



GALLATIN COUNTY, MONTANA

Fiscal Year Ended June 30, 2009

AUDIT REPORT

GALLATIN COUNTY, MONTANA
AUDIT REPORT
Fiscal Year Ended June 30, 2009

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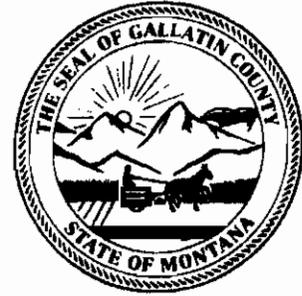
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INTRODUCTORY SECTION

State of Montana

County of Gallatin

Bozeman



GALLATIN COUNTY CLERK AND RECORDER

January 22, 2009

To the Honorable Board Of County Commissioners and the Citizens of Gallatin County:

The annual financial report of Gallatin County for the Fiscal year ended June 30, 2009, is hereby submitted. The form and contents of this report has been prepared by the Accountant for the Clerk and Recorder's Office in conformance with the standards promulgated by the Governmental Accounting Standards Board. This report is presented in four main sections: Management's Discussion and Analysis, Basic Financial Statements, Supplemental Schedules, and the Single Audit Section. The Management Discussion and Analysis provides a readable overview of the Financial Statements contained in the subsequent pages of this report. The Basic Financial Statements section includes the Financial Statements and the Notes to the Financial Statements. The combined statements provide a summary of the financial position at June 30, 2009 and the results of operations for the fiscal year then ended in accordance with GASB 34 statement. The Notes to the Financial Statements are considered an integral and essential part of adequate disclosure and fair presentation of this financial report. The notes include a summary of Significant Accounting Policies for the County and other necessary disclosures of pertinent matters relating to the financial position of the County. Because the notes are an integral part of the financial statements they should be read in conjunction with them. The Supplemental Section includes the combining financial statements, which are required when the County has more than one fund of a given type. The Single Audit Section includes reports required by the Office of Management and Budget Circular A-133 and the Single Audit Act Amendment of 1996. Those consist of the Schedule of Federal Awards Expended and the outside auditors' letters, comments and recommendations. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the County. All disclosures necessary to enable the reader to gain the maximum understanding of the County's financial activity have been included.

The preparation of this report could not have been accomplished without the assistance and cooperation of many County offices and departments.

Charlotte Mills

Charlotte Mills
Gallatin County Clerk and Recorder

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GALLATIN COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2009

BOARD OF TRUSTEES

R. STEPHEN WHITE	Commissioner (Chairperson)
JOSEPH SKINNER	Commissioner
BILL MURDOCK	Commissioner

OFFICIALS

MARTY LAMBERT	Attorney
JENNIFER BLOSSOM	Auditor
KIMBERLY BUCHANAN	Treasurer / Assessor
CHARLOTTE MILLS	Clerk and Recorder / Surveyor
JENNIFER BRANDON	Clerk of District Court / Public Administrator
SCOTT WYCKMAN	Justice of the Peace
WANDA DRUSCH	Justice of the Peace
MARY ELLEN FITZGERALD	School Superintendent
JIM CASHELL	Sheriff / Coroner
MICHAEL SALVAGNI	District Court Judge
HOLLY BROWN	District Court Judge
JOHN C. BROWN	District Court Judge

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Gallatin County, Montana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gallatin County, Montana (the County), as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gallatin County, Montana, as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2010, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and Employee Group Benefit Plan-Other Postemployment Benefits schedule are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the County. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Anderson Ziem Muehlen & Co, P.C.

Bozeman, Montana

January 22, 2010

MANAGEMENT'S

DISCUSSION

AND

ANALYSIS

Gallatin County, Montana
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2009

As managers of Gallatin County, the Board of County Commissioners, with assistance from County Elected Officials, the County Administrator and their staff, we present the following Management Discussion and Analysis. The information comes from Gallatin County's financial statements and includes narrative on the financial activities of Gallatin County, Montana, for the fiscal year ended June 30, 2009. We encourage readers to consider the information in this Management Discussion and Analysis (MD&A) along with the rest of the annual report, of which the Management Discussion and Analysis is the first part of.

FINANCIAL HIGHLIGHTS:

The financial statements presented herein include all of Gallatin County, Montana, (the County) activities using the integrated approach as prescribed by the Government Accounting Standards Boards (GASB) Statement No. 34.

- At the end of Fiscal Year 2009, the fund balance for the General Fund was \$1,112,5452 - down \$1,719,984 from June 30, 2008;
- The County will face a number of fiscal challenges in the future. The challenges have been increased with the slowing of the local economy leading to a downturn in construction, decrease in employment and development. Gallatin County continues to maintain a moderate financial standing because of positive growth of taxable values, completion of the Road Shop Complex, expansion into the Courthouse Annex, construction of the new Dispatch Center, construction of the new Detention Center, adoption and implementation of the Growth Policy and continued increases in taxable value and a significant increase in total net assets.
- The assets of the County exceeded its liabilities at year-end by \$147.1 million (net assets). Of this amount \$65.6 million (44.59%) is unrestricted and may be used to meet the County's 2010 budgetary needs and Operating Reserves.
- Revenues from Taxes/Assessment were \$24,914,109 for governmental funds, up \$263,710 from fiscal year 2008. This increase was mostly from newly taxable property appearing for the first time on the tax roles.
- The County Landfill saw a significant change in net assets. The activity increased net assets by \$1,489,917 during fiscal year 2009.
- County Health Insurance Fund saw a continuation of a positive financial position, as represented by unreserved cash increasing to \$3,383,589 (cash \$3,688,001- Claims Payable \$304,412), compared to fiscal year 2006 cash of \$1.3M, fiscal year 2007 cash of \$2.1 M and fiscal year 2008 cash of \$2.9 M. The Health Insurance Fund continues to benefit from the Permissive Medical Levy approved by the State.
- The County's Governmental Activity debt increased by \$36,544,327 to \$58,916,157 with Business-Type Activity debt decreasing (\$1,104,189) to \$4,123,826 with total debt increasing by \$35,440,139 during fiscal year 2009. The Governmental Activities debt will increase with borrowing for the Mental Health (Hope House) of \$1,000,000, in fiscal year 2010.

OVERVIEW OF THE ANNUAL REPORT:

The Government-Wide financial statements present the financial picture of the County from an economic resource measurement focus (what activity money is spent on) using the full accrual basis of accounting. The statements present governmental activities and business type activities separately. The statements include all assets of the County, as well as all liabilities, including long-term debt. Additionally, certain reductions have occurred as prescribed by the statements regarding interfund activity, payables and receivables.

The Fund Financial Statements include statements for each of the three categories of activities: governmental, business-type, and fiduciary. The governmental activities are prepared using the current financial resource measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resource measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. Reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach.

Reporting the County as a whole:

The following discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's financial statements are comprised of three primary components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial report contains other supplementary information that supports or clarifies the primary components.

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the County as a whole and its activities. These statements include all assets and liabilities of the County using the full accrual basis of accounting for all expenses and revenues. This means that all of the current year's expenses and non-tax revenues are taken into account regardless of when payment is made or revenue received (when the service is rendered).

The *Statement of Net Assets* presents information on all the County's assets and liabilities, with the difference being shown as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the County's financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net assets changed during the fiscal year ended. All changes in net assets are reported as soon as the underlying event giving rise to the changes are known, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flow changes in future fiscal periods (e.g. receivables at the landfill, fairgrounds, and rest home and expenses such as unused vacation, sick, or comp time).

Both of these statements distinguish activities of the County that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type

activities). The County's activities include general government, public safety, public works, public health, economic development, and recreation. The business-type activities of the County include Solid Waste District (Logan landfill), Hebgen Basin Refuse District, and Rest Home activities.

The government-wide financial statements are found in the Basic Financial Statement Section of this report.

Government Activities – Most of Gallatin County's basic services are reported in this category, including:

General Government:

Elected Offices –

- County Attorney, Auditor, Clerk & Recorder/Surveyor, Commission, Justice of the Peace, Clerk of District Court/Public Administrator, and Treasurer/Assessor.

Departments –

- County Administrator, Compliance Office, Court Services, Finance, Geographic Information, Grant/Project Administration, Human Resources, Information Technology, and Planning/Zoning.

Public Safety:

Elected Offices –

- County Sheriff, Coroner.

Departments –

- Disaster & Emergency Services, Dispatch Services, Fire Marshal, Detention Services – Adult & Juvenile, Hazardous Materials Incident Services, Search & Rescue.

Public Works:

Departments –

- Airport – Three Forks, Bridge, Junk Vehicle, Noxious Weed Control, Road, Facilities, Rural Improvement Maintenance, and Refuse/Solid Waste.

Public Health:

Departments/Agencies –

- Alcohol Rehabilitation, City/County Health (Administration, Human Services and Environmental Services), Mental Health, Senior Citizens, Cemetery Districts, Mosquito Control, and Water Quality.

Economic Development:

- Economic Development, Extension Agents.

Culture and Recreation:

- Library, Fair, and Parks

Conservation and Natural Resources:

- Open Lands Board, Open Space Bond, Open Space Bond Repayment

Debt Service:

- General Obligation Bonds, Loans Payable, Lease Purchases, Rural Special Improvement Bonds and Compensated Balances.

Business Type Activities – In this activity, fees charged to users are designed to cover all or most of the cost of the services provided. The County uses fees as the principal revenue source for landfill, refuse, and rest home services.

Reporting the County’s Significant Funds

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, as required by state law and generally accepted accounting principles, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The County continues to conform to the State of Montana Budgetary Accounting Reporting System (BARS). All County funds are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for 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 near-term inflows and outflows of spendable resources, which also include spendable resources available at the end of the fiscal year. (NOTE: spendable resources include cash on hand and resources immediately available during the next month). Such information may be useful in evaluating a government’s near-term financial requirements.

The focus of spendable resource statements is narrower than the government-wide financial statements and is useful to compare governmental activities in the governmental wide financial statements with the information presented in the fund financial statements. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation allowing a comparison between governmental funds and governmental activities.

The County maintains 4 major governmental (the RID Bond consists of 40 funds) and 3 major proprietary funds, 149 non- major funds and 202 trust and agency funds. This means the County maintains 398 funds. Major funds are the general fund plus any other fund in which total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type. Also, total assets, liabilities, revenues, expenditures/expenses for the individual governmental fund or enterprise fund are at least 5 % of the corresponding total for all governmental and enterprise funds combined. Non-major governmental funds are those that do not meet the above criteria.

Major governmental funds include the General Fund, Public Safety Fund, RID Bonds, County Building – Capital Projects Fund, Rest Home, Landfill District and Refuse District. The Non-major governmental funds include 130 operating funds, 5 debt funds, 8 capital funds, 6 revolving funds and 202 trust and agency funds. The information for the Non-Major Governmental Funds is combined into a single, aggregated presentation. Data for funds is provided in the form of combining statements elsewhere in this report.

Gallatin County adopts an annual budget for general, special revenue, debt service, capital, enterprise, interdepartmental, and special district funds. A budgetary comparison statement between the general and special revenue funds is provided to show our compliance with the approved budget.

Proprietary Funds – The County maintains two types of proprietary funds. They are 1) Enterprise Funds which are used to report business type activities in governmental-wide financial statements. The activities of the County Rest Home, County Landfill, and Hebgen/West Yellowstone Refuse District are reported as Enterprise Funds; 2) Internal service funds are used to record and allocate costs among the county's various activities. The County uses internal service funds for motor pool, employee health insurance, facilities, central communications, copier and liability insurance activities. Because these services benefit governmental activities rather than business type activities, they have been included within governmental activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, but in greater detail. All funds are aggregated when the final statements are compiled.

The basic proprietary fund financial statements are found in the government-wide financial statements section of this report, which immediately follows the MD & A.

Fiduciary Funds – The County maintains a significant number of fiduciary funds including fire districts, fire service areas, school districts, cities, and other state and local accounts. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the governmental-wide financial statements because the resources of those funds are not available for expenditures by the government, but are restricted for use by the agency having control of the fund.

The basic fiduciary fund financial statements are found in the government-wide financial statement section, which immediately follows the MD & A Section.

Notes to the Financial Statements – The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. Notes to the financial statements are found in the government-wide statements of this report.

The County as a whole

**Gallatin County, State of Montana
Statement of Net Assets
June 30, 2009**

	Primary Government FY 09			FY 08	FY 07	FY 06
	Governmental		TOTAL	Government	Government	Government
	Activities	Business-Type		Totals	Totals	Totals
ASSETS:						
Cash & Cash Equivalents	\$ 61,757,322	\$ 9,612,865	\$ 71,370,187	\$ 30,492,460	\$ 40,568,281	\$ 38,910,070
Other Assets	7,045,174	943,605	7,988,779	7,070,277	6,387,943	6,963,240
Capital Assets (net)	126,884,444	10,735,994	137,620,438	116,589,076	117,074,293	112,057,658
TOTAL ASSETS	195,686,940	21,292,464	216,979,404	154,151,813	164,030,517	157,930,968
LIABILITIES:						
Current Liabilities	7,363,760	1,533,582	8,897,342	4,159,017	4,329,490	4,261,097
Long - Term Liabilities	57,617,351	3,314,767	60,932,118	22,371,830	26,314,993	26,856,879
TOTAL LIABILITIES	64,981,111	4,848,349	69,829,460	26,530,847	30,644,483	31,117,976
NET ASSETS:						
Invested in capital assets	69,632,152	8,129,527	77,761,679	95,672,105	102,741,551	95,695,016
Restricted	1,587,657	2,188,941	3,776,598	1,004,356	4,329,490	4,261,097
Unrestricted	59,486,020	6,125,647	65,611,667	30,944,505	26,314,993	26,856,879
TOTAL NET ASSETS	\$ 130,705,829	\$ 16,444,115	\$ 147,149,944	\$ 127,620,966	\$ 133,386,034	\$ 126,812,992

The County is providing condensed financial information for fiscal year 2006 through 2008. The comparative information is being provided for three years of GASB 34 implementation for Gallatin County. The analysis that follows focuses on the County's net assets for governmental and business activities. Net Assets – Invested in capital assets decreased because debt increased dramatically and the asset for the bond is under construction with a majority of construction to be completed in FY 2010, with full occupancy in March 2011.

As stated earlier, the County's net assets may serve as a useful indicator of financial position. This indicator requires several years of comparative information to show trends and variances. For Gallatin County, the following table shows the net amount assets exceeded liabilities.

- Fiscal Year 2003 (June 30, 2003) \$ 33,580,845
- Fiscal Year 2004 (June 30, 2004) 35,807,358
- Fiscal Year 2005 (June 30, 2005) 41,496,536
- Fiscal Year 2006 (June 30, 2006) 126,812,992
- Fiscal Year 2007 (June 30, 2007) 133,386,034
- Fiscal Year 2008 (June 30, 2008) 142,083,747
- Fiscal Year 2009 (June 30, 2009) 147,149,944

The major increase in fiscal year 2006 is associated with Infrastructure (net) being included for the first time in fiscal year 2006 as required by GASB.

The County's changes in net assets in the governmental and business-type activities are shown in the following table. The report shows that primary governmental activities increased net assets to \$147,149,944, compared to 2008's \$142,083,747, fiscal year 2007's \$133,386,034 and fiscal year 2006 net assets of \$126,812,842. Business-Type Activities for fiscal year 2009 show an **increase** in net assets to \$16,444,115, an increase of \$1,981,370. The increase comes primarily from Refuse and Landfill.

Gallatin County, State of Montana
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net(Expense) Revenue and Changes in Net Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General Government	\$ 9,915,632	\$ 1,805,976	\$ 2,210,865	\$ 371,945	(5,526,846)	\$ -	(5,526,846)
Public Safety	12,399,666	2,525,220	688,758	431,966	(8,753,722)	-	(8,753,722)
Public Works	8,236,482	587,073	1,301,922	-	(6,347,487)	-	(6,347,487)
Public Health	3,223,917	269,673	1,103,437	-	(1,850,807)	-	(1,850,807)
Social & Economic Services	439,361	63,578	-	-	(375,783)	-	(375,783)
Culture & Recreation	1,682,595	475,094	64,200	-	(1,143,301)	-	(1,143,301)
Housing & Community Dev.	73,405	225,873	-	-	152,468	-	152,468
Conservation of Natural Resour	80,527	125,285	-	-	44,758	-	44,758
Debt Service-Debt Serv Int	1,620,342	-	-	-	(1,620,342)	-	(1,620,342)
Miscellaneous	62,766	-	-	-	(62,766)	-	(62,766)
Total governmental activities	<u>37,734,693</u>	<u>6,077,772</u>	<u>5,369,182</u>	<u>803,911</u>	<u>(25,483,828)</u>	<u>-</u>	<u>(25,483,828)</u>
Business-type Activities:							
West Yellow stone Refuse District	823,326	873,975	-	-	-	50,649	50,649
Gallatin County Rest Home	5,168,672	5,351,979	75,032	-	-	258,339	258,339
Gallatin County Landfill	2,646,319	4,013,698	-	-	-	1,367,379	1,367,379
Total business-type activities	<u>8,638,317</u>	<u>10,239,652</u>	<u>75,032</u>	<u>-</u>	<u>-</u>	<u>1,676,367</u>	<u>1,676,367</u>
Total primary government	<u>\$ 46,373,010</u>	<u>\$ 16,317,424</u>	<u>\$ 5,444,214</u>	<u>\$ 803,911</u>	<u>\$ (25,483,828)</u>	<u>\$ 1,676,367</u>	<u>\$ (23,807,461)</u>

Gallatin County, Montana - Statement of Changes in Net Assets
For the Year Ended June 30, 2009

	Net (Expenses) Revenues and Changes in Net Assets		
	----- Primary Government -----		
	Governmental Activities	Business-Type Activities	TOTAL
General Revenues:			
Property Taxes for General Purposes	24,914,109	64,876	24,978,985
Grants & entitlements not restricted to specific	2,072,362	-	1,433,995
Investment Earnings	975,247	240,091	1,213,900
Bonds Issued	-	-	407,274
Miscellaneous	599,943	-	501,599
Sale/Disposal of Fixed Assets	7,030	-	7,030
Total general revenues	<u>28,568,691</u>	<u>304,967</u>	<u>28,542,783</u>
Change in net assets	3,084,863	1,981,334	5,066,197
Net assets - beginning	127,620,966	14,462,781	142,083,747
Net assets - ending	<u>\$ 130,705,829</u>	<u>\$ 16,444,115</u>	<u>\$ 147,149,944</u>

Government Activities

Gallatin County spent \$ 37,734,693 for primary governmental activities in fiscal year 2009. Governmental activities include:

- **General Government** (County Attorney, Auditor, Clerk & Recorder/Surveyor, Commission, Justice of the Peace, Clerk of District Court/Public Administrator, Treasurer/Assessor, County Administrator, Compliance Office, Court Services, Finance, Geographic Information, Grant Administration, Human Resources, Information Technology, Planning/Zoning, Public Defenders).
- **Public Safety** (County Sheriff, Coroner, Disaster & Emergency Services, Dispatch Services, Fire Marshal, Detention Services – Adult & Juvenile, Hazardous Materials Incident Services, Search & Rescue).
- **Public Works** (Airport – Three Forks, Bridge, Noxious Weed Control, Road, Junk Vehicle, and Rural Improvement Maintenance are reported as special revenues. While Hebgren Refuse and the Solid Waste Districts are reported as a part of Business Activity for the County).
- **Public Health** (Alcohol Rehabilitation, City/County Health (Administration, Human Services and Environmental Services), Mental Health, Senior Citizens, Cemetery Districts, Mosquito Control, Water Quality and Sewer Districts. Rest Home is reported in Business Activity section).
- **Social & Economic Services** (Senior Services, County Extension Agent, CDBG)
- **Culture & Recreation** (Library, Fair, Parks and Open Lands)
- **Housing & Community Resources**
- **Conservation of Natural Resources**
- **Miscellaneous**
- **Interest**
- **Unallocated depreciation**

The previous statement shows the amount paid by property taxpayers was \$24,914,109 or 67.98% of primary government activity expenses. The following table shows the changes in the percentage Taxes are to government activity expenses:

• 2009	66.02%
• 2008	58.04%
• 2007	57.17%
• 2006	52.08%
• 2005	66.74%
• 2004	62.77%
• 2003	67.48%

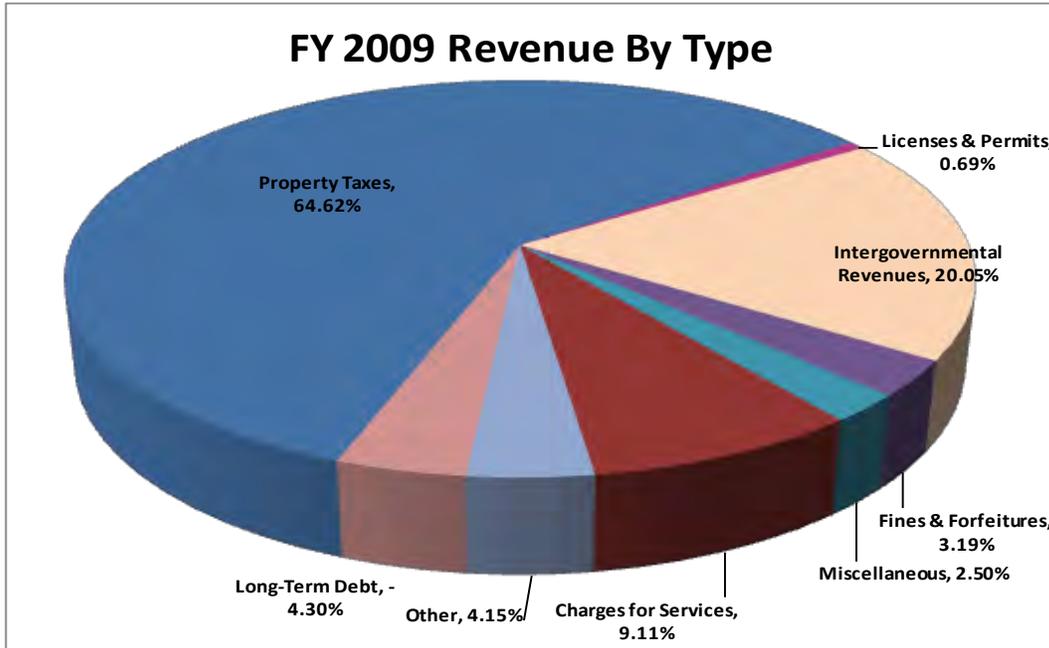
Some costs, as shown on the schedule at the top of page 11, were paid directly by users of a service (Charges for Services), these revenues accounted for \$6,077,772 (16.11%) of fiscal year 2009 Governmental Activity expenses. Operating Grants & Contributions (Intergovernmental Revenues) generated \$5,369,182, accounting for 14.22% of expenses. Other Revenue sources generated the balance of money needed.

Overall, governmental program revenues, both primary government and business-type activity (revenue generated for services, fines, etc.), generated \$16,317,424 from charges for services, while operating grants and contributions equaled \$6,248,125 accounting for \$22,565,549 or \$23,807,461 less than it cost to provide services. Program revenues do not include taxes, investment earnings, entitlements or sale of fixed assets, but are restricted to revenue generated by the individual departments for services, fees, fines, grants, contributions or other direct revenue sources.

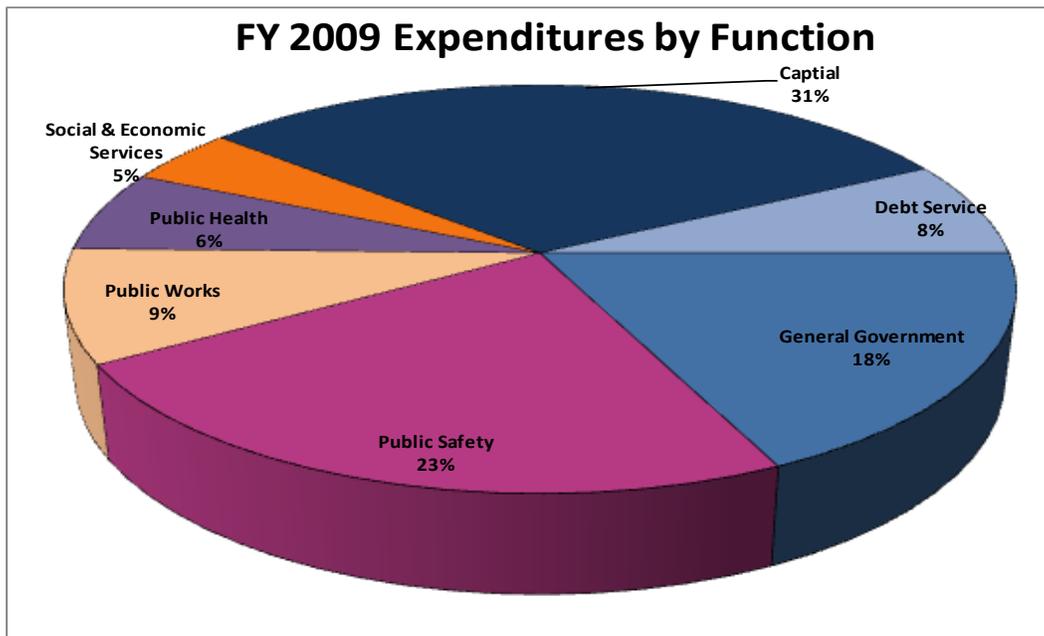
Graph of Revenues by Source – Activities

Gallatin County received \$40,819,556 in revenues to finance governmental operations. This was comprised of program revenues (\$6,077,772 plus \$5,369,182 plus \$803,911) and general revenues (\$28,568,691). Total expenses for governmental activities were \$37,734,693; thus the County’s net assets increased by \$3,084,863 from revenues received during fiscal year 2009.

After all activities are considered, net assets increased from \$142,083,742 to \$147,149,944 for governmental activities and business type activities. The graphs that follow show revenues by source and expenditures by activity for all activities.

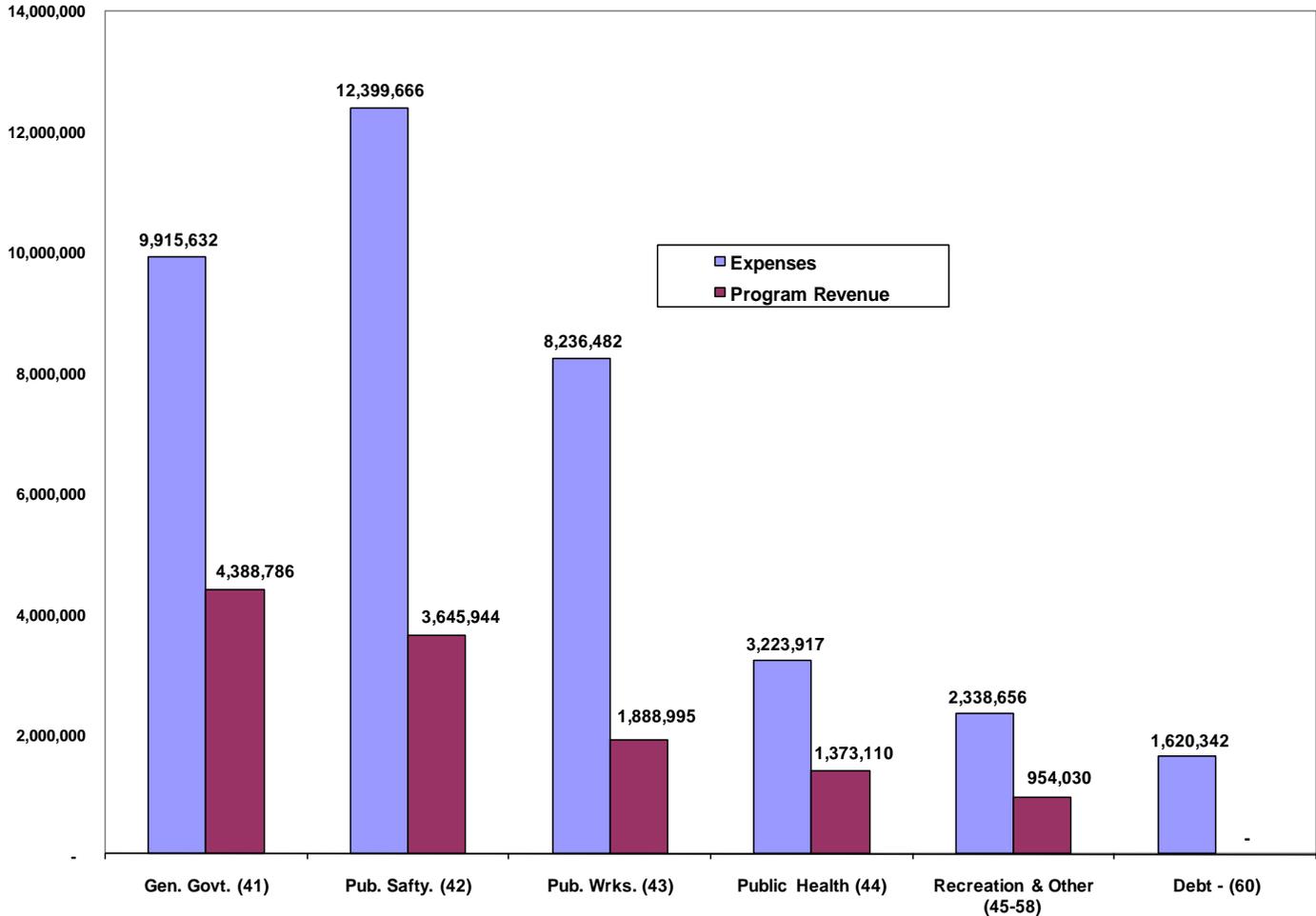


A listing of what departments are included in each function section of the following pie chart can be found earlier in the document.



The next graph compares expenses to the revenues generated by each activity:

Expenses and Program Revenues by Activity FY 2009



As this graph dramatically shows, the cost of providing services to the residents and visitors of Gallatin County is not supported by the amount the state allows local governments to charge for providing services.

Local governments use tax revenues to support mandated services, allowing Gallatin County to pay for current levels of service. In order to increase service levels, the following options are available:

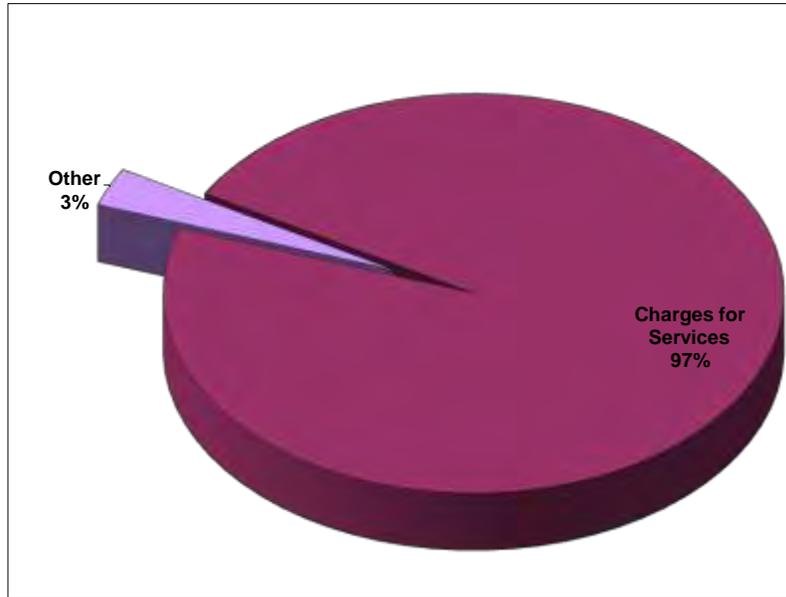
- 1) the state legislature will need to increase local governments ability to charge the true cost of services, or authorize changes in current methods of funding local government (local option taxes), and/or
- 2) the County Commission will need to fully utilize current taxing authority or the County Commission will have to request voters approve more taxes.

Business Type Activities

The cost of all proprietary (business type) activities this year was \$8,638,317. The amount paid by users' of the Rest Home, Landfill and Refuse District was \$10,239,652.

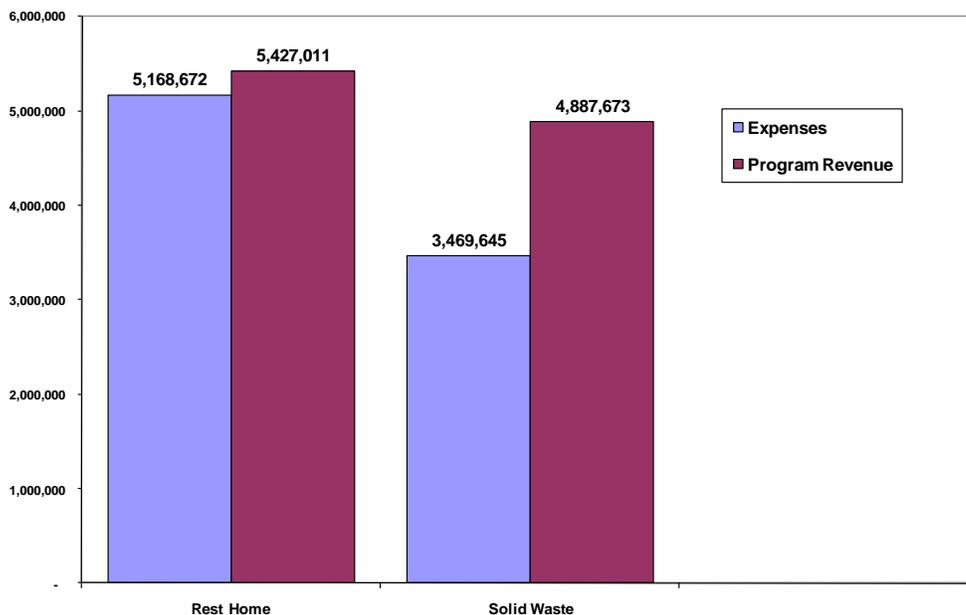
Total resources for the fiscal year 2009 to finance proprietary funds (business type) were \$10,619,651 (Charges for Services \$10,239,652, Grants / Contributions \$75,032, General Revenues and Transfers \$304,967).

2009 Revenues by Type - Business Areas



Total proprietary expenses during the year were \$8,638,317

Business Type Activity - Expenses and Revenues FY 2009



Funds of the County:

The following is an analysis of balances in the County’s major funds. The last column is for comparison purposes only and show prior year revenues and expenses.

General Major Governmental Functions

The information below compares revenues in FY 2009 to FY 2008:

	General	Public Safety	RID Bond Debt Service	County Building	Other Governmental Funds	Total Governmental Funds	FY 2008 TOTALS
REVENUES							
Property Taxes	\$ 3,881,742	\$ 9,965,877	\$ 644,950	\$ 1,336,918	\$ 9,900,570	\$ 25,730,057	23,052,350
Licenses & Permits	230	35,505	-	-	238,262	273,997	279,926
Intergovernmental Revenues	658,947	500,111	-	300,000	6,523,276	7,982,334	5,712,793
Charges for Services	1,792,057	736,392	-	37,105	1,060,458	3,626,012	3,997,977
Fines & Forfeitures	1,064,206	7,352	-	-	199,005	1,270,563	843,259
Miscellaneous	100,516	36,939	-	-	859,092	996,547	701,811
Investment Earnings	410,562	17,913	7,268	143,485	299,109	878,337	1,382,097
Transfers In	489,079	10,983	50,809	18,653	324,282	893,806	2,130,761
Contributions/Donations	-	-	-	57,343	715,897	773,240	22,733
Total revenues	8,397,339	11,311,072	703,027	1,893,504	20,119,951	42,424,893	38,123,707

The following table shows where the County spent the money received (the activity) for Major Funds as stated above.

	General	Public Safety	RID Bond Debt Service	County Building	Other Governmental Funds	Total Governmental Funds	FY 2008 TOTALS
General Government	8,187,328	-	-	67,649	710,210	8,965,187	8,446,537
Public Safety	931,928	9,933,100	-	33,512	764,824	11,663,364	12,068,103
Public Works	-	-	-	-	4,457,495	4,457,495	5,204,301
Public Health	-	-	-	-	3,208,863	3,208,863	2,903,054
Social & Econ Serv.	-	-	-	-	441,655	441,655	484,356
Culture & Recreation	-	-	-	-	1,570,509	1,570,509	1,435,334
Housing & Comm Dev.	-	-	-	-	76,689	76,689	37,438
Cons Nat'l Resources	-	-	-	-	80,851	80,851	93,428
Miscellaneous	27,735	-	-	-	35,029	62,764	51,437
Principal Retirement	70,742	-	310,000	-	1,788,272	2,169,014	2,031,297
Interest	790,281	-	185,680	-	644,381	1,620,342	856,831
Capital outlay	107,468	404,423	-	10,560,994	4,435,926	15,508,811	10,106,890
Transfer Out	1,698	229,821	50,809	50,437	1,378,773	1,711,538	2,961,736
Total expenditures	10,117,180	10,567,344	546,489	10,712,592	19,593,477	51,537,082	46,680,742

The General Fund is always considered a ‘Major Fund’. Public Safety Fund is considered a ‘Major Fund’ because liabilities, revenues and expenditures are all greater than 10% of the Special Revenue Funds. RID Bonds are considered a ‘Major Fund’ because they have greater than 10% assets and it also has greater than 10% of the Assets and Liabilities of debt service funds. County Building is a ‘Major Fund’ because it has assets, liabilities, revenues and expenses that make up more than 10% of all Capital Project Funds.

Proprietary Funds

The County has three major business type funds: Rest Home, Gallatin County Solid Waste District (Logan Landfill) and Hebgen/West Yellowstone Refuse District.

Gallatin County, State of Montana
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

For the Year Ended June 30, 2009

Business-type Activities - Enterprise Funds

	<u>Gallatin County Rest Home</u>	<u>Gallatin County Landfill</u>	<u>West Yellowstone Refuse District</u>	<u>Total Proprietary Funds</u>	<u>Gov. Activities Internal Service Funds</u>
Operating revenues:					
Charges for Services	\$ 5,351,979	\$ 4,013,698	\$ 873,975	\$ 10,239,652	\$ 482,579
Miscellaneous	50	-	-	50	3,680
Internal Services	-	-	-	-	4,982,137
Total Operating Revenues	<u>5,352,029</u>	<u>4,013,698</u>	<u>873,975</u>	<u>10,239,702</u>	<u>5,468,396</u>
Operating expenses:					
Personnel	3,400,547	804,147	162,117	4,366,811	-
Operations	1,612,944	1,134,072	521,226	3,268,242	-
Depreciation	155,181	545,619	139,983	840,783	-
Internal Service-Personnel	-	-	-	-	227,610
Internal Service-Supplies	-	-	-	-	141,516
Internal Service-Purchased Ser	-	-	-	-	954,696
Internal Service-Fixed Charges	-	-	-	-	976,153
Internal Service-Depreciation	-	-	-	-	62,875
Internal Serv-Benefit Pymts	-	-	-	-	3,016,876
Total operating expenses	<u>5,168,672</u>	<u>2,483,838</u>	<u>823,326</u>	<u>8,475,836</u>	<u>5,379,726</u>
Operating Income (loss)	<u>183,357</u>	<u>1,529,860</u>	<u>50,649</u>	<u>1,763,866</u>	<u>88,670</u>
Nonoperating revenues (expenses):					
Property Taxes	64,876	-	-	64,876	-
Intergovernmental Revenues	74,982	-	-	74,982	-
Investment Earnings	74,157	122,538	43,396	240,091	96,910
Sale of Fixed Assets	-	-	-	-	(9,540)
Interest Expense	-	(162,481)	-	(162,481)	-
Total non operating revenue (expen	<u>214,015</u>	<u>(39,943)</u>	<u>43,396</u>	<u>217,468</u>	<u>87,370</u>
Income (loss) before contributions and transfers	397,372	1,489,917	94,045	1,981,334	176,040
Transfers In	-	-	-	-	831,072
Transfers Out	-	-	-	-	13,340
Change in net assets	397,372	1,489,917	94,045	1,981,334	993,772
Total net assets -- beginning	4,742,566	5,406,781	4,313,434	14,462,781	4,027,773
Total net assets -- ending	<u>\$ 5,139,938</u>	<u>\$ 6,896,698</u>	<u>\$ 4,407,479</u>	<u>\$ 16,444,115</u>	<u>\$ 5,021,545</u>

See accompanying notes to the financial statements

Because the focus on business type funds is a cost of service measurement or capital measurement, they have been included in the table below, which shows a comparison of net income to net assets.

	----- PRIOR YEARS -----				
	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>
TOTAL ASSETS	\$9,998,246	\$13,026,863	\$15,858,234	\$20,614,978	\$21,292,464
NET ASSETS	<u>4,543,296</u>	<u>6,219,790</u>	<u>8,504,496</u>	<u>14,462,781</u>	<u>16,444,115</u>
TOTAL LIABILITIES	5,454,950	6,807,073	7,353,738	6,152,197	4,848,349
NET INCOME – BUSINESS ACTIVITIES	1,411,411	1,431,872	2,284,705	5,958,285	1,783,866
(Divided by)					
ENDING NET ASSETS	<u>4,543,296</u>	<u>6,219,790</u>	<u>8,504,496</u>	<u>14,462,781</u>	<u>16,444,115</u>
Equals					
RETURN ON ENDING NET ASSETS	31.07%	23.02%	26.86%	41.20%	10.85%

Debt Administration

Loans, bonds, lease/purchase instruments, and similar obligations of Gallatin County are considered a liability of governmental activities. As a whole, County debt increased in fiscal-year 2009 by \$36,544,327. This came from issuance of an Open Space \$4,000,000 bond, Detention Center \$32,000,000 bond, Dispatch Intercap Loan for \$1,000,000 and a capital leases of \$1,473,182 for 7 graders.

The cost per capita for governmental debt outstanding increased from \$256.09 to \$655.91 in fiscal year 2009. (\$58,916,157 divided by 89,824). Governmental activity debt summary for fiscal year 2009 is presented below:

	----- PRIOR YEARS -----				
	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>
DEBT PAYABLE ON (June 30)					
BEGINNING BALANCE	15,841,638	15,863,135	20,562,567	21,127,460	22,371,830
ADD: Intercap Loan	853,117	945,883	1,499,000	2,299,000	1,000,000
Special Assessment Bonds	-0-	340,000	455,000	900,000	-0-
G. O. Bonds	-0-	5,000,000	8,500	-0-	36,031,152
Compensated Absences (increase)	224,788	-0-	-0-	76,669	224,565
Capital Lease Agreements	708,329	-0-	-0-	-0-	1,473,182
LESS: Loan/Lease Payments	316,737	363,240	479,201	554,449	1,232,933
Special Assessment Payments	1,043,000	803,211	399,000	876,000	310,000
Compensated Absences (decrease)	-0-	-0-	38,556	-0-	15,558
General Obligation Payments	<u>405,000</u>	<u>420,000</u>	<u>480,850</u>	<u>600,850</u>	<u>626,081</u>
DEBT PAYABLE (July 1)	15,863,135	20,562,567	21,127,460	22,371,830	58,916,157
Cost Per Capita	\$202.83	\$254.11	\$252.62	\$256.09	\$655.91

Debt includes compensated absences (amount due to employees for accrued leave, including 1/4 sick leave, all vacation and compensatory time) of \$1,663,866 up \$224K from FY 08. The increase of \$224,565 represents a change of 15.44%. Debt does not include Other Post Employment Benefits (OPEB) of \$282,365 for Governmental Activities and \$64,006 for Business Type Activities.

The County, by statute, can have debt of 2.50% of Assessed Valuation. For fiscal year 2009 this equals \$166,044,956. County debt of \$55,626,157 (\$58,916,157 less Special Assessment Bonds (RID) \$3,290,000) means the County has used 33.50% of it's debt through fiscal year 2009, with unused debt being \$110,418,799.

Special assessment bonds are not included when calculating debt limit. They are the responsibility of the issuing Rural Improvement District. RID's can be backed by the Rural Improvement Revolving Fund, which maintains a balance in excess of statutory requirements. Statutory requirement is a minimum of 5% of the outstanding RID Bonds, the calculations are (\$3,290,000 X 5% = \$164,500 (cash balance in RSID Revolving Fund amounted to \$766,111 as of June 30, 2009). Debt from Business-Type Activities do not affect the county's debt limit.

The County Commission is considering issuing the following debt for capital projects for 1) Mental Health (Hope House) Building loan \$1,000,000 during fiscal year 2010. This borrowing will positively affect the County Master Plan needs assessment.

Capital Assets

Capital assets (non-current assets) of the County are those assets, used in the performance of the County's functions including infrastructure assets. On June 30, 2009, net capital assets of our governmental activities totaled \$126,884,444 and the net capital assets associated with business-type activities equaled \$10,735,994.

At the end of 2009 the County had invested in a broad range of capital assets, including law enforcement equipment, roads and road equipment, bridges, county facilities, and other infrastructure. Major additions during 2009 included:

- Land - Open Space Easements \$1,454,017
- Building Improvements \$4,283,601
- Infrastructure Improvements \$ 607,269
- Machinery & Equipment \$3,879,581
- Construction in Progress \$6,092,802

Gallatin County is committed to the upkeep, maintenance and replacement/expansion of the County's assets.

Budgets and Budgetary Accounting

County General and Public Safety Fund Budget Highlights and Variances

The following information shows the fiscal year 2009 adopted and final budget for the General and Public Safety Funds amount to \$ 21,382,530. There were increases of \$52,165 during fiscal year 2009 for the two funds. Individual department budgets were amended, throughout the year, without affecting the total budget.

Original Budget + Continuing Appropriations + Encumbrances = Beg. Balance

\$ 21,382,530 + \$ -0- + \$ -0- = \$ 21,382,530

Beg. Balance +/- Supplemental Changes = Final Budget
\$21,382,530 + \$52,165 = \$ 21,434,694

Comparing the beginning budget to the final budget shows that these funds had a 0.24% increase for supplemental budgets. (less than 1%) This is very minor compared to the total budget numbers.

Major Budget Changes – FY 09 Compared to FY 2010

Major changes in the operational budget fiscal year 2009 to fiscal year 2010 were made by the County Commission. These included reductions to staff recommended by elected officials and department heads as well as enhancements to the criminal justice system. The changes included:

Staffing Changes (FTE)

DEPARTMENT/DIVISION	Net Increase (Decrease)
ADMINISTRATOR	(0.50)
FINANCE/ACCOUNTING/GRANTS	(0.05)
CLERK OF DISTRICT COURT	(0.42)
DETENTION CENTER	(0.57)
ENVIRONMENTAL HEALTH	(1.17)
FAIR	(0.50)
GIS	(1.00)
HUMAN RESOURCES	(0.25)
CITY / COUNTY HEALTH	0.79
JOINT DISPATCH	0.50
MISCELLANEOUS	(0.20)
NOXIOUS WEED	(0.75)
PLANNING	(2.75)
ROAD	(1.00)
SHERIFF	(1.09)
TREASURER	(1.00)
TOTAL COUNTY TAX SUPPORTED PERSONNEL	(8.99)
HEALTH - CITY/COUNTY - GRANTS	(0.63)
SOLID WASTE SYSTEM	2.50
REST HOME (if CNA's can be hired	5.00
OTHER CHANGES	(0.18)
TOTAL NON TAX SUPPORTED PERSONNEL	6.69
TOTAL CHANGES IN PERSONNEL	(2.30)

The Capital Projects table identifies total estimated costs of projects, amount expended through June 30, 2009 and the amount budgeted for FY 2010. The table includes ‘Capital Equipment (County accounts)’ for capital outlay funded through tax supported funds, ‘Capital Equipment (grants/misc.)’ which summarizes authorized capital purchases from Grants and misc. funds and ‘Capital Equipment (special districts)’ for capital items funded from fire districts, etc.

Summary of 2010 Capital Projects			
<u>Description</u>	<u>Project</u>	<u>Expended</u>	<u>2010 Budget</u>
Open Space Acquisition	\$20,000,000 (plus intrst.)	\$ 15,788,158	\$ 4,211,842
Dispatch Building – Equipment	3,574,200	1,968,050	1,050,000
Fairgrounds Master Plan	36,000	12,000	24,000
Detention Center	37,580,939	7,093,705	30,487,234
Mental Health Building	2,500,000	-0-	1,000,000
City / County Court Building	18,909,250	-0-	100,000
Command Vehicle (Grant)	263,500	-0-	263,500
L& J / Annex Roofs	67,531	-0-	67,531
Stimulus Activities	504,000	-0-	504,000
Law Enforcement Building	17,523,800	-0-	Future year
Noxious Weed Complex	750,000	-0-	Future year
Capital Equipment (county accounts)	-0-	-0-	2,325,060
Capital Equipment (grants/ misc.)	-0-	-0-	1,124,074
Capital Equipment (special districts)	-0-	-0-	10,820,100
Total	107,404,529	23,730,932	\$51,977,341

The Capital Budgets increased to \$51.9 million. The previous table shows funding for all capital projects, capital outlay, capital equipment and those projects included in the long-term capital plan but not funded during in the FY 2010 Budget. \$85,000, completion of Courthouse ITS HVAC \$125,034, New Detention Center \$2,202,048 and \$50,000 for Fair drainage plan.

Summary

The fiscal year 2010 budget sees increases in taxes for operations and increases in taxes for debt service. A comparison of budgeted taxes and mill levies for fiscal year 2006 through fiscal year 2010 shows:

TAXES

TAXES NEEDED:

<u>Description</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 2010</u>	<u>% Change</u>
County Operating Taxes	\$11,165,376	\$11,671,420	\$14,455,682	\$15,408,210	16,343,857	6.07%
Road and Library Taxes	2,287,077	2,493,835	2,715,318	2,980,571	3,153,566	5.80%
Debt Service/Insurance Taxes	1,405,771	2,237,394	1,989,435	2,251,477	3,941,648	75.06%

MILL LEVIES:

County Operating Taxes	66.99	64.45	73.73	73.52	73.20	(0.04%)
Road and Library Taxes	24.68	24.68	24.68	25.47	25.23	(0.09%)
Debt Service/Insurance Taxes	8.58	12.57	10.24	10.89	17.80	63.45%

TAXABLE VALUATIONS:

County Wide Valuations	166,862	181,081	196,866	209,639	223,244	6.49%
Road and Library Valuations	92,642	101,017	110,021	117,027	125,025	6.83%
Open Lands Valuations	160,125	174,463	190,380	203,197	217,532	7.05%

The previous table shows growth in the valuation of property (primarily new construction) accounted for 6.49% of the increase in taxes, with the balance coming from small increase associated with reappraisal. The County Commission did not maximize the number of mills levied for the Permissive Medical levy (premiums for fiscal year 2009 did not increase, therefore taxes did not increase). The Commission did not maximize taxes for county operating and rural taxes as authorized by state law. This results in the County not assessing taxes of \$1,120,457. The Commission may impose these taxes in future years if they deem it is in the best interest of the county. In addition the Commission could levy \$841,000 in Permissive Medical Taxes.

Contacting the County Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors with a general overview of Gallatin County's finances and to the County's accountability for the money it receives. If you have any questions about this report or want additional information, contact the Finance Office - Accounting Office at 311 West Main, Bozeman, MT 59715 or phone 406-582-3065 or e-mail dan.eschenbaum@gallatin.mt.gov.

Gallatin County, Montana
Board of County Commissioners



R. Stephen White, Chairman

Date: November 10, 2009

BASIC

FINANCIAL

STATEMENTS

GOVERNMENT-WIDE

FINANCIAL

STATEMENTS

Gallatin County, State of Montana
Statement of Net Assets
June 30, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash & Cash Equivalents	\$ 61,757,322	\$ 9,612,865	\$ 71,370,187
Tax/Assessments Receivable (Net)	5,556,646	7,865	5,564,511
Other Receivables	1,307,727	935,740	2,243,467
Inventories	180,801	-	180,801
Capital Assets (net)	126,884,444	10,735,994	137,620,438
Total assets	<u>195,686,940</u>	<u>21,292,464</u>	<u>216,979,404</u>
LIABILITIES			
Accounts Payable	3,374,754	374,596	3,749,350
Accrued Payroll & Other Liabilities	1,975,844	285,921	2,261,765
Interest Payable	4,998	-	4,998
Deposits Payable	19,719	-	19,719
Deferred Revenue	407,274	-	407,274
Current Portion Of Long Term Debt	1,988,445	873,065	2,861,510
Long Term Debt	56,927,712	1,966,756	58,894,468
Closure/Post Closure Costs	-	1,284,005	1,284,005
OPEB Obligation	282,365	64,006	346,371
Total liabilities	<u>64,981,111</u>	<u>4,848,349</u>	<u>69,829,460</u>
NET ASSETS			
Invested in capital assets, net of related debt	69,632,152	8,129,527	77,761,679
Restricted for Debt Service	1,587,657	2,188,941	3,776,598
Unrestricted	59,486,020	6,125,647	65,611,667
Total net assets	<u>\$ 130,705,829</u>	<u>\$ 16,444,115</u>	<u>\$ 147,149,944</u>

See accompanying notes to the financial statements

Gallatin County, State of Montana
Statement of Activities
For the Year Ended June 30, 2009

Net(Expense) Revenue and Changes in Net Assets
Primary Government

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General Government	\$ 9,915,632	\$ 1,805,976	\$ 2,210,865	\$ 371,945	\$ (5,526,846)	\$ -	\$ (5,526,846)
Public Safety	12,399,666	2,525,220	688,758	431,966	(8,753,722)	-	(8,753,722)
Public Works	8,236,482	587,073	1,301,922	-	(6,347,487)	-	(6,347,487)
Public Health	3,223,917	269,673	1,103,437	-	(1,850,807)	-	(1,850,807)
Social & Economic Services	439,361	63,578	-	-	(375,783)	-	(375,783)
Culture & Recreation	1,682,595	475,094	64,200	-	(1,143,301)	-	(1,143,301)
Housing & Community Dev.	73,405	225,873	-	-	152,468	-	152,468
Conservation of Natural Resour	80,527	125,285	-	-	44,758	-	44,758
Debt Service-Debt Serv Int	1,620,342	-	-	-	(1,620,342)	-	(1,620,342)
Miscellaneous	62,766	-	-	-	(62,766)	-	(62,766)
Total governmental activities	<u>37,734,693</u>	<u>6,077,772</u>	<u>5,369,182</u>	<u>803,911</u>	<u>(25,483,828)</u>	<u>-</u>	<u>(25,483,828)</u>
Business-type Activities:							
West Yellowstone Refuse District	823,326	873,975	-	-	-	50,649	50,649
Gallatin County Rest Home	5,168,672	5,351,979	75,032	-	-	258,339	258,339
Gallatin County Landfill	2,646,319	4,013,698	-	-	-	1,367,379	1,367,379
Total business-type activities	<u>8,638,317</u>	<u>10,239,652</u>	<u>75,032</u>	<u>-</u>	<u>-</u>	<u>1,676,367</u>	<u>1,676,367</u>
Total primary government	<u>\$ 46,373,010</u>	<u>\$ 16,317,424</u>	<u>\$ 5,444,214</u>	<u>\$ 803,911</u>	<u>\$ (25,483,828)</u>	<u>\$ 1,676,367</u>	<u>\$ (23,807,461)</u>
					Property Taxes for General Purposes	64,876	24,978,985
					Grants & entitlements not restricted to specific	-	2,072,362
					Investment Earnings	240,091	1,215,338
					Miscellaneous	-	599,943
					Gain on Sale of Fixed Assets	-	7,030
					Total general revenues	<u>28,568,691</u>	<u>28,873,658</u>
					Change in net assets	1,981,334	5,066,197
					Net assets - beginning	14,462,781	142,083,747
					Net assets - ending	<u>\$ 16,444,115</u>	<u>\$ 147,149,944</u>

See accompanying notes to the financial statements

FUND

FINANCIAL

STATEMENTS

Gallatin County, State of Montana

Balance Sheet

Governmental Funds

June 30, 2009

	General	Public Safety	RID Bond Debt Service	County Building	Other Governmental Funds	Total Governmental Funds
Assets:						
Current assets:						
Cash & Cash Equivalents	\$ 2,131,374	\$ 2,010,395	\$ 379,482	\$ 30,793,771	\$ 20,349,231	\$ 55,664,253
Cash & Cash Equivalents-Restricted	-	-	-	353,644	898,825	1,252,469
Taxes Receivable	265,737	918,663	64,820	146,378	1,034,856	2,430,454
Accounts Receivable-Net	289,301	34,389	-	306,456	327,070	957,216
Notes Receivable	-	-	-	-	350,066	350,066
Assessment Receivable (Net)	-	-	3,126,192	-	-	3,126,192
Inventories	-	-	-	-	180,801	180,801
Total Current assets	<u>2,686,412</u>	<u>2,963,447</u>	<u>3,570,494</u>	<u>31,600,249</u>	<u>23,140,849</u>	<u>63,961,451</u>
Total assets	<u>\$ 2,686,412</u>	<u>\$ 2,963,447</u>	<u>\$ 3,570,494</u>	<u>\$ 31,600,249</u>	<u>\$ 23,140,849</u>	<u>\$ 63,961,451</u>
LIABILITIES AND FUND BALANCES						
Current liabilities:						
Accounts Payable	\$ 206,537	\$ 202,975	\$ -	\$ 2,354,569	\$ 565,279	\$ 3,329,360
Contracts/Loans Payable	-	-	19,719	-	-	19,719
Matured Interest Payable	-	-	4,998	-	-	4,998
Other Accrued Payables	1,101,686	289,711	-	-	271,129	1,662,526
Deferred Revenue	265,737	918,662	3,191,012	146,378	1,034,856	5,556,645
Total Current liabilities	<u>1,573,960</u>	<u>1,411,348</u>	<u>3,215,729</u>	<u>2,500,947</u>	<u>1,871,264</u>	<u>10,573,248</u>
Total liabilities	<u>1,573,960</u>	<u>1,411,348</u>	<u>3,215,729</u>	<u>2,500,947</u>	<u>1,871,264</u>	<u>10,573,248</u>
Fund balances:						
Reserved for:						
Reserve For Inventory	-	-	-	-	180,801	180,801
Unreserved, reported in						
Capital Projects	-	-	-	29,099,302	4,470,140	33,569,442
Debt Service	-	-	354,765	-	1,232,892	1,587,657
General Fund	1,112,452	-	-	-	-	1,112,452
Special Revenue	-	1,552,099	-	-	15,385,752	16,937,851
Total fund balances	<u>1,112,452</u>	<u>1,552,099</u>	<u>354,765</u>	<u>29,099,302</u>	<u>21,269,585</u>	<u>53,388,203</u>
Total liabilities and fund balances	<u>\$ 2,686,412</u>	<u>\$ 2,963,447</u>	<u>\$ 3,570,494</u>	<u>\$ 31,600,249</u>	<u>\$ 23,140,849</u>	<u>\$ 63,961,451</u>

See accompanying notes to the financial statements

Gallatin County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2009

Total fund balances - governmental funds	\$	53,388,203
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds

		200,809,880	
Capital assets		200,809,880	
Accumulated depreciation		-74,485,781	
			126,324,099

Property taxes receivable are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		5,556,645
--	--	-----------

An internal service fund is used by management to charge the costs of employees medical insurance. The governmental portion of the internal service fund are included with governmental activities		5,021,545
--	--	-----------

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds		(59,584,663)
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Total net assets - governmental activities	\$	130,705,829
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See accompanying notes to the financial statements.

Gallatin County, State of Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General	Public Safety	RID Bond Debt Service	County Building	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 3,881,742	\$ 9,965,877	\$ 644,950	\$ 1,336,918	\$ 9,900,570	\$ 25,730,057
Licenses & Permits	230	35,505	-	-	238,262	273,997
Intergovernmental Revenues	658,947	500,111	-	300,000	6,523,276	7,982,334
Charges for Services	1,792,057	736,392	-	37,105	1,060,458	3,626,012
Fines & Forfeitures	1,064,206	7,352	-	-	199,005	1,270,563
Miscellaneous	100,516	36,939	-	-	859,092	996,547
Investment Earnings	410,562	17,913	7,268	143,485	299,109	878,337
Contributions/Donations	-	-	-	57,343	715,897	773,240
Total revenues	<u>7,908,260</u>	<u>11,300,089</u>	<u>652,218</u>	<u>1,874,851</u>	<u>19,795,669</u>	<u>41,531,087</u>
EXPENDITURES						
General Government	8,187,328	-	-	67,649	710,210	8,965,187
Public Safety	931,928	9,933,100	-	33,512	764,824	11,663,364
Public Works	-	-	-	-	4,457,495	4,457,495
Public Health	-	-	-	-	3,208,863	3,208,863
Social & Econ Serv.	-	-	-	-	441,655	441,655
Culture & Recreation	-	-	-	-	1,570,509	1,570,509
Housing & Comm Dev.	-	-	-	-	76,689	76,689
Cons Nat'l Resources	-	-	-	-	80,851	80,851
Miscellaneous	27,735	-	-	-	35,029	62,764
Debt service:						
Principal Retirement	70,742	-	310,000	-	1,788,272	2,169,014
Interest	790,281	-	185,680	-	644,381	1,620,342
Capital outlay	107,468	404,423	-	10,560,994	4,435,926	15,508,811
Total expenditures	<u>10,115,482</u>	<u>10,337,523</u>	<u>495,680</u>	<u>10,662,155</u>	<u>18,214,704</u>	<u>49,825,544</u>
Excess (deficiency) of revenues over expenditures	<u>(2,207,222)</u>	<u>962,566</u>	<u>156,538</u>	<u>(8,787,304)</u>	<u>1,580,965</u>	<u>(8,294,457)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	489,079	10,983	50,809	18,653	324,282	893,806
Transfers Out	(1,698)	(229,821)	(50,809)	(50,437)	(1,378,773)	(1,711,538)
Issuance of long-term debt	-	-	-	33,000,000	5,504,334	38,504,334
Premium on Bonds Issued	-	-	-	-	407,273	407,273
Sale of Fixed Assets	-	7,000	-	-	505	7,505
Total other financing sources and uses	<u>487,381</u>	<u>(211,838)</u>	<u>-</u>	<u>32,968,216</u>	<u>4,857,621</u>	<u>38,101,380</u>
Net Change in fund balances	<u>(1,719,841)</u>	<u>750,728</u>	<u>156,538</u>	<u>24,180,912</u>	<u>6,438,586</u>	<u>29,806,923</u>
Fund balances -- beginning	<u>2,832,293</u>	<u>801,371</u>	<u>198,227</u>	<u>4,918,390</u>	<u>14,830,999</u>	<u>23,581,280</u>
Fund balances -- ending	<u>\$ 1,112,452</u>	<u>\$ 1,552,099</u>	<u>\$ 354,765</u>	<u>\$ 29,099,302</u>	<u>\$ 21,269,585</u>	<u>\$ 53,388,203</u>

See accompanying notes to the financial statements

Gallatin County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year ended June 30, 2009

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds		\$ 29,806,923
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Asset acquisition	\$ 15,508,815	
Depreciation	<u>-5,162,072</u>	
		10,346,743
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(815,948)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Increase in compensated absences	\$ <u>-504,038</u>	
		(504,038)
<p>Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.</p>		
Intracap loans	\$ -1,000,000	
Bond and RID Issues	-36,031,150	
Premium on Bond Issuance	-407,274	
Capital Leases	<u>-1,473,182</u>	
		(38,911,606)
<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		2,169,014
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities.</p>		
		993,775
Change in net assets - statement of activities		\$ <u><u>3,084,863</u></u>

See accompanying notes to the financial statements.

Gallatin County, State of Montana
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-type Activities - Enterprise Funds				
	Gallatin County Rest Home	Gallatin County Landfill	West Yellowstone Refuse District	Total Proprietary Funds	Gov. Activities Internal Service Funds
ASSETS					
Current assets:					
Cash & Cash Equivalents	\$ 3,404,720	\$ 2,348,590	\$ 1,670,614	\$ 7,423,924	\$ 4,840,600
Cash & Cash Equivalents-Restricted	-	2,188,941	-	2,188,941	-
Taxes Receivable	7,253	-	612	7,865	-
Accounts Receivable-Net	344,452	425,219	166,069	935,740	446
Capital Assets-Net of Accum.	1,867,655	6,229,028	2,639,311	10,735,994	560,346
Total Current assets:	<u>5,624,080</u>	<u>11,191,778</u>	<u>4,476,606</u>	<u>21,292,464</u>	<u>5,401,392</u>
Total assets	<u>5,624,080</u>	<u>11,191,778</u>	<u>4,476,606</u>	<u>21,292,464</u>	<u>5,401,392</u>
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts Payable	105,659	218,453	50,484	374,596	45,394
Current Portion Long-Term Debt	-	866,423	-	866,423	-
Other Accrued Payables	142,299	134,828	8,794	285,921	313,321
Compensated Absences	65	5,417	1,160	6,642	18,233
Total Current liabilities:	<u>248,023</u>	<u>1,225,121</u>	<u>60,438</u>	<u>1,533,582</u>	<u>376,948</u>
Non current liabilities:					
OPEB Obligation	49,647	12,160	2,199	64,006	2,897
Long-Term Debt	-	1,740,045	-	1,740,045	-
Closure/Post Closure Costs	-	1,284,005	-	1,284,005	-
Compensated Absences	186,471	33,750	6,490	226,711	-
Total Non current liabilities:	<u>236,118</u>	<u>3,069,960</u>	<u>8,689</u>	<u>3,314,767</u>	<u>2,897</u>
Total liabilities	<u>484,141</u>	<u>4,295,081</u>	<u>69,127</u>	<u>4,848,349</u>	<u>379,845</u>
NET ASSETS					
Invested in capital assets, net of related debt	1,867,655	3,622,561	2,639,311	8,129,527	560,346
Restricted (expendable)	-	2,188,941	-	2,188,941	-
Unrestricted	3,272,283	1,085,196	1,768,168	6,125,647	4,461,199
Total net assets	<u>\$ 5,139,938</u>	<u>\$ 6,896,698</u>	<u>\$ 4,407,479</u>	<u>\$ 16,444,115</u>	<u>\$ 5,021,545</u>

See accompanying notes to the financial statements

Gallatin County, State of Montana
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds				Gov. Activities Internal Service Funds
	Gallatin County Rest Home	Gallatin County Landfill	West Yellowstone Refuse District	Total Proprietary Funds	
Operating revenues:					
Charges for Services	\$ 5,351,979	\$ 4,013,698	\$ 873,975	\$ 10,239,652	\$ 482,579
Miscellaneous	50	-	-	50	3,680
Internal Services	-	-	-	-	4,982,137
Total Operating Revenues	<u>5,352,029</u>	<u>4,013,698</u>	<u>873,975</u>	<u>10,239,702</u>	<u>5,468,396</u>
Operating expenses:					
Personnel	3,400,547	804,147	162,117	4,366,811	-
Operations	1,612,944	1,134,072	521,226	3,268,242	-
Depreciation	155,181	545,619	139,983	840,783	-
Internal Service-Personnel	-	-	-	-	227,610
Internal Service-Supplies	-	-	-	-	141,516
Internal Service-Purchased Ser	-	-	-	-	954,696
Internal Service-Fixed Charges	-	-	-	-	976,153
Internal Service-Depreciation	-	-	-	-	62,875
Internal Serv-Benefit Pymts	-	-	-	-	3,016,876
Total operating expenses	<u>5,168,672</u>	<u>2,483,838</u>	<u>823,326</u>	<u>8,475,836</u>	<u>5,379,726</u>
Operating Income (loss)	<u>183,357</u>	<u>1,529,860</u>	<u>50,649</u>	<u>1,763,866</u>	<u>88,670</u>
Nonoperating revenues (expenses):					
Property Taxes	64,876	-	-	64,876	-
Intergovernmental Revenues	74,982	-	-	74,982	-
Investment Earnings	74,157	122,538	43,396	240,091	96,910
Sale of Fixed Assets	-	-	-	-	(9,540)
Interest Expense	-	(162,481)	-	(162,481)	-
Total non operating revenue (expenses)	<u>214,015</u>	<u>(39,943)</u>	<u>43,396</u>	<u>217,468</u>	<u>87,370</u>
Income (loss) before contributions and transfers	397,372	1,489,917	94,045	1,981,334	176,040
Transfers In	-	-	-	-	831,072
Transfers Out	-	-	-	-	(13,340)
Change in net assets	<u>397,372</u>	<u>1,489,917</u>	<u>94,045</u>	<u>1,981,334</u>	<u>993,772</u>
Total net assets -- beginning	<u>4,742,566</u>	<u>5,406,781</u>	<u>4,313,434</u>	<u>14,462,781</u>	<u>4,027,773</u>
Total net assets -- ending	<u>\$ 5,139,938</u>	<u>\$ 6,896,698</u>	<u>\$ 4,407,479</u>	<u>\$ 16,444,115</u>	<u>\$ 5,021,545</u>

See accompanying notes to the financial statements

Gallatin County, State of Montana
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds				Gov. Activities Internal Service Funds
	Gallatin County Rest Home	Gallatin County Landfill	West Yellowstone Refuse District	Total Proprietary Funds	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash From interfund	-	-	-	-	5,423,769
Cash Other	50	-	-	50	-
Cash receipts from customer	5,309,044	4,069,426	934,578	10,313,048	44,928
Other Payments	(173,173)	81,141	-	(92,032)	-
Payments to employees	(3,363,851)	(790,204)	(158,565)	(4,312,620)	(245,881)
Payments to interfund	(47,760)	-	-	(47,760)	(13,200)
Payments to suppliers	(1,401,308)	(1,364,073)	(578,870)	(3,344,251)	(5,037,846)
Net cash provided by operating activities	<u>323,002</u>	<u>1,996,290</u>	<u>197,143</u>	<u>2,516,435</u>	<u>171,770</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental Revenue	74,982	-	-	74,982	-
Subsidy from taxes	66,895	-	-	66,895	-
Transfers from (to) Other Funds	-	-	-	-	817,732
Net cash provided (used) by Noncapital financing	<u>141,877</u>	<u>-</u>	<u>-</u>	<u>141,877</u>	<u>817,732</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Interest Paid on Debt	-	(162,481)	-	(207,129)	-
Principal on Debt	-	(881,275)	-	(881,275)	-
Purchases/acquisition/const. of Capital Assets	(3,397)	(2,056,496)	(169,891)	(2,227,279)	(21,040)
Net cash (used) by capital and related financing activities	<u>(3,397)</u>	<u>(3,100,252)</u>	<u>(169,891)</u>	<u>(3,273,540)</u>	<u>(21,040)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Earnings	74,157	122,538	43,396	240,091	96,910
Net cash provided by investing activities	<u>74,157</u>	<u>122,538</u>	<u>43,396</u>	<u>240,091</u>	<u>96,910</u>
Net Increase (decrease) in cash and cash equivalents	535,639	(981,424)	70,648	(375,137)	1,065,372
Balances - beginning of year	<u>2,869,081</u>	<u>5,518,955</u>	<u>1,599,966</u>	<u>9,988,002</u>	<u>3,775,228</u>
Balances - end of the year	<u>\$ 3,404,720</u>	<u>\$ 4,537,531</u>	<u>\$ 1,670,614</u>	<u>\$ 9,612,865</u>	<u>\$ 4,840,600</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	183,357	1,529,860	50,649	1,763,866	88,670
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation Expense	155,181	545,619	139,983	840,783	62,875
Changes in assets and Liabilities:					
Increase in Accounts Payable - Other	-	81,140	-	81,140	-
Increase (decrease) in Accounts Payable - Supplier	(9,297)	(230,001)	(57,644)	-296,942	37,122
Increase (decrease) in payroll and other liabilities	36,696	13,944	3,552	54,192	(17,198)
(Increase) decrease in Customer Receivables	(42,935)	55,728	60,603	73,396	301
Net Cash provided by operating activities	<u>\$ 323,002</u>	<u>\$ 1,996,290</u>	<u>\$ 197,143</u>	<u>\$ 2,516,435</u>	<u>\$ 171,770</u>

See accompanying notes to the financial statements

**GALLATIN COUNTY, MONTANA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009**

	Investment Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 42,960,000	\$ 24,772,275
Tax/assessment receivable (net)	-	11,169,849
Accrued Interest Receivable	269,767	239,767
Total Assets	<u>\$ 43,229,767</u>	<u>\$ 36,181,891</u>
LIABILITIES		
Accounts payable	\$ -	\$ 2,975,634
Due to other governments	-	33,206,257
Total Liabilities	<u>-</u>	<u>\$ 36,181,891</u>
NET ASSETS		
Held in trust for investments and other purposes	<u>\$ 43,229,767</u>	<u>-</u>

See accompanying notes to the financial statements.

COUNTY OF GALLATIN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2009

		Investment Trust Funds
ADDITIONS:		
Investment earnings	\$	269,767.00
Contributions to investment trust		57,960,022.00
Total Additions		58,229,789
DEDUCTIONS:		
Distribution of investments		73,140,180
Total Deductions		73,140,180
Change in net assets		(14,910,391)
Net assets - July 1, 2008		58,140,158
Net assets - June 30, 2009	\$	43,229,767

See accompanying notes to the financial statements.

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NOTES

TO THE

FINANCIAL

STATEMENTS

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the County the option of electing to apply FASB pronouncements issued after November 30, 1989. The County has elected not to apply those pronouncements.

A. Reporting Entity

The County of Gallatin is a political subdivision of the State of Montana governed by a three member Board of Commissioners duly elected by the registered voters of the County. The County utilizes the Commission form of government. The accompanying financial statements present the primary government and its component units; entities for which the government is considered to be financially accountable. Blended component units are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. Component units are discretely presented if it is financially accountable to or fiscally dependent upon the primary government or if its omission from the financial statements would be misleading or incomplete. The County does not have any component units for fiscal year 2009.

Certain activities such as Fair, Library, Weed, and Planning have separate boards but are included in the basic financial statements as special revenue funds because they are not legally separate or fiscally independent from the County and the County is financially accountable. Other activities such as the Soil Conservation District, West Yellowstone TV District, Sewer and Water Districts, Fire Districts, Fire Service Areas, Cemetery Districts, Dyke Districts, and School Districts are reflected only in the fiduciary statement of net assets as agency funds, since the County is responsible, by law, for the collection of taxes and/or maintenance cash funds for those entities. These entities are considered primary governments and are not a part of the County.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

B. Government-Wide and Fund Financial Statements - continued

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal periods are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue in the current period. All other revenue items are considered to be measurable and available only when cash is received by the government. Taxes and assessments receivable remaining uncollected at year end are offset by deferred revenue since they are not available to pay liabilities of the current period.

The government reports the following major governmental funds:

General Fund – This is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Safety Fund – This is the fund that accounts for all financial resources of Gallatin County’s Sheriff Department, Coroner, Disaster & Emergency Services / Hazardous Materials and County Rural Fire.

RID Bonds Fund – This is the summary of funds that account for all financial resources for the debt service of all RID Bonds for Gallatin County.

County Building – Capital Projects Fund – This fund accounts for all of the County’s capital improvement activities.

The Government reports the following major proprietary funds:

Rest Home Fund – This fund is used to account for the operating and non-operating revenues and expenses of the Rest Home operated by Gallatin County. The fund is maintained on the full accrual basis of accounting.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – continued

Gallatin County Landfill Fund – This fund is used to account for the operating and non-operating revenues and expenses of the landfill operated by Gallatin County. The fund is maintained on the full accrual basis of accounting.

West Yellowstone Refuse District Fund – This fund is used to account for the operating and non-operating revenues and expenses of the refuse facility operated by Gallatin County. The fund is maintained on the full accrual basis of accounting.

Additionally, the government reports the following fund types:

Internal Service Funds – These funds account for services provided by the government to its various departments or agencies or to other governments, on a cost recovery basis.

Fiduciary Funds – These funds account for monies held on behalf of school districts, special districts, and other governments and agencies that use the County as a depository; property taxes collected on behalf of other governments; and surety bonds and performance deposits.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the governments' enterprise functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, indirect cost allocations 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the government's internal service funds are charges to customers for services provided. Operating expenses for enterprise funds and internal service funds include the cost of providing such services and the depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand and time deposits, and short-term investments with original maturity dates of three months or less from the date of acquisition. For purposes of the statement of cash flows, the County considers all funds (including restricted assets) held in the County's cash management pool to be cash equivalents.

State statutes authorize the County to invest in direct obligations of the U. S. Government, such as U. S. Treasury bills and notes and U. S. Government securities as defined by law, repurchase agreements and the State Short-Term Investment Pool (STIP). The cash of the individual funds are combined to form a pool of cash and investments which is managed by the County Treasurer

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Assets, Liabilities, and Net Assets or Equity

Investments are carried at cost, which approximates market value as described in note 3A. The State Short Term Investment Pool operates in accordance with state laws and regulations and is administered by the State Department of Administration.

2. Receivables and Payables

Activity between funds that are representative of lending or borrowing arrangements outstanding at fiscal year end are referred to as interfund receivable/payable.

Accounts receivables are shown net of an allowance for uncollectibles. An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write off method is used for these accounts. This is an immaterial departure from generally accepted accounting principles. The allowance for bad debts for the Rest Home is 1.5% of the average annual sales. This policy was implemented in FY 2008 and is being phased in over 3 years. For the County Rest Home the allowance for doubtful accounts at June 30, 2009 was \$44,602. The process for determining the allowance for bad debts for Justice Court is 5% of balances that are less than 5 years old and receivables that are 5 years or older are written off. For Justice Court the allowance for doubtful accounts at June 30, 2009 was \$14,937.

Property tax levies are set on or before the second Monday in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent. A lien is placed upon the property and after three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies.

Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves. The first is due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

The tax levies for the fiscal year ended June 30, 2009 were based upon a taxable valuation of \$209,639,000.

3. Inventories and Prepaid Items

All inventories are valued at cost. Inventories are recorded as expenditures when purchased. Any material inventory remaining at year-end is included in the balance sheets of each fund at cost. The reported inventory is offset equally by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is included in net current assets. The First-In First-Out (FIFO) valuation method is used to value the inventory.

4. Warrants Payable

The County pays its claims by issuing a warrant ordering the County Treasurer to pay upon presentation. Cash balances in all funds except the Claims and Payroll funds are reported net of outstanding warrants. Warrants issued but not presented for payment are reported as warrants payable.

5. Restricted Assets and Sources

Certain assets of the proprietary funds are restricted for specific use as required by the bond indenture agreement covenants established with the issuance and sale of the revenue bonds. This represents a liability to the

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Assets, Liabilities, and Net Assets or Equity– continued

5. Restricted Assets and Sources

proprietary funds. These restricted assets represent cash and cash equivalents restricted for use to repay current debt, future debt, landfill closure/post closure liabilities and replacement and depreciation for the purpose of replacing the system in the future. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of 1 year, except for the Rest Home where assets with a value of \$500 or more are capitalized. Such assets are recorded at historical cost or capital estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-40
Building improvements	10-20
Infrastructure	
Road	20-40
Bridge	50-75
Vehicles	7
Equipment other than vehicles	5-20
Office equipment	5-20
Computer equipment	5

7. Deferred Revenues

Deferred revenue results when asset recognition criteria have been met and when revenue recognition criteria have not been met. These pertain to the net uncollected property tax and other receivables and are classified as deferred revenues on the fund statement balance sheet.

8. Compensated Absences

As required by State law, the County allows for employees to accumulate earned but unused vacation and sick leave benefits. Unused vacation leave benefits are 100 percent payable upon separation and 25 percent of unused sick leave benefits are payable upon separation. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation. Annual accumulations greater than this amount can be carried over, but no more than 90 days can be carried into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. The liability associated with governmental fund-type employees is reported in the general long-term debt account group, while the liability associated with proprietary fund-type employees is recorded in each respective fund. Expenditures for unpaid vacation and sick leave benefits are recorded when paid in the governmental funds on the modified accrual basis of accounting and expenses for vacation and sick leave benefits are recorded when accrued in the proprietary funds on the full accrual basis of

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Assets, Liabilities, and Net Assets or Equity - continued

8. Compensated Absences

accounting. The County also allows exempt employees to carry up to 40 hours in compensatory time. Compensatory time is paid upon termination.

9. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond issue using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

11. Interfund Transactions

Interfund transactions consisting of identified services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as revenue in the fund performing the services.

Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts.

12. New Accounting Guidance Implemented

For the year ended June 30, 2009, Gallatin County implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 45 – “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”. GASB No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial statements of local governmental employers.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The county adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40 of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the later of the second Monday in August or within 45 calendar days of the receipt of the certified taxable valuations from the Department of Revenue (county assessor). The County must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

State statute limits the making of expenditures or incurring of obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law, and in some instances, may require further public hearings. Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

Appropriations are created by fund, function, and activity and may further be detailed by department. 7-6-4004 Expenditures limited to appropriations. (1) Local government officials may not make a disbursement or expenditure or incur an obligation in excess of the total appropriations for a fund.

Encumbrance accounts are not employed for the governmental funds. Purchase orders outstanding at year end are reported as expenditures or liabilities because the commitments will not be expropriated or honored during the subsequent fiscal year.

B. Excess of Expenditures over Appropriations

There were no excess of expenditures over appropriations for fiscal year ended 2009.

C. Deficit Fund Balances

<u>Fund Number & Name</u>	<u>Amount</u>	<u>Explanation</u>
2155 Predator Animal Control	\$ 2,441	Personal Property taxes receivable of \$6,664 for FY09 will be mostly collected in July. This will bring the fund to a positive position.
2915 Operation Freedom from Fear	\$ 2	Accounts Receivable of \$3,196 due from granting agency.
2979 Aid to Dependent Children	\$ 389	Will be offset to the General Fund in FY10
3541 Pine View/ Rocky Creek	\$1,472	Accounts Receivable of \$2,235 is due
4430 CDBG Grants	\$ 112	Balance Due from grants will be offset in FY10

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

1. Investment Income

Income from pooled investments is allocated to the individual funds or external participants based on the fund or participant's month end cash balance in relation to total pool investments.

2. Investment in the Treasurer's Pools

The County Treasurer invests on behalf of most funds of the County and external participants in accordance with the County's investment policy and Montana laws. The County's investment pools are managed by the County Treasurer. The external portion of the County's investment pools are accounted for as investment trust funds. There are two types of investment trust funds reported by the County, including pooled and individually directed investment trust funds.

Gallatin County has one pooled investment trust fund invested in U.S. Government securities. The pooled funds invested in U.S. Government securities are carried at cost, which approximates fair value.

The County invests funds for external entities. These investments are reported in an individually directed investment trust fund. The investments are non-negotiable certificates of deposit, money market accounts, mutual funds, bonds and STIP, all of which are carried at cost, which approximates fair value.

Non-pooled investments are also carried at fair value. The fair value of non-pooled investments is determined annually and is based on current market prices.

As noted below, State statutes limit the type of investments but provide no other regulatory oversight.

3. Cash Composition

Cash and investments may include cash and cash items; demand, time, savings, and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); repurchase agreements; registered warrants of the County or of municipalities or school districts located in the County; U.S. Government treasury bills, notes, bonds, and other treasury obligations such as state and local government series; general obligations of certain agencies of the United States such as Federal Home Loan Bank; and U.S. Government securities money market funds (if the fund meets certain conditions).

The County's total composition of cash, deposits and investments at June 30, 2009 are as follows:

		<u>Primary Government</u>
Cash on Hand and Petty cash	\$	694,488
Cash in Banks -		
Demand deposits		37,361,782
Saving deposits		8,428,773
State Short-Term Investment Pool		104,964
U.S. Government securities (brokerage)		92,512,453
TOTAL	\$	139,102,460

Interest rates at June 30, 2009 ranged from 1% - 4.35%. Future maturities on investments range from July 2009 to June 2014.

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

3. DETAILED NOTES ON ALL FUNDS - continued

A. Deposits and Investments-continued

4. Deposits

Montana statutes require that the county obtain securities for the uninsured portion of the deposits as follows 1) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more or 2) securities equal to 100% of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for County deposits at June 30, 2009 equaled or exceeded the amount required by State statutes.

5. Categorized Risk

Investments – As noted above, statutes authorize the County to invest in the State Short-Term Investment Pool (STIP); repurchase agreements; registered warrants of the County or of municipalities or school districts located in the county; U.S. Government treasury bills, notes, bonds and other treasury obligations such as state and local government series; general obligations of certain agencies of the United States such as Federal Home Loan Bank; and U.S. Government security money market funds if the fund meets certain conditions. These investments are in addition to the demand, time, credit union and savings deposits, which are included in deposits above. The County investments are categorized below to give an indication of the level of risk assumed by the County at June 30, 2009.

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>No Maturity</u>	<u>Fair Value</u>
Primary Government Investments:							
Federal Home Loan Mortgage Corp.			3,000,000				3,009,144
Fannie Mae		1,000,000	2,000,000				3,003,747
Freddie Mac			3,000,000	3,000,000	700,000		6,723,501
Federal Home Loan Bank	2,000,000	1,000,000	7,260,000	10,500,000	1,000,000		21,823,249
Federal Farm Credit Bank		500,000	3,500,000	3,500,000			7,530,320
Savings Deposits						121,370	121,370
State Short-Term Investment Pool						104,964	104,964
Equity Mutual Fund						15,778	16,361
Government Money Market						19,586,675	19,661,676
Certificate of Deposits						39,257,403	39,257,403
Totals	\$2,000,000	\$2,500,000	\$18,760,000	\$17,000,000	\$1,700,000	\$59,086,190	\$101,251,735

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS - continued

A. Deposits and Investments-continued

The Governmental Accounting Standards Board (GASB) Technical Bulletin No. 94-1 requires governmental entities participating in an investment pool to disclose certain types of securities held in the pool. As noted above, the county invests in the Short-Term Investment Pool managed by the State of Montana. This pool contains two types of investments required to be disclosed, which are Asset-Backed Securities and Variable Rate (Floating Rate) Securities. June 30, 2009 information is not available at this time. Amounts (unaudited) invested by STIP in each type as of June 30, 2008 were as follows:

Investment Type	2008 \$	% of	2007 \$	% of	\$	%
	Book Value	Total	Book Value	Total	Change	Change
Commercial Paper	\$1,278,677,750	55.1	\$1,824,945,022	65.4	(546,267,272)	(29.9)
U.S. Government Agency	439,007,788	18.9	49,999,456	1.8	389,008,332	778.0
Money Market	204,352,667	8.8	25,000,000	0.9	179,352,667	717.4
Corporate	179,971,989	7.8	165,002,561	5.9	14,969,428	N/A
Structured Investment Vehicles	140,000,000	6.0	719,791,694	25.8	(579,791,694)	(80.5)
Certificates of Deposit	79,997,934	3.4	0	0.0	79,997,934	N/A
Municipal Variable Rates (Unrated)	0	0.0	5,000,000	0.2	(5,000,000)	(100.0)
Total Investments	\$ 2,322,008,128	100.0	\$ 2,789,738,733	100.0	(467,730,605)	(16.8)

Amounts invested by the County in STIP may be redeemed at any date at the carrying value on that date. Audited financial statements for the State of Montana's Board of Investments are available at 555 Fuller Avenue, Helena, Montana 59620.

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The County securities have credit risk as measured by major credit rating services. This risk is that the issuer of a county security may default in making timely principal and interest payments. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit risk quality per GASB No. 40. The credit ratings presented in the following tables are provided by Standard and Poor's Corporation (S&P) rating service. If no rating is available from S&P, then a Moody's Investment Service, Inc. rating will be used. The County does not have policies regarding credit ratings of investments.

Primary Government Investments	Value	S&P
Federal Home Loan Mortgage Corp.	\$ 3,000,000	AAA
Fannie Mae	3,000,000	AAA
Freddie Mac	6,700,000	AAA
Federal Home Loan Bank	21,760,000	AAA
Federal Farm Credit Bank	7,500,000	AAA
Savings Deposits	121,370	AAA
State Short-Term Investment Pool (STIP)	104,964	A1
Equity Mutual Fund	15,778	NR
Government Money Market	19,586,675	NR
Certificate of Deposits	39,257,403	NR
TOTAL	\$ <u>101,046,190</u>	

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS - continued

B. Operating Transfers:

The principle purpose of the County's interfund transfers were indirect costs and administrative and grant fees. The following is an analysis of operating transfers in and out during fiscal year 2009:

Transfers							
Out:							
	<u>General Fund</u>	<u>Public Safety</u>	<u>RID Bonds</u>	<u>Capital Development</u>	<u>Nonmajor Governmental</u>	<u>Internal Service</u>	<u>Total Transfers In</u>
Transfer In:							
Governmental funds:							
General Fund					489,079		489,079
Public Safety					10,983		10,983
RID Bonds			50,809				50,809
Capital Development					6,653	12,000	18,653
Nonmajor Governmental	1,698	229,821		50,437	40,986	1,340	324,282
Total governmental funds							<u>893,806</u>
Internal Service					831,072		831,072
	<u>1,698</u>	<u>229,821</u>	<u>50,809</u>	<u>50,437</u>	<u>1,378,773</u>		
Total transfers out - governmental funds					<u>1,711,538</u>		
Total transfers out - internal service funds						<u>13,340</u>	
Total transfers out							\$ <u>1,724,878</u>

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

A summary of changes in capital assets is as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Governmental activities:				
Land	\$ 14,077,683	\$ 1,454,017	\$ 150,000	\$ 15,381,700
Buildings	16,722,171	4,283,601	-	21,005,772
Improvements other than buildings	360,118	607,269	-	967,387
Machinery and equipment	15,297,297	3,879,581	1,847,999	17,328,879
Infrastructure	134,755,650	359,259		135,114,909
Total capital assets being depreciated	<u>167,135,237</u>	<u>9,129,710</u>	<u>1,847,999</u>	<u>174,416,948</u>
Construction in progress	<u>5,769,616</u>	<u>6,092,802</u>	<u>1,844</u>	<u>11,860,574</u>
Total capital assets	\$ 186,982,536	\$ 16,676,529	\$ 1,999,843	\$ 201,659,222
Less accumulated depreciation:	<u>70,393,460</u>	<u>5,224,947</u>	<u>843,628</u>	<u>74,774,778</u>
Governmental activities capital assets, net	\$ <u>116,589,076</u>	\$ <u>11,451,582</u>	\$ <u>1,156,215</u>	\$ <u>126,884,444</u>
Business-type activities:				
Land	\$ 6,822	\$ -	\$ -	\$ 6,822
Buildings	5,064,619	1,490,717	-	6,555,336
Improvements other than buildings	2,601,254	445,928	198,645	2,848,537
Machinery and equipment	5,849,276	236,055	2,506	6,082,825
Total capital assets being depreciated	<u>13,515,149</u>	<u>2,172,700</u>	<u>201,151</u>	<u>15,486,698</u>
Construction in progress	<u>7,076</u>	<u>1,844</u>	<u># 7,076</u>	<u>1,844</u>
Total capital assets	\$ 13,529,047	\$ 2,174,544	\$ 208,227	\$ 15,495,364
Less accumulated depreciation:	<u>3,921,091</u>	<u>840,783</u>	<u>2,506</u>	<u>4,759,368</u>
Business-type activities capital assets, net	\$ <u>9,607,955</u>	\$ <u>1,333,761</u>	\$ <u>205,721</u>	\$ <u>10,735,995</u>

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets-continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 531,910
Public Safety	764,125
Public Works	3,783,128
Public Health	28,895
Social and Economic Services	1,164
Culture and Recreation	112,877
Housing and Community Development	2,445
Conservation of Natural Resources	404

Total depreciation expense - governmental activities \$ 5,224,947

Business-type activities:

Rest Home	\$ 155,181
Gallatin County Landfill	545,618
West Yellowstone Refuse Dist.	139,983

Total depreciation expense - business-type activities \$ 840,782

D. Long-Term Debt

During year ended June 30, 2009, the following changes in liabilities were reported in long-term debt:

	Balance 01-Jul-08	Additions	Deletions	Balance 30-Jun-09	Due within one year
Governmental Activities:					
General Obligation Bonds	\$ 11,026,800	\$ 36,031,152	\$ 626,081	\$ 46,431,871	\$ 921,285
Special Assessment Bonds	3,600,000	-	310,000	3,290,000	105,000
Compensated Absences	1,454,859	224,565	15,558	1,663,866	166,387
OPEB Liab	-	282,365	-	282,365	-
Intercap Loans	5,745,471	1,000,000	535,233	6,210,238	702,049
Capital Leases	544,700	1,473,182	697,700	1,320,182	93,724
Total	<u>\$ 22,371,830</u>	<u>\$ 39,011,264</u>	<u>\$ 2,184,572</u>	<u>\$ 59,198,522</u>	<u>\$ 1,988,445</u>

	Balance 01-Jul-08	Additions	Deletions	Balance 30-Jun-09	Due within one year
Business-Type Activities					
Revenue Bonds	\$ 2,342,250	\$ -	\$ 730,250	\$ 1,612,000	\$ 440,000
Compensated Absences	251,902	2,106	20,654	233,354	6,642
OPEB Liab	-	64,006	-	64,006	-
Intercap Loans	306,776	-	151,025	155,751	155,751
Closure/postclosure care costs	1,227,407	215,658	159,060	1,284,005	-
Capital Leases	1,099,679	-	260,963	838,716	270,672
Total	<u>\$ 5,228,014</u>	<u>\$ 281,770</u>	<u>\$ 1,321,952</u>	<u>\$ 4,187,832</u>	<u>\$ 873,065</u>

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS - continued

D. Long-Term Debt-continued

The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an “implicit rate” subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the County.

General Obligation Bonds – The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. General obligation bonds outstanding as of June 30, 2009 were as follows:

Purpose	Issue Date	Interest Rate	Term of years	Final maturity	Bonds issued	Outstanding 30-Jun	Annual serial payment
Open Space	10/01/2001	3.75-4.7	20	07/01/2021	\$ 3,800,000	\$ 2,660,000	Varies
Pogreba Improvement	12/18/2000	3.875	10	02/28/2010	10,000	1,000	\$ 1000
Pogreba Mobile Home	11/25/2002	4.8	10	08/01/2012	30,000	13,671	Varies
Open Space	04/01/2003	2.0-4.75	20	07/01/2023	4,000,000	3,145,000	Varies
Pogreba Field	07/07/2005	2.00	10	02/28/2016	8,500	5,950	850
Open Space	06/28/2005	3.625-4.25	20	02/01/2026	5,000,000	4,595,000	Varies
Open Space	12/15/2008	4.3	18	07/01/2026	4,000,000	4,000,000	Varies
Pogreba Animal Fence	07/29/2008	3.625	10	02/28/2018	12,500	11,250	1250
Detention Center	02/01/2009	3.5-4.6	18	02/01/2027	32,000,000	32,000,000	Varies
Total G.O. Bonds					\$ 48,861,000	\$ 46,431,871	\$ 3,100

Revenue Bonds – The County also issues bonds where the County pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year-end were as follow:

Purpose	Issue Date	Interest Rate	Term of years	Final maturity	Bonds issued	Outstanding 30-Jun-09	Annual serial payment
Landfill Cell 3	2007	3.75%	5	2013	\$ 2,242,000	\$ 1,612,000	Varies
Total Revenue Bonds					\$ 2,242,000	\$1,612,000	

Revenue bonds resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and registrar. The County was in compliance with applicable covenants as of June 30, 2009.

Special Assessment Debt – Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected.

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

3. DETAILED NOTES ON ALL FUNDS - continued

D. Long-Term Debt- continued

Special Assessment Debt outstanding at year-end was as follows:

<u>Purpose</u>	<u>Issue</u>	<u>Interest</u>	<u>Term of</u>	<u>Final</u>	<u>Bonds</u>	<u>Outstanding</u>	<u>Annual</u>
<u>1997</u>	<u>Date</u>	<u>Rate</u>	<u>years</u>	<u>maturity</u>	<u>issued</u>	<u>6/30/09</u>	<u>serial</u>
							<u>payment</u>
Refunding	1997	2.9-5.0	11	2012	\$ 1,340,000	\$ 80,000	Varies
#358 & #359	1992	3.5-6.75	20	2012	533,000	90,000	Varies
#360	1993	3.5-6.75	20	2013	380,000	15,000	Varies
#361	1995	3.78-7.0	18	2013	187,200	55,000	Varies
#365	1994	4.9-9.25	20	2013	90,000	5,000	Varies
#366	1995	3.5-8.25	16	2012	130,000	35,000	Varies
#367	1995	4.1-6.15	15	2011	193,000	15,000	Varies
#368	1996	4.0-6.5	20	2016	125,000	40,000	Varies
#370	1998	4.4-6.0	20	2018	198,500	50,000	Varies
#371	1999	3.0-7.2	20	2020	63,000	30,000	Varies
#372	1999	3.0-6.1	15	2014	200,000	40,000	Varies
#375	2001	3.0-6.5	15	2015	113,000	15,000	Varies
#376	2001	3.6-5.5	20	2021	540,000	200,000	Varies
#378	2001	3.6-5.5	20	2021	1,188,000	705,000	Varies
#380	2002	3.0-6.5	15	2017	110,000	2,000	Varies
#382	2002	3.0-6.5	15	2017	199,000	125,000	Varies
#383	2002	2.2-5.5	20	2022	200,200	100,000	Varies
#384	2003	2.0-5.0	15	2018	160,000	70,000	Varies
#386	2003	1.75-4.9	15	2018	300,000	195,000	Varies
#387	2005	2.1-5.0	15	2020	180,000	140,000	Varies
#388	2005	2.1-5.0	15	2020	160,000	115,000	Varies
#391	2006	2.0-5.25	20	2026	395,000	320,000	Varies
#392	2006	3.0-7.0	20	2026	60,000	38,000	Varies
#393	2007	4.2-5.5	20	2028	900,000	810,000	Varies
Total Special Assessment Bonds					\$ 7,944,900	\$ 3,290,000	

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS - continued

D. Long-term debt- continued

Loans/Contracted Debt:

Loans and Contracted Debt outstanding as of June 30, 2009 were as follows:

<u>Purpose</u>	<u>Original Amount</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/2009</u>	<u>Date of Last Payment</u>
Landfill (2)	995,000	2003	Varies	155,751	2010
Guenther Building Purchase (1)	999,000	2004	Varies	532,749	2014
Capital Improvement Libraries (1)	999,000	2005	Varies	695,892	2016
Re-Entry Facility (1)	800,000	2006	Varies	592,875	2016
Fair Grounds Improvement (1)	500,000	2007	Varies	395,892	2016
3rd District Court Building (1)	999,000	2007	Varies	870,068	2017
Courthouse Annex (1)	999,000	2007	Varies	875,452	2018
9-1-1 Center (1)	1,000,000	2009	Varies	1,000,000	2019
Road & Bridge Shop Complex (1)	1,300,000	2008	Varies	1,247,310	2019
Total	<u>\$ 8,591,000</u>			<u>\$ 6,365,989</u>	

(1) Reported in general long-term debt account group: \$6,210,238

(2) Reported in Enterprise Fund: \$155,751

The interest rate variances are based on an annual adjustment by the Montana Board of Investments.

Compensated Absences Payable

Compensated absences payable, which represents vacation and sick leave earned by employees and is payable upon separation, is as follows:

Enterprise Fund	\$ 233,354
General Governmental Activities	1,645,633
Internal Service Funds	18,233
	<u>\$ 1,897,220</u>

Capital Leases

The County has entered into several leases which meet the criteria of a capital lease as defined by GAAP. GAAP defines a lease generally as a lease which transfers benefits and risks of ownership to the lessee.

Equipment under capital leases in capital assets at June 30, 2009, include the following:

Equipment	\$ 2,158,899
Less: Accumulated depreciation	(680,094)
Total	<u>\$ 1,478,805</u>

Amortization of equipment under capital assets is included with depreciation expense.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS – continued

D. Long-term debt- continued

Requirements to Amortize Debt

The annual requirements to amortize all long-term debt outstanding, except compensated absences, and closure/post closure care costs as of June 30, 2009 were as follows:

For Fiscal Year Ended	G. O. Principal	G. O. Interest	Revenue Bond Principal	Revenue Bonds Interest
2010	\$ 921,286	\$ 2,507,559	\$ 440,000	\$ 30,060
2011	1,760,390	1,847,288	456,000	21,180
2012	1,845,547	1,783,827	474,000	11,970
2013	1,940,848	1,714,661	242,000	2,420
2014-2018	11,138,800	7,428,498		
2019-2023	13,465,000	5,155,100		
2024-2029	15,360,000	2,435,481		
Total	\$ 46,431,871	\$ 22,872,414	\$ 1,612,000	\$ 65,630
Continued:	Special Bonds Principal	Special Bonds Interest	Contract Debt Principal	Contract Debt Interest
2010	\$ 105,000	\$ 173,622	\$ 857,800	\$ 244,314
2011	270,000	170,714	727,625	216,429
2012	218,000	157,541	757,963	185,386
2013	223,000	147,223	789,582	152,800
2014-2018	1,303,000	526,577	3,043,789	295,608
2019-2023	821,000	206,055	189,230	4,326
2024-2029	350,000	46,025		
Total	\$ 3,290,000	\$ 1,427,757	\$ 6,365,989	\$ 1,098,863
Continued:	Capital Lease Principal	Capital Lease Interest		Grand Total
2010	\$ 364,396	\$ 94,872		\$ 5,738,909
2011	382,732	78,847		5,931,205
2012	385,572	62,114		5,881,920
2013	106,926	46,077		5,365,536
2014-2018	919,273	41,275		24,696,820
2019-2023	-	-		19,840,711
2024-2029	-	-		18,191,506
Total	\$ 2,158,899	\$ 323,185		\$ 85,646,607

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

3. DETAILED NOTES ON ALL FUNDS - continued

E. State-Wide Retirement Plans

All Full-time County employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS), Sheriffs Retirement System (SRS), or Teachers Retirement System (TRS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing multi-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with the amount determined by the State.

Contribution rates are required and determined by State Law. The contribution rates expressed as a percentage of covered payroll for fiscal year ended June 30, 2009 were:

	<u>PERS</u>	<u>SRS</u>	<u>TRS</u>
Employer	6.935%	9.825%	7.47%
Employee	6.90%	9.245%	7.15%
State	0.10%	0.000%	0.11%

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the County's financial statements and were considered immaterial. Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Public Employees Retirement Division, P. O. Box 200131, Helena, Montana 59620-0131 Phone: 406-444-3154
2. Teachers Retirement System, P. O. Box 200319, Helena, Montana 59620-0139 Phone: 406-444-3134

The County's contributions for the years ended June 30, 2009, 2008 and 2007 as listed below were equal to the required contributions for each year.

	2007	2008	2009
PERS			
County	796,848	877,148	918,687
Employee	800,128	878,381	914,050
State	11,581	12,693	13,266
SRS			
County	317,826	370,628	378,255
Employee	341,711	354,036	355,925
TRS			
County	4,622	4,749	4,796
Employee	4,424	4,553	4,591
State	68	70	67

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

3. DETAILED NOTES ON ALL FUNDS - continued

F. Local Retirement Plans

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all County employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

G. Restricted Cash/Investments

The following restricted cash and investments were held by the County as of June 30, 2009. These amounts are reported within the cash and investment account on the combined balance sheet.

<u>Description</u>	<u>Amount</u>
Gallatin County Landfill	2,188,941
Detention Center Construction Retainage	277,213
9-1-1 Construction Retainage	76,431
Total	<u>\$ 2,542,584</u>

H. Fund Equity

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The restrictions of equity in the governmental funds are due to the debt service requirements. The restrictions in the proprietary funds are for landfill closure and post closure requirements and loan document requirements.

I. Restatements/Prior Period Adjustments

There were no restatements or prior period adjustments.

J. Landfill Closure and Post Closure Care Costs

State and Federal laws and regulations require that Gallatin County place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Gallatin County has elected to use the Local Government Financial Test to satisfy its financial responsibility under RCRA Subtitle D. Although closure and post closure care costs will be paid only near or after the date the landfill stops accepting waste, the landfill reports a portion of these closure and post closure care costs as an operating expense each period. The costs expensed during a period are based on landfill capacity used as of each balance sheet date. Independent engineering reports show that there is a \$1,284,005 liability for landfill closure and post closure as of June 30, 2009, which represents the cumulative amount reported to date based on the use of 39.84% of the estimated capacity of the landfill. The remaining estimated cost of closure and post closure care will be recognized as the remaining estimated capacity is filled. The estimated total current cost of closure and post closure care remaining to be recognized is \$1,937,995. These amounts are based on what it should cost to perform all closure and post closure in 2009. The County expects to close the landfill in the year 2029. Actual costs may be higher due to inflation, changed in technology or changes in regulations.

The County is required by State and Federal laws and regulations to demonstrate financial assurance for the costs of closure and post closure care costs. For the fiscal year ended June 30, 2008 Gallatin County demonstrated its ability to handle closure and post closure care costs by passing the local government financial test.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS – continued

K. Services Provided to Other Governments

Gallatin County provides various financial services to other governmental entities located within the County. The County serves as the billing agent, cashier and treasurer for tax and assessment collections for various taxing jurisdictions. The County also is a bank for such agencies as school districts, irrigation districts, rural fire districts, and other special purpose districts. The funds collected and held by the County for other entities are accounted for in agency funds. Funds collected for incorporated cities and towns are periodically remitted to those entities by the County Treasurer. The County has not recorded any service charges for the services it provides other governmental entities.

L. Risk Management

The County faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e. employee injuries, and (f) medical insurance costs of employees. Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees' torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier, and given the lack of coverage available; the County has minimal coverage for potential losses from environmental damages. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Gallatin County has joined with other Montana counties to form a self-insurance pool offering workers' compensation coverage. This pool, named the Montana Association of Counties Workers' Compensation Trust, provides claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The counties do not exercise specific control over the budgeting and financing of the Trust's activities.

In February 1990, the Trust issued \$7.645 million in tax exempt bonds to provide aggregate excess coverage and resources for previously unfunded liabilities. The County has, therefore, elected not to record this potential liability as a long-term liability in its accounting records and report it as such in its financial statements.

Audited financial statements for fiscal year ended September 30, 2009 are available from the Montana Association of Counties Workers' Compensation Trust.

Self-Insurance

The County provides medical insurance coverage for its employees via a partially self-insured plan. It provides medical and dental benefits and is operated as an Internal Service Fund. Rates are determined in consultation with the administrator based on past claim experience. Incurred but unreported claims at June 30, 2009, were estimated by the plan administrator. Claims payable as of year end are:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Beginning claims payable	\$ 158,222	\$ 270,394	\$ 228,665
Claims incurred	2,878,544	3,397,017	3,092,963
Claims paid	<u>(2,766,372)</u>	<u>(3,438,746)</u>	<u>(3,016,876)</u>
Ending claims payable	\$ <u>270,394</u>	\$ <u>228,665</u>	\$ <u>304,752</u>

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS – continued

M. Commitments

Primary Government

At June 30, 2009, Gallatin County had approximate contractual commitments of the following:

<u>Department</u>	<u>Amount</u>	<u>Project</u>
Commission	\$ 25,873,951	Detention Center
Grants & Project Administration	1,021,275	9-1-1 Center
Grants & Project Administration	187,325	Middle Creek Dam Early Warning System
Road & Bridge	626,923	Chip Seal of County Roads
Road & Bridge	2,171	Equipment Building
Procurement	61,197	Roof on CH Annex & L&J
Solid Waste Management District	74,962	Shop & Administrative Buildings
Total	\$ <u>27,847,805</u>	

Future appropriations will fund these commitments as work is performed.

N. Other Postemployment Benefits (OPEB)

Other Post Employment Benefits (OPEB)

As required by Governmental Accounting Standards Board (GASB) Statement No. 45 Other Postemployment Benefits, the County has calculated and included a post employment benefit liability in 2009.

Plan Description

Gallatin County maintains a single-employer self-insured medical plan. The plan currently provides defined healthcare insurance benefits for eligible employees, retirees, spouses and dependants, included are medical, dental, and vision benefits. Participation is elected by the retiree at the time of retirement. Benefit provisions are set annually by the Board of County Commissioners and may be revoked or altered at any time.

Funding Policy

The County provides no direct subsidy to the health insurance premiums for retirees. Retirees pay for the entire cost of the health insurance premium. Eligible retired employees include former fulltime and certain other employees. As of June 2009 there are 29 retirees and/or survivors enrolled for the employer's sponsored health insurance plan.

Annual OPEB Cost Obligation.

The County's other postemployment benefit (OPEB) cost (expense) is calculated based on the entry age normal cost method. Under this method, each individual's present value of benefits is levelly spread over the individual's projected earnings or service from entry age to assumed exit age. Typically, when this method is introduced, it tends to produce lower initial contributions while still keeping contributions level as a percentage of payroll.

Annual Required Contribution – June 30, 2009

Normal Cost	\$267,689
Amortization of Unfunded Actuarial Accrued Liability Over 30 Years from the Valuation Date	151,089
Annual Required Contribution	\$418,749

Funded Status and Funding Progress

As of June 30, 2009, the actuarial accrued liability (AAL) for benefits was \$3,731,698 all of which was unfunded. There are no assets set aside to fund these benefits as the County funds post-retirement health insurance benefits on a pay-as-you-go basis.

Annual Valuation – June 30, 2009

Actuarial Value of Assets	\$ 0
Plus Actuarial Accrued Liability (AAL)	\$3,731,698
Unfunded Actuarial Accrued Liability (UAAL)	\$3,731,698
Funded Ratio (actuarial value of assets / UAAL)	0.00%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the note to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As required by GASB 45, this is the first year an actuarial has been completed for other postemployment benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made:

Retirement and Disability rates are assumed to follow the RP2000 Healthy Combined Table with mortality improvements by Scale AA to 2008 and set backs of two years for both males and females. In the case of a disability the same applies, except for females, where it is a set forward of one year.

Turnover rates were based on specific gender age data assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Amortization factor for a 30-year, level percent of pay amortization on an open basis, using a 4.25 percent discount rate and a 4.25 percent payroll growth assumption.

Healthcare cost trend rate (HCCTR) was based on projections from historical rates of the County. A rate of 8.0% initially in 2009 reduced by 1- .5% each year until an ultimate rate of 5.0% after 7 years and after.

Health insurance premiums for 2009 retirees were used as the basis for calculation of the present value of total benefits to be paid.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. DETAILED NOTES ON ALL FUNDS – continued

O. Pending Litigation

The County is involved in numerous lawsuits, which arise out of the normal course of operations. Management of the County intends to vigorously defend each claim and believes no material losses will be incurred on such claims.

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**REQUIRED
SUPPLEMENTARY
INFORMATION**

Gallatin County, State of Montana
1000 GENERAL
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	2,444,823	2,444,823	2,393,273	(51,550)
Local Option Taxes	1,500,000	1,500,000	1,488,469	(11,531)
General Business Licenses	-	-	230	230
Federal Grants	27,500	27,500	20,000	(7,500)
Federal Payments in Lieu of Tx	300	300	315	15
State Shared Revenue	620,000	620,000	634,215	14,215
Local Grants	4,641	4,641	4,417	(224)
Charges for Services	2,032,923	2,032,923	1,792,057	(240,866)
Fines & Forfeitures	488,300	488,300	1,064,206	575,906
Miscellaneous	67,000	67,000	100,516	33,516
Investment Earnings	783,000	783,000	410,562	(372,438)
Total revenues	<u>7,968,487</u>	<u>7,968,487</u>	<u>7,908,260</u>	<u>(60,228)</u>
EXPENDITURES				
Current:				
General Government-Personnel	6,868,140	6,842,319	6,523,976	318,344
General Government-Operations	1,882,222	1,866,722	1,663,352	203,370
Public Safety-Personnel	466,542	466,542	452,181	14,361
Public Safety-Operations	425,194	425,194	479,747	(54,552)
Miscellaneous	184,688	184,688	27,735	156,953
Total current:	<u>9,826,786</u>	<u>9,785,465</u>	<u>9,146,991</u>	<u>638,475</u>
Debt service:				
Principal Retirement	98,197	98,197	70,742	27,455
Interest	13,641	13,641	790,281	(776,640)
Total debt service:	<u>111,838</u>	<u>111,838</u>	<u>861,023</u>	<u>(749,185)</u>
Capital outlay:				
General Government-Capital Exp	173,950	215,271	107,468	107,803
Total capital outlay:	<u>173,950</u>	<u>215,271</u>	<u>107,468</u>	<u>107,803</u>
Total expenditures	<u>10,112,574</u>	<u>10,112,574</u>	<u>10,115,482</u>	<u>(2,907)</u>
Excess (deficiency) of revenues	<u>(2,144,087)</u>	<u>(2,144,087)</u>	<u>(2,207,222)</u>	<u>(63,135)</u>
OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS				
Transfers In	400,000	400,000	489,079	89,079
Transfers Out	(19,266)	(26,829)	(1,698)	25,131
Total other financing sources and uses and special items	<u>380,734</u>	<u>373,171</u>	<u>487,381</u>	<u>114,210</u>
Net change in fund balances	<u>(1,763,353)</u>	<u>(1,770,916)</u>	<u>(1,719,841)</u>	<u>51,075</u>
Fund balances -- beginning	<u>2,832,293</u>	<u>2,832,293</u>	<u>2,832,293</u>	<u>-</u>
Fund balances -- ending	<u>\$ 1,068,940</u>	<u>\$ 1,061,377</u>	<u>\$ 1,112,452</u>	<u>\$ 51,075</u>

See accompanying notes to the financial statements

Gallatin County, State of Montana
2300 PUBLIC SAFETY FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive (Negative)</u>
REVENUES				
Property Taxes	10,059,841	10,059,841	9,965,877	(93,965)
Other licenses	10,000	10,000	35,505	25,505
Federal Grants	58,000	76,000	87,075	11,075
State Grants	47,000	47,000	-	(47,000)
State Shared Revenue	408,000	408,000	413,036	5,036
Charges for Services	646,747	646,747	736,392	89,645
Fines & Forfeitures	7,500	7,500	7,352	(148)
Miscellaneous	15,590	42,190	36,939	(5,252)
Investment Earnings	30,000	30,000	17,913	(12,087)
Total revenues	<u>11,282,678</u>	<u>11,327,278</u>	<u>11,300,089</u>	<u>(27,190)</u>
EXPENDITURES				
Current:				
Public Safety-Personnel	7,211,600	7,211,600	7,028,396	183,204
Public Safety-Operations	3,250,069	3,250,069	2,904,704	345,365
Total current:	<u>10,461,669</u>	<u>10,461,669</u>	<u>9,933,100</u>	<u>528,569</u>
Debt service:				
Interest	76,696	76,696	-	76,696
Total debt service:	<u>76,696</u>	<u>76,696</u>	<u>-</u>	<u>76,696</u>
Capital outlay:				
Public Safety-Capital Expend	555,010	599,610	404,423	195,187
Total capital outlay:	<u>555,010</u>	<u>599,610</u>	<u>404,423</u>	<u>195,187</u>
Total expenditures	<u>11,093,375</u>	<u>11,137,975</u>	<u>10,337,523</u>	<u>800,452</u>
Excess (deficiency) of revenues	<u>189,303</u>	<u>189,303</u>	<u>962,565</u>	<u>773,262</u>
OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS				
Sale of Fixed Assets	-	-	7,000	
Transfers In	75,000	75,000	10,983	(64,017)
Transfers Out	(157,316)	(157,316)	(229,822)	(72,506)
Total other financing sources and uses and special items	<u>(82,316)</u>	<u>(82,316)</u>	<u>(211,839)</u>	<u>(129,523)</u>
Net change in fund balances	106,987	106,987	750,726	643,739
Fund balances -- beginning	<u>801,371</u>	<u>801,371</u>	<u>801,371</u>	<u>-</u>
Fund balances -- ending	<u>\$ 908,358</u>	<u>\$ 908,358</u>	<u>\$ 1,552,097</u>	<u>\$ 643,739</u>

See accompanying notes to the financial statements

Gallatin County, State of Montana
EMPLOYEE GROUP BENEFITS PLAN - OTHER POSTEMPLOYMENT BENEFITS (OPEB)
REQUIRED SUPPLEMENTAL SCHEDULES

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unvunded AAL (UAAL)</u>	<u>Runded Ratio %</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll(%)</u>
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
June 30, 2009	\$ -	\$ 3,731,698	\$ 3,731,698	0.00%	\$ 17,387,654	21.50%

This schedule is based on the actuarial values as of July 1, 2008. Information for prior years is not available.

See accompanying notes to the financial statements

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And Unnumbered

SINGLE

AUDIT

SECTION

GALLATIN COUNTY, MONTANA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Beginning Balance June 30, 2008	Federal Revenue	Federal Expenditures	Ending Balance June 30, 2009
U.S. Department of Agriculture							
<i>Passed through the State Department of Public Health and Human Services:</i>							
Special Supplemental Food Program for Women, Infants, and children (WIC)	10.557	08-07-5-21-009-0	\$ 180,452.00	\$ -	\$ 41,690.00	\$ 41,690.00	\$ -
Special Supplemental Food Program for Women, Infants, and children (WIC)	10.557	09-07-5-21-009-0	185,064.00	-	132,654.00	132,654.00	-
<i>Passed through the State Department of Agriculture:</i>							
Noxious Weed Trust Fund Project-Lower madison Weed Management Area	10.664	MDA 2009-718	21,348.00	-	-	-	-
Total U.S. Department of Agriculture			\$ 386,864.00	\$ -	\$ 174,344.00	\$ 174,344.00	\$ -
U.S. Department of Commerce							
<i>Passed Through the State Department of Commerce:</i>							
Community Development Block Grant - Belgrade Senior Center	14.228	MT-CDBG-08PG-08	\$ 15,000.00	\$ -	\$ 9,644.00	\$ 9,644.00	\$ -
Total U.S. Department of Commerce			\$ 15,000.00	\$ -	\$ 9,644.00	\$ 9,644.00	\$ -
U.S. Department of Justice							
<i>Direct:</i>							
LLEBG Bulletproof Vest Program	16.607	2007 Fund	\$ 4,162.50	\$ -	\$ 2,495.00	\$ 2,495.00	\$ -
LLEBG Bulletproof Vest Program	16.607	2008 Fund	3,889.00	-	3,298.00	3,298.00	-
JAG Edward Memorial Justice Assistance Grant	16.738	2007-DJ-BX-1287	23,465.00	-	3,154.75	3,154.58	-
<i>Passed through the State Department of Justice - Montana Board of Crime Control:</i>							
Byrne Formula Grant - Missouri River Drug Task Force	16.738	08-G01-90391	21,209.78	-	21,210.00	21,210.00	-
Byrne Formula Grant - Missouri River Drug Task Force	16.738	07-G01-90417	93,244.00	-	93,244.00	93,244.00	-
Victim Witness Program	16.588	08-W03-90276	40,953.00	-	40,953.00	40,953.00	-
Operation Freedom from Fear	16.588	08-W02-90275	46,685.00	-	46,685.00	46,685.00	-
Total U.S. Department of Justice			\$ 233,608.28	\$ -	\$ 211,039.75	\$ 211,039.58	\$ -
U.S. Department of Homeland Security							
<i>Passed through the Montana Disaster & Emergency Services:</i>							
Interoperability of Montana	97.067	IM 2009-HS-02-001	\$ 300,000.00	\$ -	\$ 300,000.00	\$ 300,000.00	\$ -
Emergency Management Performance Grant	97.042	2008-EM-E8-0029	47,716.00	-	44,534.14	44,534.14	-
Total U.S. Department of Homeland Security			\$ 347,716.00	\$ -	\$ 344,534.14	\$ 344,534.14	\$ -
U.S. Department of Transportation							
<i>Passed through the State Department of Transportation:</i>							
Montana Department of Transportation - STEP Overtime Grant	20.600	2009-11-04-12, 2009-17-04-12	\$ 23,500.00	\$ -	\$ 16,516.72	\$ 16,516.72	\$ -
Montana Department of Transportation - STEP Overtime Grant	20.600	2008-13-13-13, 2008-09-08-13	23,000.00	-	3,969.61	3,969.61	-
Montana Department of Transportation - Equipment Grant	20.601	2009-16-04-05	18,000.00	-	17,370.00	17,370.00	-
Community Transportation Enhancement Program - W Yellowstone Streetscape	20.205	STPE 16 (72)	43,290.00	-	38,567.64	38,567.64	-
<i>Direct-Federal Aviation Administration:</i>							
FAA - Weather Station	20.106	3-30-0077-005-2007	92,345.00	-	7,783.00	7,783.00	-
FAA - Animal Control Fence	20.106	3-30-0077-006-2008	548,409.00	-	487,249.00	487,249.00	-
Total U.S. Department of Transportation			\$ 748,544.00	\$ -	\$ 571,455.97	\$ 571,455.97	\$ -

Federal Grantor/Pass-Through

Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Beginning Balance June 30, 2008	Federal Revenue	Federal Expenditures	Ending Balance June 30, 2009
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Environmental Protection Agency

Passed through the Montana Department of Environmental Quality:

Radon Grant 07/01/08-06/30/09	66.605	209012	\$ 2,300.00	\$ -	\$ 2,300.00	\$ 2,300.00	\$ -
Public Water Supply System Testing	66.605	504005	11,705.00	-	4,510.00	4,510.00	-
Total Environmental Protection Agency			\$ 14,005.00	\$ -	\$ 6,810.00	\$ 6,810.00	\$ -

U.S. Department of Health and Human Services

Passed through the State Department of Public Health and Human Services:

Maternal & Child Health Services Block Grant - MCH 07/01/08-06/30/09	93.994	09-07-5-31-006-0	\$ 48,194.00	\$ -	\$ 48,194.00	\$ 48,194.00	\$ -
Maternal & Child Health Services Block Grant - PHHV 07/01/08-06/30/09	93.994	09-07-5-01-016-0	93,255.00	-	93,255.00	93,255.00	-
Immunization Action Plan 01/01/08-12/31/08	93.268	08-07-4-31-016-0	22,770.00	-	14,898.00	14,898.00	-
Immunization Action Plan 01/01/09-12/31/09	93.268	09-07-4-31-016-0	22,770.00	-	11,385.00	11,385.00	-
Breast & Cervical Screening (includes grant & screening award 5th period) (07/01/07-06/30/08)	93.283	08-07-3-01-007-0	78,500.00	-	30,406.00	30,406.00	-
Breast & Cervical Screening (includes grant & screening award 5th period) (07/01/08-06/30/09)	93.283	09-07-3-01-007-0	72,271.00	-	72,271.00	72,271.00	-
STD/HIV Grant and Case Management 04/01/08-03/31/09	93.117	08-07-4-51-104-0	3,288.00	-	2,456.00	2,456.00	-
STD/HIV Grant and Case Management 04/01/09-03/31/10	93.117	09-07-4-51-104-0	5,000.00	-	986.00	986.00	-
TB Vaccination Program 01/01/08-12/31/08	93.116; 93.991	08-07-4-11-041-0	4,000.00	-	1,511.00	1,511.00	-
TB Vaccination Program 01/01/09-12/31/09	93.116; 93.991	09-07-4-11-041-0	5,000.00	-	3,857.00	3,857.00	-
Public Health Emergency Preparedness (PHEP) 09/01/07-08/31/08	93.069	08-07-6-11-021-0	118,646.00	-	17,472.00	17,472.00	-
Public Health Emergency Preparedness (PHEP) 09/01/08-08/31/09	93.069	09-07-6-11-021-0	127,645.00	-	83,386.00	83,386.00	-
Montana Learning Collaborative 11/15/08-04/14/09	93.991	09-07-1-01-003-0	20,000.00	-	20,000.00	20,000.00	-
Montana Learning Collaborative 04/15/09-04/14/10	93.991	10-07-1-01-003-0	20,000.00	-	-	-	-
<i>Passed through th National Association of County & City Officials:</i>							
NACCHO/Medical Reserve Corps (MRC) 01/01/08-07/31/08	93.008	1MRCSG061001-02	10,000.00	-	6,491.00	6,491.00	-
NACCHO/Medical Reserve Corps (MRC) 01/01/09-07/31/09	93.008	MRC 090549	5,000.00	-	5,000.00	5,000.00	-
<i>Passed through Washington State University:</i>							
ERRNIE Project/Washington State University 07/01/08-06/30/09	93.361	108906 G002230A	32,444.00	-	32,444.00	32,444.00	-
<i>Passed through Montana State University:</i>							
NAPA Grant 01/01/09-06-30-10	93.283	G248-09-W2236	9,000.00	-	9,000.00	9,000.00	-
Total U.S. Department of Public Health and Human Services			\$ 697,783.00	\$ -	\$ 453,012.00	\$ 453,012.00	\$ -

Total Federal Assistance

\$ 2,443,520.28	\$ -	\$ 1,770,839.86	\$ 1,770,839.69	\$ -
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Basis of Presentation:

The above Schedule of Expenditures of Federal Awards include the federal grant activity of Gallatin County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in preparation of the basic financial statements.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of County Commissioners
Gallatin County, Montana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gallatin County (the "County"), as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider item 2009-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The County's response to the finding identified in our audit is described in the County Response to Audit Comments on page 69. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of Gallatin County and the Board of County Commissioners (in charge of governance), the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Ziemmueler + Co., P.C.

Bozeman, Montana
January 22, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Board of County Commissioners
Gallatin County No. 7

Compliance

We have audited the compliance of Gallatin County (the County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct

and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency and that we also consider to be a material weakness.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2009-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider finding 2009-01 to be a material weakness.

The County's response to the finding identified in our audit is described in the County Response to Audit Comments on page 69. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of Gallatin County and the Board of County Commissioners, the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Zuer Muehlen + Co, P.C.

Bozeman, Montana
January 22, 2010

GALLATIN COUNTY, MONTANA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

10.557 Special Supplemental Food Program for Women, Infants, and Children	\$174,344
97.067 Homeland Security Grant Program	\$300,000
20.106 Airport Improvement Program	\$495,032

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009

Federal Award Findings and Questioned Costs:

2009-01 OMB A-133 Schedule of Expenditures of Federal Awards

Condition:

Management excluded a Type A Federal program from the schedule of expenditures of federal awards.

Criteria:

Controls should be in place and operating effectively to ensure the preparation of the schedule is accurate and complete.

Context:

The omitted grant and related expenditures was the Interoperability of Montana grant under the Homeland Security Grant Program for \$300,000. The grant was discovered during audit fieldwork during testing of revenue.

Effect:

The effect is an incomplete Schedule of Expenditures of Federal Awards.

Cause:

Management did not have controls in place to ensure all Federal awards are adequately reflected in the Schedule of Expenditures of Federal Awards.

Recommendation:

We recommend that the County designate one individual to prepare this schedule, which should also be reviewed for completeness and accuracy. Preparation should include reviewing all governmental grants recorded in the financial statements and tracing them to source documents to ensure completeness of the schedule.

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009

Financial Statement Findings:

2009-02 Completeness and Accuracy of Financial Statements

Condition:

As a result of the 2009 audit, material adjustments were proposed to correct the amounts recorded in the financial statements. These adjustments related to recording interest receivable on investments and to record capital outlay and debt proceeds for capital leases.

Criteria:

Controls should be in place and operating effectively to ensure the financial statements are accurate.

Context:

The material errors related to the fund statements.

Effect:

The effect is improper reporting of the financial statements.

Cause:

The County does not have a process in place to review financial information for completeness and accuracy.

Recommendation:

We recommend management implement a process to review the completed financial information for completeness and accuracy. This may include creating a list of year-end closing entries and ensuring these entries are posted each year.

Prior Year Audit Findings:

2008-01 OMB A-133 Schedule of Expenditures of Federal Awards
Status-Partially implemented. See current year finding 2009-01

2008-02 Completeness and Accuracy of Financial Statements
Status-Partially implemented. See current year finding 2009-02

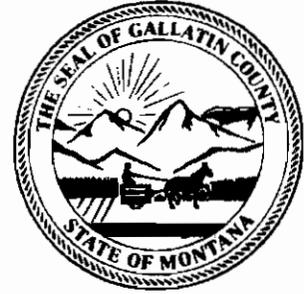
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And Unnumbered

State of Montana

County of Gallatin

Bozeman



January 22, 2010

AZ & Company
Attn: Stefani S. Freese, CPA
1007 East Main Street Suite 300
Bozeman, Mt. 59715

RE: Official Responses to Conditions:

Dear Stefani Freese:

We are submitting our official response to the conditions listed in your Findings. The Auditor and Finance offices will request adequate resources from the County Commission, if necessary, to implement the changes.

We will make this activity happen in the upcoming Fiscal Year and subsequent Fiscal Years. The following are our responses to the conditions.

2009-01 OMB A-133 Schedule of Expenditures of Federal Awards

Condition:

Management excluded a Type A Federal program from the schedule of expenditures of federal awards.

Criteria:

Controls should be in place and operating effectively to ensure the preparation of the schedule is accurate and complete.

Context:

The omitted grant and related expenditures was the Interoperability of Montana grant under the Homeland Security Grant Program for \$300,000.00. The grant was discovered during audit fieldwork during testing of revenue.

Effect:

The effect is an incomplete Schedule of Expenditures of Federal Awards.

Cause:

Management did not have controls in place to ensure all Federal awards are adequately reflected in the Schedule of Expenditures of Federal Awards.

Recommendation:

We recommend that the County designate one individual to prepare this schedule, which should also be reviewed for completeness and accuracy. Preparation should include reviewing all governmental grants recorded in the financial statements and tracing them to source documents to ensure completeness of the schedule.

Client Response:

The Gallatin County Grant and Projects Department will be better educated on how to distinguish between State, Federal and Private Grants. The Auditor's Office will continue to verify grant information provided by both the Grant Department and the City-County Health Department in an effort to compile a complete Federal Schedule of Awards at the end of each Fiscal Year. In the future, all grant awards will be discussed in the County's FAACT Committee and the Auditor's Office will ensure that all grant information provided by the respective departments has been properly categorized and identified by reviewing all grant award documents and by reviewing all grant revenue accounts.

2009-02 Completeness and Accuracy of Financial Statements

Condition:

As a result of the 2009 audit, material adjustments were proposed to correct the amounts recorded in the financial statements. These adjustments related to recording interest receivable on investments, to record capital outlay and debt proceeds for capital leases.

Criteria:

Controls should be in place and operating effectively to ensure the financial statements are accurate.

Context:

The material errors related to the fund statements.

Effect:

The effect is improper reporting of the financial statements.

Cause:

The County does not have a process in place to review financial information for completeness and accuracy.

Recommendation:

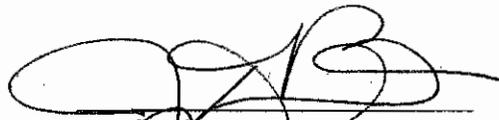
We recommend management implement a process to review the completed financial information for completeness and accuracy. This may include creating a list of year-end closing entries and ensuring these entries are posted each year.

Client Response:

The County did implement a listing for year-end processes. The calculation of interest receivable on investments was not included on this listing as the County has not recorded them in the past. This item will be added to our year-end closing entry listing. We have addressed and changed the method for calculating capital leases and the recording of the resulting capital outlay and debt proceeds.



Charlotte Mills
Gallatin County Clerk & Recorder


Jennifer Blossom
Gallatin County Auditor

STATISTICAL SECTION

7. Tax Levies

Taxing Entity	----- Fiscal Year -----				
	2005/06	2006/07	2007/08	2008/09	2009/10
University Millage	6.00	6.00	6.00	6.00	6.00
Statewide School Equalization	40.00	40.00	40.00	40.00	40.00
Gallatin County Operating and Bond	71.89	71.13	79.50	79.78	85.19
County Road Fund	18.30	18.30	18.30	19.09	19.17
County Library Levy	6.38	6.38	6.38	6.38	6.06
County-wide School Levy	96.49	95.64	97.05	100.26	94.02
Bozeman High School District Levies	57.46	62.42	65.34	71.40	69.05
Bozeman Elementary School District Levies	111.60	120.32	118.51	141.13	130.49
Open Space Bond Levy	3.68	5.91	4.17	4.63	5.81
Total	411.80	426.10	435.25	468.67	468.67
City of Bozeman	168.46	163.42	154.18	171.16	171.16

8. Tax Collections – General Fund

Fiscal Year	Total Tax Levy ²	Current Property Tax Collections	Total Property Tax Collections ¹
2008/09	\$2,370,867	\$2,123,721 ⁴	\$2,383,704
2007/08	2,440,132	2,259,312	2,342,486
2006/07	1,915,849	1,841,942	1,937,650
2005/06	1,958,627	1,877,868	1,983,534
2004/05	1,929,850	1,845,648	1,922,027
2003/04	733,573	695,455	873,530 ³

¹ Total Property Tax Collections includes delinquencies.

² Total Tax Levy represents the tax levy for the general fund only.

³ Northwestern Energy did not make its second half tax payment by the due date on May 31, 2003. Payment was received after the closing of fiscal year 2002/03, resulting in the higher than normal Total Property Tax Collections in 2003/04

⁴ Separate Personal Property and Mobile Homes billed at end of fiscal year, so collections did not occur until next fiscal year.

9. Major Taxpayers

Taxpayer	Business	2009/10 Taxable Value
1. Northwestern Energy	Electric Utility	\$13,282,441
2. Qwest Corporation	Telecommunications	2,241,344
3. Holcim, Inc. (formerly Holnam)	Cement Manufacturer	1,200,583
4. Montana Rail Link	Railroad	1,118,875
5. Luzenac America, Inc.	Talc Processing Facility	1,026,881
6. Sky West Airlines	Airline	620,914
7. Harry Daum	Mall/Developer	520,427
8. Celloc Partnership	Technology	554,351
9. Bozeman Deaconess Foundation	Healthcare	504,584
10 Zoot Properties LLC	Technology	595,393