

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2011

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, 2011 and the financial position as of June 30, 2011. 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 decreased fund balance by \$(96,375). Interest rates continued to decline during FY11 as a result of continuing federal efforts to stimulate the economy by promoting low interest rates. This resulted in FY11 interest collections in the general fund declining from the prior year by (\$173,275). Clerk and recorder document filing fees, which generated about \$1,099,000 for the general fund is a major revenue source and declined (\$29,878). Justice court fines, another significant general fund revenue source, declined \$16,621 to \$660,479.
- The road fund increased its fund balance by \$465,720 primarily as a result of very wet spring weather delaying major road projects.
- The liability insurance fund had a loss of (\$85,442). Although not an unusually large loss for this fund, the County will need to consider providing some additional revenues to this fund in the future. Current fund reserves are still considered adequate for known cases .
- The slower economy has negatively impacted motor vehicle option tax revenues in the sheriff's fund. Actual revenues declined in FY11 from FY10 by about \$82,000, when this revenue has typically increased by about \$125,000 -\$200,000 per year in some prior years. Prisoner boarding fees at the county jail, which also helps to fund sheriff's operations increased significantly by \$303,000 from FY10. The County has been increasing prisoner billing rates and prisoner populations from non-County sources increased in FY11. Overall, the sheriff's public safety fund balance declined (\$81,621) in FY11. Fund reserves have been declining in this fund, however, the sheriff has been diligent about helping to balance this budget and has slowed the drawdown of reserves.

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- During FY11 the County contributed \$3,512,000 of revenues in addition to allocating \$1.3 million of available tax revenues to the rebuilding and improving of MetraPark facilities. The balance of funding for the \$7.3 million in improvements will be provided by a \$1,750,000 interfund 5 year loan from the capital projects fund and \$980,000 in property taxes. The available property tax revenue stream will fund the repayment of the interfund loan.
- Protested taxes are becoming a bigger concern as refineries and other larger taxpayers are protesting their taxable valuation and associated general tax bills. Protests in FY11 amounted to about 7.0% of the County's tax base in FY11. This was offset by 2% of protests being resolved, resulting in 5% of the FY11 tax levy going to the protest tax fund. 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 #17 & #18 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 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.

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 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.

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.

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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 40-74 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 \$116,589,729 for the year ended June 30, 2011. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2011 was \$6,434,149. Much of this increase was a result of receiving additional insurance proceeds on the Metra tornado property damage claim.

Of the County's yearend total net assets of \$116,589,729, capital assets net of the related debt accounted for \$82,099,552 or 70.4% 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 (\$618,821 or 0.5%) are those funds legally required to be used for debt service payments. Unrestricted net assets of \$33,871,356 account for 29.1% 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 FY11 and FY10 was the use of insurance proceeds from the Metra tornado property damage claim to rebuild the damaged facilities, which changed the classification from unrestricted net assets to capital assets.

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A comparison of the County's net assets follows:

Yellowstone County Net Assets

	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 44,203,150	\$ 45,175,667	\$ 9,979,080	\$ 26,410,832	\$ 54,182,230	\$ 71,586,499
Noncurrent assets	1,012,592	901,105	0	0	1,012,592	901,105
Capital assets	46,727,683	43,812,754	36,686,536	10,976,510	83,414,219	54,789,264
Total assets	91,943,425	89,889,526	46,665,616	37,387,342	138,609,041	127,276,868
Current liabilities	5,455,691	7,240,181	5,451,687	1,043,610	10,907,378	8,283,791
Noncurrent liabilities	9,960,412	7,710,173	1,151,520	1,127,324	11,111,932	8,837,497
Total liabilities	15,416,103	14,950,354	6,603,207	2,170,934	22,019,310	17,121,288
Net assets:						
Invested in capital assets, net of related debt	45,413,016	43,812,754	36,686,536	10,976,510	82,099,552	54,789,264
Restricted for debt service	618,821	601,415	0	0	618,821	601,415
Unrestricted	30,495,483	30,525,003	3,375,873	24,239,898	33,871,356	54,764,901
Total net assets	\$ 76,527,320	\$ 74,939,172	\$ 40,062,409	\$ 35,216,408	\$ 116,589,729	\$ 110,155,580
Change in net assets	\$ 1,588,148		\$ 4,846,001		\$ 6,434,149	

Governmental activities.

The increase in net assets for governmental activities of \$1,588,148 was primarily a result of:

- \$598,052 increase in net assets of the health insurance fund
- (\$2,233,098) decrease in net assets as a result of the increase in long-term debt
- (\$299,840) decrease in net assets from booking OPEB implicit rate subsidy for retiree health insurance
- \$2,930,281 increase in net capital assets
- \$821,848 increase in tax receivables

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Yellowstone County's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Special assessments	\$ 1,011,509	\$ 711,663	\$ 484,152	\$ 479,524	\$ 1,495,661	\$ 1,191,187
Licenses and permits	49,220	63,422	0	0	49,220	63,422
Intergovernmental	872,088	827,862	0	0	872,088	827,862
Fines and forfeitures	709,613	726,393	0	0	709,613	726,393
Charges for services	8,538,073	8,229,187	2,864,669	4,202,743	11,402,742	12,431,930
Operating grants and contributions	1,351,718	1,173,444	0	0	1,351,718	1,173,444
Capital grants and contributions	843,497	511,327	0	0	843,497	511,327
Total program revenues	13,375,718	12,243,298	3,348,821	4,682,267	16,724,539	16,925,565
General revenues:						
Property taxes	34,078,689	31,781,735	2,773,779	1,401,954	36,852,468	33,183,689
Licenses and permits	3,856,530	3,923,361	0	0	3,856,530	3,923,361
Intergovernmental	2,328,262	2,252,000	0	151,800	2,328,262	2,403,800
Other revenues	847,937	2,218,768	615,479	272,437	1,463,416	2,491,205
Gain on disposal of fixed assets	921,000	0	0	0	921,000	0
Total general revenues	42,032,418	40,175,864	3,389,258	1,826,191	45,421,676	42,002,055
Total revenues	55,408,136	52,419,162	6,738,079	6,508,458	62,146,215	58,927,620
Expenses:						
General government	13,481,058	12,723,629	0	0	13,481,058	12,723,629
Public Safety	22,680,666	21,106,126	0	0	22,680,666	21,106,126
Public Works	8,122,849	5,740,088	0	0	8,122,849	5,740,088
Public Health	3,008,217	2,736,104	0	0	3,008,217	2,736,104
Social and Economic	1,685,969	1,583,880	0	0	1,685,969	1,583,880
Culture and Recreation	3,265,026	1,427,488	0	0	3,265,026	1,427,488
Community Development	373,325	360,046	0	0	373,325	360,046
Conservation of Natural Resources	121,509	128,852	0	0	121,509	128,852
Interest on Long-Term Debt	245,489	253,804	0	0	245,489	253,804
Sanitation, refuse disposal	0	0	491,789	461,326	491,789	461,326
Civic center, METRA	0	0	5,429,653	6,393,925	5,429,653	6,393,925
Total expenses	52,984,108	46,060,017	5,921,442	6,855,251	58,905,550	52,915,268
Increase (decr.) in net assets before transfers and extraordinary gain	2,424,028	6,359,145	816,637	(346,793)	3,240,665	6,012,352
Transfers	(835,880)	55,926	835,880	(55,926)	0	0
Extraordinary gain from tornado damage event	0	0	3,193,484	20,129,227	3,193,484	20,129,227
Increase (decrease) in net assets	1,588,148	6,415,071	4,846,001	19,726,508	6,434,149	26,141,579
Beginning net assets	74,939,172	68,524,101	35,216,408	15,489,900	110,155,580	84,014,001
Ending net assets	\$76,527,320	\$74,939,172	\$40,062,409	\$35,216,408	\$116,589,729	\$110,155,580

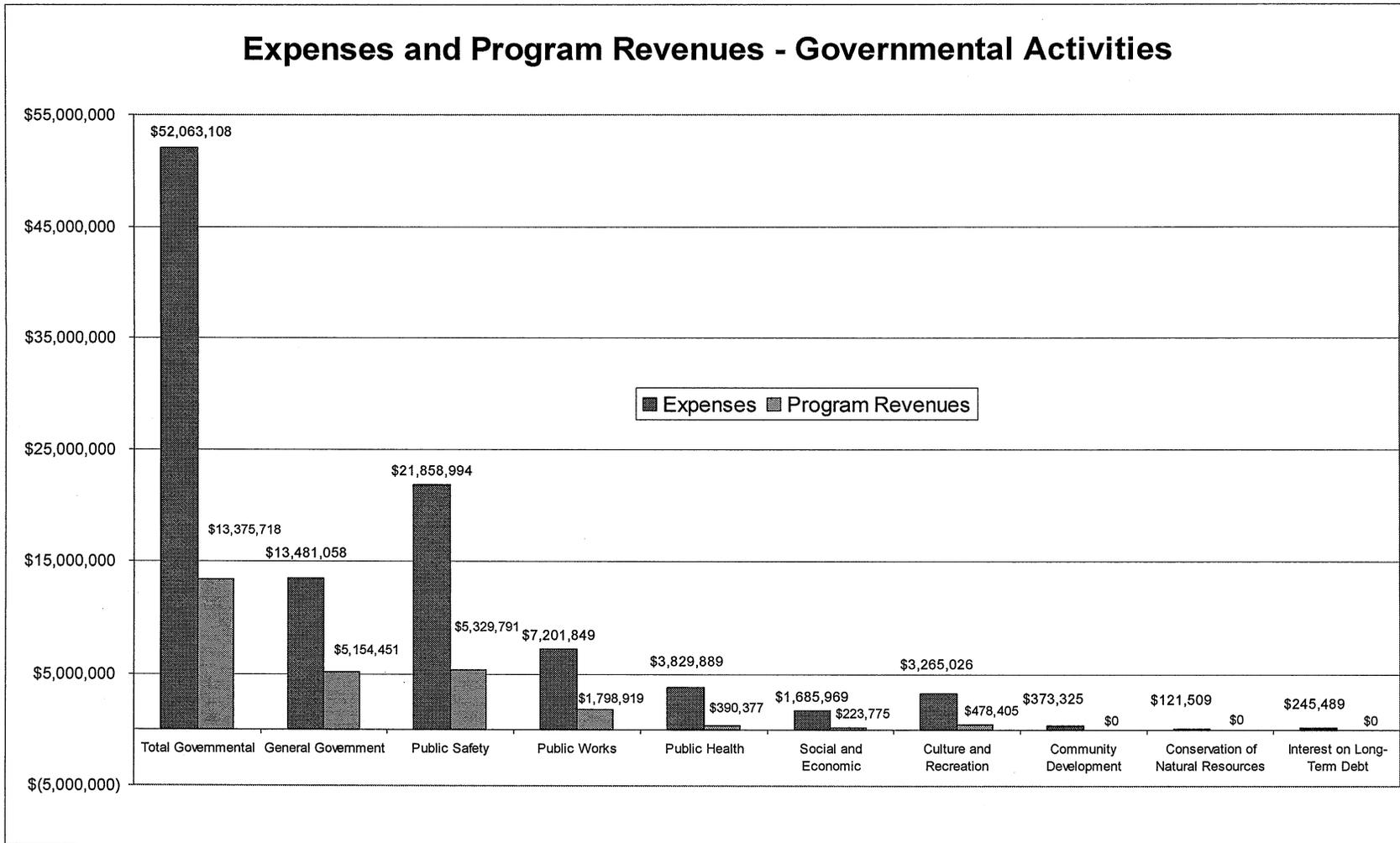
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Of the County's \$52.06 million in expenses for governmental activities, \$13.4 million (25.7%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (82.9% of the general revenues), or the use of reserves. The major sources of program revenues (and change from prior year) include:

- Gas tax: \$270,317 / (+\$888)
- Justice Court fines: \$660,479 / (-\$16,621)
- Clerk & Recorder filing fees: \$1,099,339 / (-\$29,878)
- Health insurance premiums less County funded premium for employees: \$2,766,381 / (+\$132,089)
- Adult detention boarding fees: \$2,066,870 / (+\$302,996)
- Youth detention and secure shelter boarding and program fees: \$1,565,945 / (-\$4,678)
- RSID assessments: \$858,722 / (+\$147,059)
- Operating grants: \$1,351,718 (+\$178,274)
- Capital grants and contributions: \$843,497 (+\$332,170)

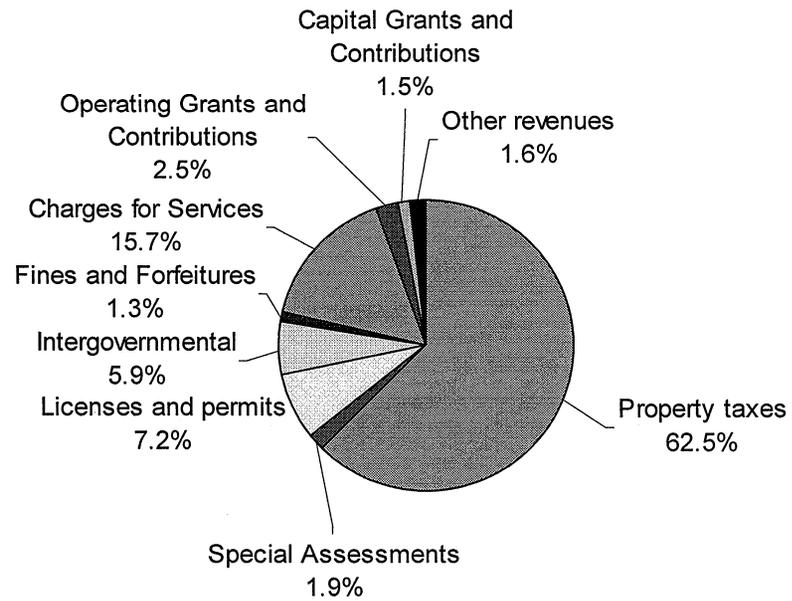
See the Statement of Activities on page #25 for additional detail information regarding revenues and expenditures.

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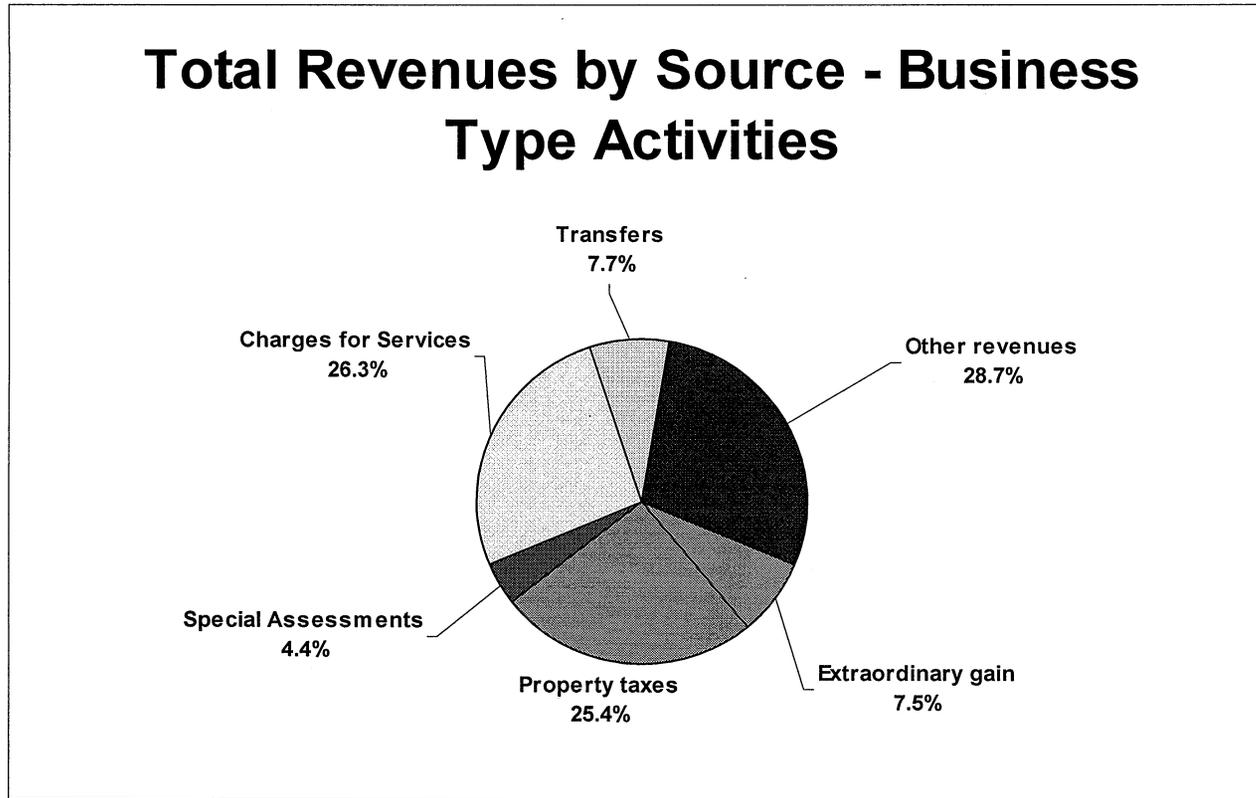
Total Revenues by Source - Governmental Activities



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Business-type activities.

Total revenues of \$10,767,443 funded total expenses of \$5,921,442, which resulted in an increase in net assets of \$4,846,001 for business-type activities. METRA had a FY11 increase of \$4,878,638 in net assets. The increase in net assets has four major components: \$78,458 related to operations; \$823,613 in net gain from insurance related activity expenses and revenues; \$463,769 of assets donated from a grant; and \$3,512,798 of revenue donated to METRA from governmental sources for facility improvements.



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Fund Financial Statement Analysis

Governmental funds.

Overall, Yellowstone County's governmental funds' change in fund balance for FY11 was a decrease of (\$207,177) resulting in an ending total governmental fund balance of \$30,716,575.

The general fund decreased fund balance by (\$96,375) during fiscal year 2011. The general fund contributed \$1,000,000 to Metra's facility improvements, but also needed to borrow \$1,000,000 for the County's contribution towards the Bench Connector road and bridge project. The loan will be funded over 10 years from dedicated general taxing authority.

The road fund increased its fund balance by \$465,720. This increase is primarily a result of weather delayed spring road projects.

Fund balance in the sheriff's public safety fund decreased (\$81,621). Although the fund balance in the sheriff's public safety fund has continued to decline, the amount of the decreases have slowed and come more into balance through operational and budget changes.

The property and liability insurance fund incurred a decrease in fund balance of (\$85,442). Fund balance for the fund is currently anticipated to be stable for FY12 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 (\$140,873) 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. The general fund has budgeted a contingent transfer of \$150,000 in FY12 to shore up reserves if losses continue.

Fund balance in the capital improvement fund decreased (\$800,788) due to courthouse remodeling to make room for another State district court judge, courthouse roof replacement, 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 (\$32,637) for FY11. This fund has total net asset of \$511,166 on June 30, 2011, 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 an increase in net assets of \$4,878,638, primarily as a result of insurance proceeds and funding for facility improvements contributed by the county general fund and grants. See above for additional discussion related to METRA.

The health insurance fund had a net asset increase of \$598,052 for FY11 to bring the ending net assets to \$4,809,293. 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. 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.

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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 \$3 million of revenue and expenditure appropriations to the FY11 budget. Some major grants included in the fiscal year 2011 budget were:

- \$708,308 CTEP Grant Metra Ramps & Sidewalks
- \$386,728 House Bill 130 Addictive and Mental Health Grant
- \$196,623 FEMA Homeland Security BZPP Grant
- \$186,782 FEMA Pre-Disaster Mitigation Plan Update Grant
- \$147,000 COPS Technology Program Grant
- \$115,550 BJA Justice and Mental Health Collaboration Program
- 211,795 CDBG Lockwood Water and Sewer Grant

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

- Tax protests resulted in real estate property tax revenue collections being short of budget by about 4.8%. Personal property taxes exceeded budget by about 53% because collections for two personal property tax cycles were mostly collected in FY11. The combination of the two taxes resulted in a shortfall of about 2.8% of budget.
- (\$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. It is anticipated that this implementation will occur in mid-FY12.
- \$59,000 of additional clerk & recorder fees (5.7% over budget) generated by activity in the local housing and real estate market and refinancings
- (\$59,000) shortfall in general fund interest earnings due to historically low interest rate environment
- (\$119,000) shortfall in motor vehicle option tax for public safety due to slow new motor vehicle sales
- \$217,000 shortfall in 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
- (\$173,000) shortfall in charges at youth services center for juvenile and shelter care daily fees
- \$921,000 revenue from sale of road department motor graders that were replaced

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

- \$141,000 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
- \$201,000 of unspent budget committed to funding bench connector project. Will be spent in FY12.
- \$148,800 savings in the election department, primarily from savings on consolidation of polling places
- \$440,000 in unspent CTEP and CDBG grant capital budgets that were carried over into FY12
- \$421,000 in county attorney staff savings and unspent operations budget
- \$1,067,000 in unspent sheriff's budget, which was a result of cutbacks to offset losses in revenues
- \$6,097,000 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
- \$1,296,000 of unspent road budget due to weather delayed projects and undelivered capital purchases by June 30, 2011
- \$592,000 in unspent bridge projects, which are carried forward to the next budget cycle
- \$1,800,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$643,000 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 3,665,796	\$ 3,665,796	368,574	368,574	\$ 4,034,370	\$ 4,034,370
Buildings	11,570,609	11,218,441	6,441,050	8,434,179	18,011,659	19,652,620
Improvements other than buildings	2,391,258	2,241,738	1,635,893	1,834,499	4,027,151	4,076,237
Equipment and vehicles	7,722,452	6,480,399	331,474	204,717	8,053,926	6,685,116
Infrastructure	20,710,380	19,539,192	0	0	20,710,380	19,539,192
Construction in progress	667,188	667,188	27,909,545	134,541	28,576,733	801,729
Total Capital Assets	\$ 46,727,683	\$ 43,812,754	\$ 36,686,536	\$ 10,976,510	\$ 83,414,219	\$ 54,789,264

Governmental capital assets increased \$2,914,929 in total during the year as a result of the addition of new capital assets in the governmental funds of \$6,962,698 while being offset by depreciation of \$4,030,369 and a loss on disposal of assets of \$17,400.

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

- \$2.3 million in infrastructure improvements for county roads
- County parking lot project \$225,665 –FY11 costs (Project total \$1,231,728)
- Yellowstone County Detention Center new lighting retrofit project \$48,424
- Yellowstone County Detention Center smoke damper project \$38,618-FY11 costs (Project total \$720,126)
- Bridge and culvert replacements \$722,203
- Replacement of sheriff department vehicles \$99,514
- Courthouse re-roof project \$403,197-FY11 costs (Project total \$475,734)
- Courthouse 3rd & 6th floor remodel project \$525,182 FY11 costs (Project total \$658,891)
- 9 new Motor Graders for Road Department \$1,938,882
- Volvo 5th Wheel Tractor for Road Department \$115,527
- Volvo L110F Wheel Loader for Road Department \$184,150
- 3 New 2011 Ford Trucks for Road Dept \$74,628
- 2 New 2011 Ford Trucks for Bridge Department \$53,581

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

- Metra lighting improvement project \$99,747
- Metra seat refurbishing project \$126,037
- Track infield base dirt added \$25,657
- Metra performance stage \$97,218
- Grandstand infield lights \$13,503
- Construction in progress projects for Metra includes lake stage project \$16,913; handicap path \$571,128; shower/bathroom project \$132,460; and Metra reconstruction from tornado \$5,878,594

Metra had another \$21,472,520 in capital additions for FY11 paid for by insurance proceeds

- Building repairs and replacement from tornado damage \$21,296,917
- Fence replacement from tornado damage \$71,008
- New risers for arena from tornado damage \$40,086
- New bleachers \$19,188
- Access control system for box office \$34,419
- Phone closet remodel project \$5,406
- Storage shed \$5,496

See footnote 7 for additional information on capital assets.

Long-term Debt

As of June 30, 2011 the County has \$12,248,151 of long-term liabilities. Governmental funds account for \$11,958,607 and the enterprise funds account for \$289,544.

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The largest component of long-term debt is \$7,595,000 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 will be funded by the general fund. The other limited tax general obligation bond, which has a balance \$2,465,000 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 \$2,130,000 on June 30, 2011. 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, 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 \$1,138,947 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$276,560. The County issued two new RSID bonds during FY11 totaling \$253,722, however, no new RSID bond issues 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 FY11.

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. The claims reserve was decreased by \$950,000 in FY11 due to the settlement of a couple major civil cases.

Compensated absences is the amount of the liability for unpaid vacation and sick leave at yearend. The amount of the liability generally increases on an annual basis as a result of increasing wages and a general growth in number of total compensable hours, although the liability did decrease \$28,610 in FY11. The amount of this liability at yearend was \$2,327,342.

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

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Economic Factors and Next Year's Budget

New construction taxable value as determined by the Montana Department of Revenue for FY12 was 3.41%, which was a welcome growth rate in the current economic environment.

The 2011 Legislature for the State of Montana met in Spring 2011. The overall impact of the session on the County considering the State fiscal constraints was reasonable. The biggest impact was probably the freezing of the entitlement revenue stream. Entitlement growth in FY11 was \$126,130 for County administered funds. Most of the entitlement goes to the road fund so that fund feels the brunt of the freeze.

Some of the more significant budgeted items for fiscal year 2012 include:

- The balance of the repair and replacement of Metra facilities will cost about \$4.5 million and be funded by remaining insurance proceeds and a \$1.75 million interfund loan to Metra.
- Tax protests are anticipated at 7.8% of budgeted property tax revenues. 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.
- \$300,000 for replacement and renovation of HVAC at the sheriff's administration building.
- \$150,000 for a possible general fund transfer to the youth services fund to assist with declining fund reserves.
- \$400,000 of additional budget to enhance the medical treatment at the detention center by transferring administration of this function to Riverstone Health.
- Reduction of 5.08 FTEs in overall county staffing.
- Costs for our health insurance plan are projected to rise 10.6% in FY12. 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 County is also implementing on January 1, 2012 a different pharmacy benefit that is anticipated to save money for both the employee and the employer. The County continues to proactive in plan design to encourage consumer driven health solutions. Due to recent years of positive results in operations and the reserve level in our

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health plan, FY12 premiums were increased 6.5% for most coverages rather than the health insurance consultant's recommended 10.6%.

- The extreme decline in interest rates has impaired interest earnings significantly. The interest revenue budget has declined \$460,000 (67%) between FY12 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
P.O. Box 35003
Billings, MT 59107