \$ 97,492 for fuels mitigation grants to reduce fire risks for residential properties
- \$359,120 for a LENCO Ballistic Engineered Armored Response & Rescue Vehicle (BEAR)
- \$ 68,796 for jail based treatment programs
- \$178,796 in various crime control grants, primarily for victim witness programs and gun violence
- \$267,214 in various grants for youth programs and the Youth Services facility
- \$ 77,315 for GCDB Accuracy Improvement as part of the Montana Land Information Act

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

- (\$274,733) of unearned grant revenue, which is offset by a similar amount of unexpended grant appropriations
- \$575,000 of additional revenue recognized due to a favorable court ruling on a major case
- \$165,000 of additional clerk & recorder fees (14% over budget) generated by activity in the local housing and real estate market
- \$62,000 of additional General Election Fees Revenue due to school elections
- (\$285,000) shortfall in motor vehicle option tax for public safety due to slow new motor vehicle sales
- (\$146,635) shortfall in prisoner boarding fees for sheriff's detention facility due to declining prisoner populations in inmates from jurisdictions paying boarding fees
- \$558,298 of additional revenue from the sale of land related to the new Federal Court House Project property exchange
- \$141,000 of additional revenue in PILT Payment in Lieu of Taxes

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

- \$900,000 in unspent contingency budgets, which are budgets set aside for unforeseen expenditures
- \$5,700,000 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
- \$750,000 of unspent road budget due to staffing and time available to complete projects
- \$725,000 in unspent bridge projects, which are carried forward to the next budget cycle
- \$1,600,000 in unspent Property & Liability Insurance Fund contingency budget
- \$100,000 in unspent sheriff's detention budget, which was offset by declining prisoner boarding revenues
- \$170,000 in unspent county attorney's personnel costs
- \$220,000 in unspent Clerk & Recorder hardware and software replacements
- \$340,000 in RSID Maintenance Fund projects

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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>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Land	\$ 3,191,649	\$ 3,260,661	\$ 368,574	\$ 368,574	\$ 3,560,223	\$ 3,629,235
Buildings	11,105,252	10,761,604	10,743,149	10,370,959	21,848,401	21,132,563
Improvements other than buildings	358,872	2,204,025	1,785,707	1,937,763	2,144,579	4,141,788
Equipment and vehicles	6,084,799	6,621,139	251,919	225,858	6,336,718	6,846,997
Infrastructure	16,962,314	17,663,982	0	0	16,962,314	17,663,982
Construction in progress	339,576	93,138	394,919	1,119,034	734,495	1,212,172
Total Capital Assets	\$ 38,042,462	\$ 40,604,549	\$ 13,544,268	\$ 14,022,188	\$ 51,586,730	\$ 54,626,737

Governmental capital assets increased \$2,562,087 in total during the year as a result of the addition of new capital assets in the governmental funds of \$6,130,715 while being offset by depreciation of \$3,352,544 and a loss on disposal of assets of \$216,084.

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

- \$1.7 million in infrastructure improvements for county roads
- Land acquisition for replacement of county land used for new federal courthouse \$490,000
- Sand/Salt storage building for road dept \$97,000
- Heavy equipment for road department \$784,000
- Bridge and culvert replacements \$457,000
- Replacement of sheriff department vehicles \$276,000
- Purchased armored response and rescue vehicle funded by a federal grant \$364,667
- New Yellowstone County Veterans Cemetery in Laurel \$1.6 million

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

- Metra seating renovation project \$200,453
- Arena half-house project \$258,935
- On-line ticketing control system \$86,338
- Construction in progress projects for Metra includes telescopic seating replacement for \$765,000; fiber optic cabling \$68,000; catwalk fall safety system \$120,000; sidewalk replacement \$100,000; fire alarm replacement system \$57,100

See footnote 7 for additional information on capital assets.

Long-term Debt

As of June 30, 2009 the County has \$10,572,278 of long-term liabilities. Governmental funds account for \$10,344,321 and the enterprise funds account for \$227,957.

The largest component of long-term debt is \$6,275,000 of general obligation (G.O.) bonds issued by the County. The County refinanced \$3,530,000 of the Metra expansion G.O. debt in FY09 that resulted in a net present value savings of \$216,087. That G.O. bond has a balance of \$3,440,000. The other general obligation bond, which has a balance \$2,835,000 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'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 \$1,161,225 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$261,952. The County issued no new RSID bonds during the year.

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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 FY09.

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 \$500,000 for all cases. The claims reserve was reduced by \$575,000 in FY09 due to the successful 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 \$2,310,095.

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

Economic Factors and Next Year's Budget

New construction taxable value growth has ranged between 4.58-8.52% for the fiscal years 2004 to 2010. New construction taxable valuation for FY10 was 4.83%, which was the lowest since 2004. New construction growth rates are expected to remain modest with the slowing economy and tighter credit markets. Local refineries' expansions added significantly to new construction in prior years, however, their new additions have subsided. Local medical facilities continue to expand their operations. While the medical facilities do not add to the property tax base, they do add to the local economy. There are indications that the local economy is slowing but the local economy does tend to be resilient due to the nature of the local tax base.

The 2009 legislature also implemented a property reappraisal cycle that was a factor in taxable valuation for FY10. The reappraisal did not have a major impact in County valuation between FY10 and FY09 on a total basis.

Revenue estimates for the State continue to be revised downward. Although, the State should still be able to maintain a balanced budget, the declining revenue estimates will likely cause cutbacks in the State budget sooner rather than later. This could result in impacts to local governments in future operations depending on the severity of loss in State revenues.

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Some of the more significant budgeted items for fiscal year 2010 include:

- The 2009 State legislature approved a new district court judge for Yellowstone County. The County has budgeted \$600,000 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.
- \$787,000 for replacement of County land taken by the Federal government for the new Federal courthouse project.
- \$500,000 for replacement of the courthouse roof.
- \$711,000 for replacement and renovation of smoke dampers and HVAC at the detention facility.
- \$650,000 for demolition of structures and site preparation for parking replacement
- \$900,000 for cyclical replacement of 9 motor graders
- \$300,000 for computer network upgrades and backup
- \$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 5.5% for FY10. This cost center remains a tremendous national problem with no systemic movement towards actual cost control to date.
- The extreme decline in interest rates has impaired interest earnings significantly. The general fund has budgeted a \$200,000 decline in interest revenue for FY10 from 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
P.O. Box 35003
Billings, MT 59107