



GALLATIN COUNTY, MONTANA

Fiscal Year Ended June 30, 2010

AUDIT REPORT

GALLATIN COUNTY, MONTANA
AUDIT REPORT
 Fiscal Year Ended June 30, 2010

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State of Montana

County of Gallatin

Bozeman



GALLATIN COUNTY CLERK AND RECORDER

March 28, 2011

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, 2010, 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, 2010 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.

A handwritten signature in cursive script that reads "Charlotte Mills". The signature is written in black ink and is positioned above a horizontal line.

Charlotte Mills
Gallatin County Clerk and Recorder

GALLATIN COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2010

BOARD OF TRUSTEES

BILL MURDOCK
JOSEPH SKINNER
R. STEPHEN WHITE

Commissioner (Chairperson)
Commissioner
Commissioner

OFFICIALS

MARTY LAMBERT
JENNIFER BLOSSOM
KIMBERLY BUCHANAN
CHARLOTTE MILLS
JENNIFER BRANDON

Attorney
Auditor
Treasurer / Assessor
Clerk and Recorder / Surveyor
Clerk of District Court / Public
Administrator

GORDON SMITH
WANDA DRUSCH
MARY ELLEN FITZGERALD
JIM CASHELL
MICHAEL SALVAGNI
HOLLY BROWN
JOHN C. BROWN

Justice of the Peace
Justice of the Peace
School Superintendent
Sheriff / Coroner
District Court Judge
District Court Judge
District Court Judge

FINANCIAL

SECTION

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, 2010, 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, 2010, 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 March 31, 2011 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 Zurmuehlen & Co., P.C.

Bozeman, Montana
March 31, 2011

MANAGEMENT'S

DISCUSSION

AND

ANALYSIS

Gallatin County, Montana
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

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, 2010. 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 2010, the fund balance for the General Fund was \$1,105,923 – down up \$6,529 from June 30, 2009;
- The County will face a number of fiscal challenges in the future. The challenges have 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 good financial standing because of positive growth of taxable values, Construction of the New Detention Center, completion of the New 9-1-1 Center, Road Shop Complex, expansion into the Courthouse Annex, adoption and implementation of the Growth Policy, adoption of the 'Core Equipment' replacement 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 \$151.1 million (net assets). Of this amount \$50.1 million (33.05%) is unrestricted and may be used to meet the County's 2011 budgetary needs and Operating Reserves.
- Revenues from Taxes/Assessment were \$29,436,161 for governmental funds, up \$4,522,052 from fiscal year 2009. This increase was from newly taxable property appearing for the first time on the tax roles, required bond payments and increase in RID maintenance and bonds.
- The County Landfill saw an increase in net assets. The activity increased net assets by \$754,796 during fiscal year 2010.
- County Health Insurance Fund saw a continuation of a positive financial position, as represented by unreserved cash sitting at \$2,394,430 (cash \$3,004,152- Claims Payable \$618,215), compared to fiscal year 2006 cash of \$1.3M, fiscal year 2007 cash of \$2.1 M, fiscal year 2008 cash of \$2.9 M and fiscal year 2009 balance of \$3.0M.
- The County's Governmental Activity debt (excluding OPEB liability) increased by \$732,591 to \$59,085,815 with Business-Type Activity debt increasing \$549,421 to \$4,673,247 with total debt increasing by \$935,640 during fiscal year 2010. The Governmental Activities debt increased with the issuance of the Mental Health (Hope House) bond 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 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, 9 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 Hebgan/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, 2010**

	Primary Government FY 10			FY 09 Government Totals	FY 08 Government Totals	FY 07 Government Totals
	Governmental Activities	Business-Type	TOTAL			
ASSETS:						
Cash & Cash Equivalents	\$ 42,408,789	\$ 10,567,438	\$ 52,976,227	\$ 71,370,187	\$ 40,480,462	\$ 40,568,281
Other Assets	9,645,974	952,737	10,598,711	7,988,779	8,089,298	6,387,943
Capital Assets (net)	147,012,321	11,635,063	158,647,384	137,620,438	126,197,031	117,074,293
TOTAL ASSETS	199,067,084	23,155,238	222,222,322	216,979,404	174,766,791	164,030,517
LIABILITIES:						
Current Liabilities	8,445,244	1,459,474	9,904,718	8,897,342	5,083,199	4,329,490
Long - Term Liabilities	57,253,482	3,988,354	61,241,836	60,932,118	27,599,844	26,314,993
TOTAL LIABILITIES	65,698,726	5,447,828	71,146,554	69,829,460	32,683,043	30,644,483
NET ASSETS:						
Invested in capital assets	89,086,089	8,646,088	97,732,177	77,761,679	101,531,355	102,741,551
Restricted	814,806	2,338,767	3,153,573	3,776,598	3,119,259	4,329,490
Unrestricted	43,467,463	6,722,555	50,190,018	65,611,667	37,433,133	26,314,993
TOTAL NET ASSETS	\$ 133,368,358	\$ 17,707,410	\$ 151,075,768	\$ 147,149,944	\$ 142,083,748	\$ 133,386,034

The County is providing condensed financial information for fiscal year 2007 through 2009. 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 increased the New Detention Center is under construction with construction to be completed in FY 2011, with full occupancy in March – April 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 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
- Fiscal Year 2010 (June 30, 2010) 151,075,768

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 \$151,075,768, compared to 2009's \$147,407,727, fiscal year 2008's \$142,083,747 and fiscal year 2007 net assets of \$133,386,034. Business-Type Activities for fiscal year 2010 show an increase in net assets to \$17,707,410 an increase of \$1,263,295. The increase comes primarily from Rest Home and Landfill.

**Gallatin County, State of Montana
Statement of Activities
For the Year Ended June 30, 2010**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contribution	Capital Grants and Contributions	Net Changes in Net Assets		
					PRIMARY GOVERNMENT		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General Government	\$ 10,046,279	\$ 2,043,238	\$ 1,411,856	\$ 1,390,182	\$ (5,201,003)	\$ -	\$ (5,201,003)
Public Safety	14,183,406	1,639,044	1,274,280	-	(11,270,082)	-	(11,270,082)
Public Works	8,735,015	329,306	692,234	140,037	(7,573,438)	-	(7,573,438)
Public Health	3,314,606	302,527	1,407,765	-	(1,604,314)	-	(1,604,314)
Social & Economic Services	535,555	67,900	-	-	(467,655)	-	(467,655)
Culture & Recreation	2,763,373	611,813	445,578	53,658	(1,652,324)	-	(1,652,324)
Housing & Community Dev.	3,315,583	193,161	-	2,830,523	(291,899)	-	(291,899)
Conservation of Natural Resour	118,072	87,495	-	-	(30,577)	-	(30,577)
Debt Service-Debt Serv Int	2,184,859	-	-	-	(2,184,859)	-	(2,184,859)
Miscellaneous	8,403	-	-	-	(8,403)	-	(8,403)
Total governmental activities	45,205,151	5,274,484	5,231,713	4,414,400	(30,284,554)	-	(30,284,554)
Business-type Activities							
West Yellow stone Refuse District	755,792	788,539	14,950	-	-	47,697	47,697
Gallatin County Rest Home	5,425,928	5,724,653	76,107	-	-	374,832	374,832
Gallatin County Landfill	2,940,580	3,637,054	-	-	-	696,474	696,474
Total business-type activities	9,122,300	10,150,246	91,057	-	-	1,119,003	1,119,003
Total primary government	\$ 54,327,451	\$ 15,424,730	\$ 5,322,770	\$ 4,414,400	\$ (30,284,554)	\$ 1,119,003	\$ (29,165,551)

**Gallatin County, Montana - Statement of Changes in Net Assets
For the Year Ended June 30, 2010**

**Net (Expenses) Revenues and
Changes in Net Assets**

----- Primary Government -----

GENERAL REVENUES:	Governmental	Business-Type	TOTAL
	Activities	Activities	
Property Taxes for General Purposes	29,436,161	363	29,436,524
Grants & entitlements not restricted to specific	2,148,259	-	2,148,259
Investment Earnings	836,669	157,256	993,925
Miscellaneous	262,472	-	262,472
Sale/Disposal of Fixed Assets	5,739	(13,328)	(7,589)
Total general revenues	32,689,300	144,291	32,833,591
Change in net assets	2,404,746	1,263,294	3,668,040
Net assets - beginning	130,963,612	16,444,116	147,407,728
Prior Period adjustment	-	-	-
Net assets - ending	133,368,358	17,707,410	151,075,768

Government Activities

Gallatin County spent \$ 45,205,151 for primary governmental activities in fiscal year 2010.

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 Hebgen 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 \$29,436,161 or 65.12% of primary government activity expenses. The following table shows the changes in the percentage Taxes are to government activity expenses:

• 2010	65.12%
• 2009	67.98%
• 2008	58.04%
• 2007	57.17%
• 2006	52.08%
• 2005	66.74%
• 2004	62.77%
• 2003	67.48%

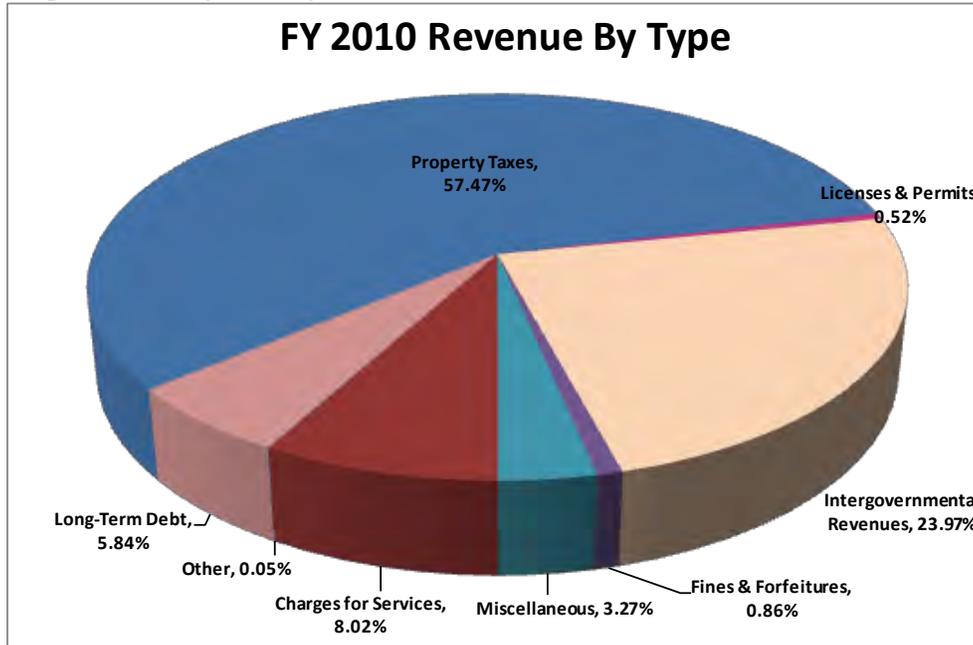
Some costs, as shown on the schedule at the top of page 11, were paid directly by users of a service (Charges for Services), these revenues accounted for \$5,274,484 (11.67%) of fiscal year 2010 Governmental Activity expenses. Operating Grants & Contributions (Intergovernmental Revenues) generated \$5,231,713, accounting for 11.57% 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 \$15,424,730 from charges for services, while operating grants and contributions equaled \$5,322,770 accounting for \$20,747,500 or \$33,579,951 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.

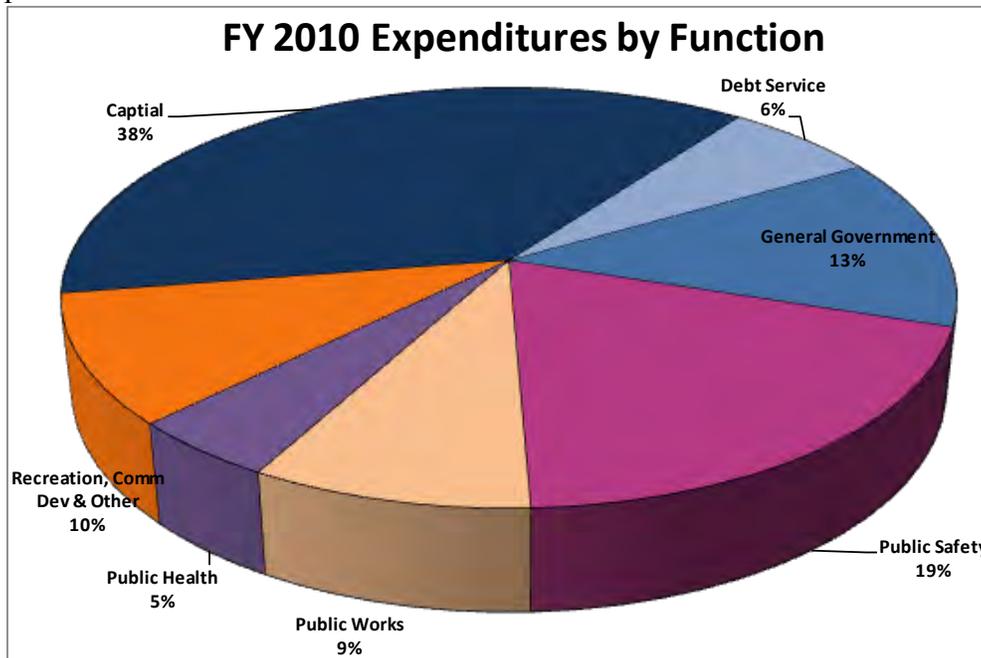
Graph of Revenues by Source – Activities

Gallatin County received \$45,305,586 in revenues to finance governmental operations. Total expenses for governmental activities were \$65,704,302; thus the County’s net fund balance decreased by \$20,398,716 because utilization of cash assets to fund construction in progress.

After all activities are considered, net assets increased from \$147,149,945 to \$151,075,768 for governmental activities and business type activities. The graphs that follow show revenues by source and expenditures by activity for all activities.

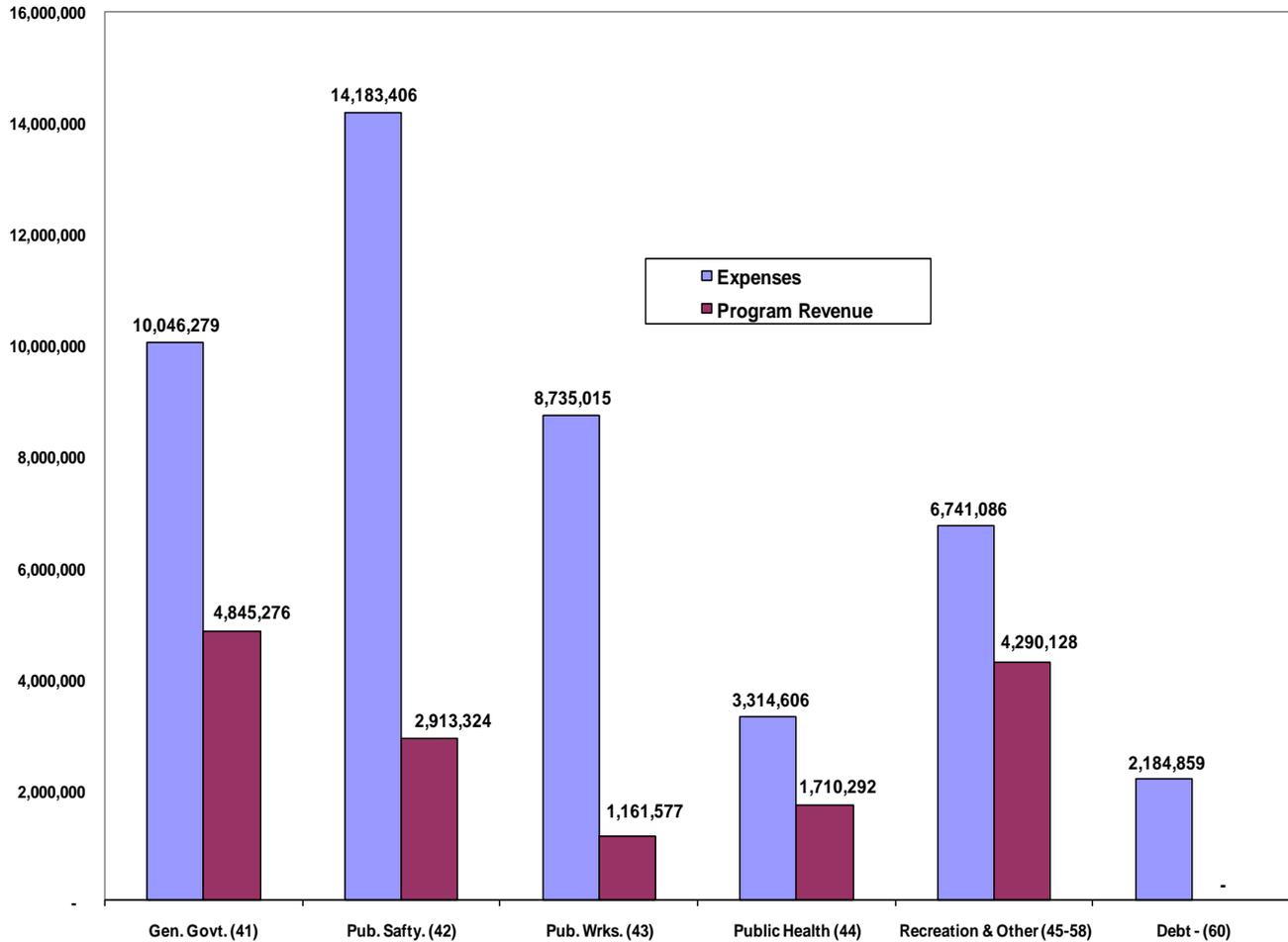


A listing of what departments are included in each function section of the following pie chart can be found earlier in the document.



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

Expenses and Program Revenues by Activity FY 2010



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 those services.

Local governments use tax revenues to support mandated services, allowing Gallatin County to pay for current levels of service. To some extent the County may need to levy part of the inflationary mill to maintain current service levels. In order to increase service levels, the following options are available:

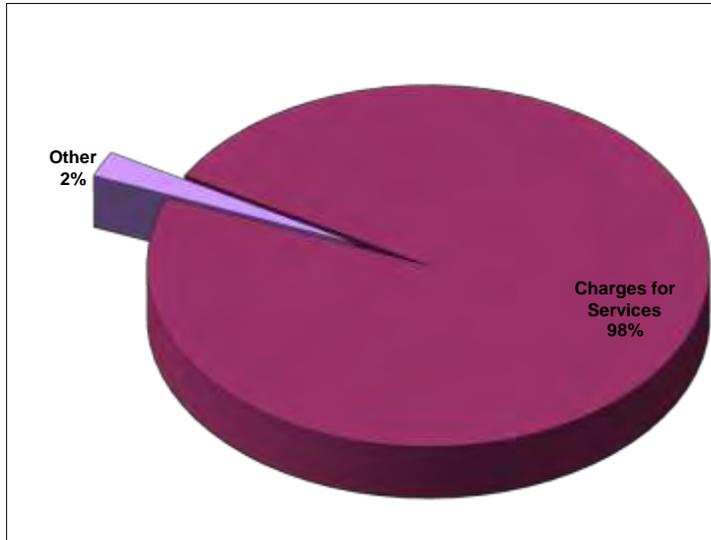
- 1) receive authorization from the state legislature to increase local governments ability to charge the true cost of services, or authorize changes in current methods of funding local government (local option taxes), and/or
- 2) the County Commission will need to fully utilize current taxing authority 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 \$9,122,300. The amount paid by users' of the Rest Home, Landfill and Refuse District was \$10,241,303.

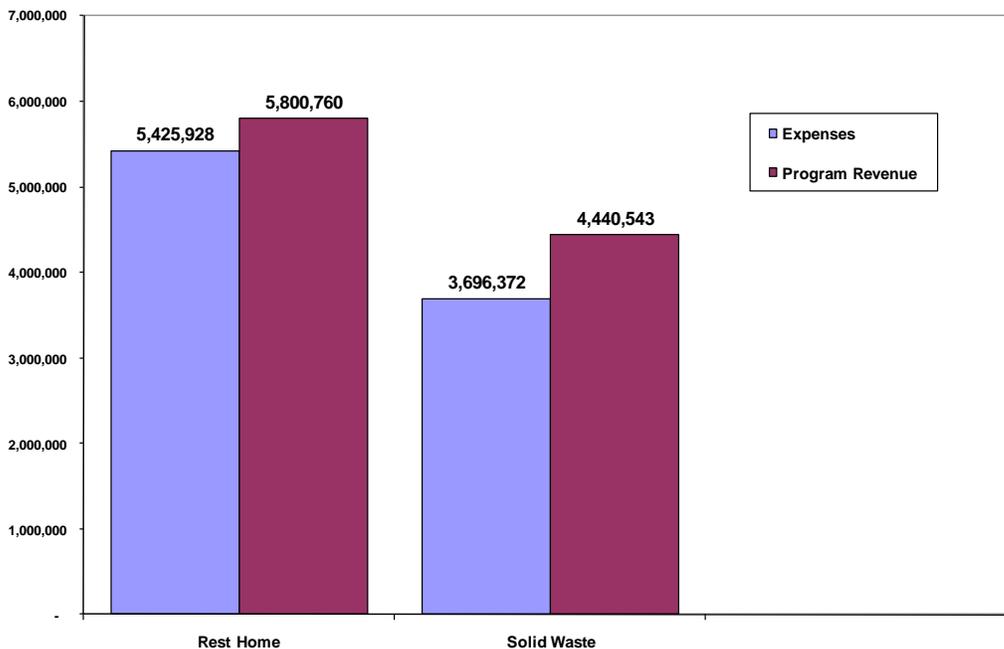
Total resources for fiscal year 2010 to finance proprietary funds (business type) were \$10,385,594 (Charges for Services \$10,150,246, Grants / Contributions \$91,057, General Revenues and Transfers \$144,291).

2010 Revenues by Type - Business Areas



Total proprietary expenses during the year were \$9,122,300

Business Type Activity - Expenses and Revenues FY 2010



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 2010 to FY 2009:

**Gallatin County, State of Montana
Statement of Activities
For the Year Ended June 30, 2010**

	GENERAL	PUBLIC SAFETY FUND	RID BOND DEBT SERVICE	COUNTY BUILDING	Other Governmental Funds	Total Governmental Funds	FY 2009 TOTALS
REVENUES							
Property Taxes	\$ 4,452,533	\$ 9,098,021	\$ 552,370	\$ 2,013,509	\$ 11,109,448	\$ 27,225,881	\$25,730,057
Licenses & Permits	1,080	26,255	-	-	216,690	244,025	273,997
Intergovernmental Revenues	788,061	610,574	-	744,811	9,136,204	11,279,650	7,982,334
Charges for Services	1,854,444	730,853	-	71,966	1,142,357	3,799,620	3,626,012
Fines & Forfeitures	324,847	8,330	-	-	75,941	409,118	1,270,563
Miscellaneous	331,497	107,682	-	7,605	1,100,904	1,547,688	996,547
Investment Earnings	169,788	20,593	4,383	336,265	230,923	761,952	878,337
Transfers In	638,389	17,707	58,176	-	450,529	1,164,801	893,806
Contributions/Donations	-	-	-	26,001	11,651	37,652	773,240
Total revenues	8,560,639	10,620,015	614,929	3,200,157	23,474,647	46,470,387	42,424,893

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

	GENERAL	PUBLIC SAFETY FUND	RID BOND DEBT SERVICE	COUNTY BUILDING	Other Governmental Funds	Total Governmental Funds	FY 2009 TOTALS
General Government	8,054,041	-	-	83,223	641,169	8,778,433	8,965,187
Public Safety	997,281	9,968,903	-	247,751	1,503,072	12,717,007	11,663,364
Public Works	-	-	-	-	5,667,140	5,667,140	4,457,495
Public Health	2	-	-	-	3,058,850	3,058,852	3,208,863
Social & Econ Serv	-	-	-	-	472,549	472,549	441,655
Culture & Recreation	-	-	-	1,027,150	1,601,789	2,628,939	1,570,509
Housing & Comm Dev	-	-	-	-	3,210,730	3,210,730	76,689
Cons Nat'l Resources	-	-	-	-	102,363	102,363	80,851
Miscellaneous	5,058	-	-	-	3,345	8,403	62,764
Principal Retirement	74,146	89,754	374,000	-	1,553,158	2,091,058	2,169,014
Interest	(3,404)	25,362	168,319	-	1,994,582	2,184,859	1,620,342
Capital outlay:	221,530	290,566	-	20,369,869	3,902,004	24,783,969	15,508,811
Transfer Out	1,669	354,427	58,176	-	1,532,132	1,946,404	1,711,538
Total expenditures	9,350,323	10,729,012	600,495	21,727,993	25,242,883	67,650,706	51,537,082

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, 2010
Business-type Activities - Enterprise Funds

	Gallatin County Rest Home	Gallatin County Landfill	West Yellowstone Refuse District	Total Proprietary Funds	Gov. Activities Internal Service Funds
Operating revenues:					
Charges for Services	\$ 5,724,641	\$ 3,637,054	\$ 788,539	\$ 10,150,234	\$ 579,617
Miscellaneous	4,013	-	-	4,013	395
Internal Services	-	-	-	-	5,196,036
Total Operating Revenues	5,728,654	3,637,054	788,539	10,154,247	5,776,048
Operating expenses:					
Personnel	3,693,231	809,495	139,574	4,642,300	-
Operations	1,591,618	1,333,580	477,546	3,402,744	-
Depreciation	141,080	710,228	138,672	989,980	-
Internal Service-Personnel	-	-	-	-	241,897
Internal Service-Supplies	-	-	-	-	123,915
Internal Service-Purchased Services	-	-	-	-	1,014,863
Internal Service-Fixed Charges	-	-	-	-	1,036,265
Internal Service-Depreciation	-	-	-	-	57,273
Internal Serv-Benefit Pymts	-	-	-	-	4,718,737
Total operating expenses	5,425,929	2,853,303	755,792	9,035,024	7,192,950
Operating Income (loss)	302,725	783,751	32,747	1,119,223	(1,416,902)
Nonoperating revenues (expenses):					
Property Taxes	363	-	-	363	-
Intergovernmental Revenues	72,107	-	14,950	87,057	-
Investment Earnings	56,180	71,650	29,426	157,256	73,576
Sale of Fixed Assets	-	(13,328)	-	(13,328)	-
Interest Expense	-	(87,277)	-	(87,277)	-
Total non operating revenue (expen	128,650	(28,955)	44,376	144,071	73,576
Income (loss) before contributions and transfers	431,375	754,796	77,123	1,263,294	(1,343,326)
Transfers	-	-	-	-	781,604
Change in net assets	431,375	754,796	77,123	1,263,294	(561,722)
Total net assets -- beginning	5,139,939	6,896,698	4,407,479	16,444,116	5,021,545
Total net assets -- ending	\$ 5,571,314	\$ 7,651,494	\$ 4,484,602	\$ 17,707,410	\$ 4,459,823

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 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
TOTAL ASSETS	\$13,026,863	\$15,858,234	\$20,614,978	\$21,292,464	\$23,155,238
NET ASSETS	<u>6,219,790</u>	<u>8,504,496</u>	<u>14,462,781</u>	<u>16,444,115</u>	<u>17,707,410</u>
TOTAL LIABILITIES	6,807,073	7,353,738	6,152,197	4,848,349	5,447,828
NET INCOME – BUSINESS ACTIVITIES	1,431,872	2,284,705	5,958,285	1,783,866	1,263,294
(Divided by)					
ENDING NET ASSETS	<u>6,219,790</u>	<u>8,504,496</u>	<u>14,462,781</u>	<u>16,444,115</u>	<u>17,707,410</u>
Equals					
RETURN ON ENDING NET ASSETS	23.02%	26.86%	41.20%	10.85%	6.32%

Debt Administration

Gallatin County continues to have a bond rating from Standard and Poor of AA-, based on the 2010 Limited Obligation \$1,000,000 bond for the Mental Health – Hope House. Loans, bonds, lease/purchase instruments, and similar obligations of Gallatin County are considered a liability of governmental activities. As a whole, Governmental Activities debt increased in fiscal-year 2010 by \$1,013,159. This came from issuance of a Mental Health bond of \$1,000,000 and the Ousel Falls RID 395 bond of \$1,765,000.

The cost per capita for governmental debt outstanding increased from \$655.91 to \$656.58 in fiscal year 2010. (\$59,648,747 divided by 90,848). Governmental activity debt summary for fiscal year 2010 is presented below:

	----- PRIOR YEARS -----				
	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
DEBT PAYABLE ON (June 30)					
BEGINNING BALANCE	15,863,135	20,562,567	21,127,460	22,371,830	58,916,157
ADD: Intercap Loan	945,883	1,499,000	2,299,000	1,000,000	-0-
Special Assessment Bonds	340,000	455,000	900,000	-0-	1,765,000
G. O. Bonds	5,000,000	8,500	-0-	36,031,152	1,000,000
Compensated Absences (increase)	-0-	-0-	76,669	224,565	58,649
Capital Lease Agreements	-0-	-0-	-0-	1,473,182	-0-
LESS: Loan/Lease Payments	363,240	479,201	554,449	1,232,933	795,774
Special Assessment Payments	803,211	399,000	876,000	310,000	374,000
Compensated Absences (decrease)	-0-	38,556	-0-	15,558	-0-
General Obligation Payments	<u>420,000</u>	<u>480,850</u>	<u>600,850</u>	<u>626,081</u>	<u>921,285</u>
DEBT PAYABLE (July 1)	20,562,567	21,127,460	22,371,830	58,916,157	59,648,747
Cost Per Capita	\$254.11	\$252.62	\$256.09	\$655.91	\$656.58 .

Debt includes compensated absences (amount due to employees for accrued leave, including 1/4 sick leave, all vacation and compensatory time) of \$1,722,514 up \$59K from FY 09. The increase of \$58,649 represents a change of 3.52%. Debt does not include Other Post Employment Benefits (OPEB) of \$562,933 for Governmental Activities and \$144,527 for Business Type Activities.

The County, by statute, can have debt of 2.50% of Assessed Valuation. For fiscal year 2010 this equals \$182,576,009. County debt of \$54,967,747 (\$59,648,747 less Special Assessment Bonds (RID) \$4,681,000) means the County has used 30.11% of it's borrowing capacity through fiscal year 2010, with unused borrowing capacity being \$127,608,262.

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 (\$4,691,000 X 5% = \$234,050 (cash balance in RSID Revolving Fund amounted to \$854,654 as of June 30, 2010). Debt from Business-Type Activities do not affect the county's debt limit.

The County Commission is rebidding the graders that are under lease/purchase during FY 2011. The net affect will be to slightly increase Capital Leases. The County also has issued the Clarkston RID 396 bonds in the amount of \$4,715,000 in July, 2010. This is noted in the Notes to the Financial Statements.

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, 2010, net capital assets of our governmental activities totaled \$147,012,321 and the net capital assets associated with business-type activities equaled \$11,635,064.

At the end of 2010 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 2010 included:

- Land - Open Space Easements \$2,032,750
- Building Improvements 2,681,542
- Infrastructure 336,662
- Improvements 336,236
- Machinery & Equipment 3,131,415
- Construction in Progress 19,747,767

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 2010 adopted and final budget for the General and Public Safety Funds amount to \$ 19,984,483. There were increases of \$23,712 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

\$ 19,984,483 + \$ -0- + \$ -0- = \$ 19,984,483

Beg. Balance +/- Supplemental Changes = Final Budget

\$19,984,483 + \$23,712 = \$ 20,008,195

Comparing the beginning budget to the final budget shows that these funds had a 0.11% increase for supplemental budgets. (less than 1%) This is very minor compared to the total budget numbers.

Budget Changes – FY 10 Compared to FY 2011

Major changes in the operational budget fiscal year 2011 to fiscal year 2010 were made by the County Commission. These included staffing of new detention center for ½ year as well as enhancements to the criminal justice system. The changes in staffing were:

Staffing Changes (FTE)

DEPARTMENT/DIVISION	Net Increase (Decrease)
ADMINISTRATOR	(0.50)
CLERK OF DISTRICT COURT	0.20
COURT SERVICES	0.13
DETENTION CENTER	13.57
ENVIRONMENTAL HEALTH	(0.17)
HUMAN RESOURCES	(0.75)
CITY / COUNTY HEALTH	(0.18)
JOINT DISPATCH	(0.50)
MISCELLANEOUS	-
NOXIOUS WEED	0.75
PLANNING	(0.50)
SHERIFF	(2.31)
TREASURER	-
TOTAL COUNTY TAX SUPPORTED PERSONNEL	9.91
FACILITIES (for new Det. Cntr.)	2.42
HEALTH - CITY/COUNTY - GRANTS	1.03
SOLID WASTE SYSTEM	(2.50)
REST HOME (if CNA's can be hired)	2.80
OTHER CHANGES	(0.23)
TOTAL NON TAX SUPPORTED PERSONNEL	3.52
TOTAL CHANGES IN PERSONNEL	13.43

The following Capital Projects table identifies estimated costs of projects, amount expended through June 30, 2010 and the amount budgeted for FY 2011. 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 2011 Capital Projects			
<u>Description</u>	<u>Project</u>	<u>Expended</u>	<u>2011 Budget</u>
Open Space Acquisition	\$20,000,000 (plus interest.)	\$ 17,606,096	\$ 2,393,904
Detention Center	37,580,939	26,896,375	10,684,564
Court / Law Enforcement Buildings	25,686,400	-0-	200,000
Neighborhood Stabilization	7,200,000	2,978,170	4,165,000
Stimulus Activities	504,000	106,000	398,000
Noxious Weed Complex	750,000	-0-	Future year
Core Equipment (rolling stock)	7,320,112	Yearly allocation	400,000
County Facilities (0.95 set aside)		Sq.Ft.charge	423,752
Capital Equipment (county accounts)	-0-	-0-	2,044,860
Capital (grants/ misc.)	-0-	-0-	13,439,599
Capital Equipment (special districts)	-0-	-0-	1,120,326
Total	99,041,451	47,586,641	\$35,770,005

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 2011 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 2007 through fiscal year 2011 shows:

<u>Description</u>	<u>TAXES</u>					<u>% Change</u>
	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 2011</u>	
County Operating Taxes	\$11,671,420	\$14,455,682	\$15,408,210	\$16,343,857	\$16,901,437	3.41%
Road and Library Taxes	2,493,835	2,715,318	2,980,571	3,153,566	3,294,337	4.46%
Debt Service/Insurance Taxes	2,237,394	1,989,435	2,251,477	3,941,648	5,250,549	33.21%

MILL LEVIES:

County Operating Taxes	64.45	73.73	73.52	73.20	73.20	0.00%
Road and Library Taxes	24.68	24.68	25.47	25.23	25.39	0.06%
Debt Service/Insurance Taxes	12.57	10.24	10.89	17.80	22.88	28.54%

TAXABLE VALUATIONS:

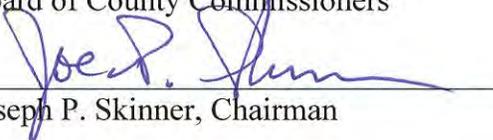
County Wide Valuations	181,081	196,866	209,639	223,244	230,919	6.49%
Road and Library Valuations	101,017	110,021	117,027	125,025	129,779	6.83%
Open Land Valuations	174,463	190,380	203,197	217,532	225,562	7.05%

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 2011 did increase, but 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 \$1,530,776. 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 \$718,000 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



Joseph P. Skinner, Chairman

BASIC

FINANCIAL

STATEMENTS

GOVERNMENT-WIDE

FINANCIAL

STATEMENTS

Gallatin County, State of Montana
Statement of Net Assets
June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & Cash Equivalents	42,408,789	10,567,438	52,976,227
Tax/Assessments Receivable (Net)	7,766,929	2,846	7,769,775
Other Receivables	1,662,013	949,891	2,611,904
Inventories	217,032	-	217,032
Capital Assets (net)	147,012,321	11,635,063	158,647,384
Total assets	<u>\$ 199,067,084</u>	<u>\$ 23,155,238</u>	<u>\$ 222,222,322</u>
LIABILITIES			
Accounts Payable	2,959,119	336,686	3,295,805
Accrued Payroll & Other Liabilities	1,556,313	293,368	1,849,681
Interest Payable	4,998	-	4,998
Deferred Revenue	946,896	-	946,896
Deposits Payable	19,719	-	19,719
Current Portion Of Long Term Debt	2,958,199	829,420	3,787,619
Long Term Debt	56,690,549	2,428,461	59,119,010
Closure/Post Closure Costs	-	1,415,366	1,415,366
OPEB Obligation	562,933	144,527	707,460
Total liabilities	<u>\$ 65,698,726</u>	<u>\$ 5,447,828</u>	<u>\$ 71,146,554</u>
NET ASSETS			
Invested in capital assets, net of related debt	89,086,089	8,646,088	97,732,177
Restricted for Debt Service	814,806	2,338,767	3,153,573
Unrestricted	43,467,463	6,722,555	50,190,018
Total net assets	<u>\$ 133,368,358</u>	<u>\$ 17,707,410</u>	<u>\$ 151,075,768</u>

See accompanying notes to the financial statements.

Gallatin County, State of Montana
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net(Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General Government	\$ 10,046,279	\$ 2,043,238	\$ 1,411,856	\$ 1,390,182	\$ (5,201,003)	\$ -	\$ (5,201,003)	
Public Safety	14,183,406	1,639,044	1,274,280	-	(11,270,082)	-	(11,270,082)	
Public Works	8,735,015	329,306	692,234	140,037	(7,573,438)	-	(7,573,438)	
Public Health	3,314,606	302,527	1,407,765	-	(1,604,314)	-	(1,604,314)	
Social & Economic Services	535,555	67,900	-	-	(467,655)	-	(467,655)	
Culture & Recreation	2,763,373	611,813	445,578	53,658	(1,652,324)	-	(1,652,324)	
Housing & Community Dev.	3,315,583	193,161	-	2,830,523	(291,899)	-	(291,899)	
Conservation of Natural Resour	118,072	87,495	-	-	(30,577)	-	(30,577)	
Debt Service-Debt Serv Int	2,184,859	-	-	-	(2,184,859)	-	(2,184,859)	
Miscellaneous	8,403	-	-	-	(8,403)	-	(8,403)	
Total governmental activities	45,205,151	5,274,484	5,231,713	4,414,400	(30,284,554)	-	(30,284,554)	
Business-type Activities:								
West Yellowstone Refuse District	755,792	788,539	14,950	-	-	47,697	47,697	
Gallatin County Rest Home	5,425,928	5,724,653	76,107	-	-	374,832	374,832	
Gallatin County Landfill	2,940,580	3,637,054	-	-	-	696,474	696,474	
Total business-type activities	9,122,300	10,150,246	91,057	-	-	1,119,003	1,119,003	
Total primary government	\$ 54,327,451	\$ 15,424,730	\$ 5,322,770	\$ 4,414,400	\$ (30,284,554)	\$ 1,119,003	\$ (29,165,551)	
					Property Taxes for General Purposes	29,436,161	363	29,436,524
					Grants & entitlements not restricted to specific	2,148,259	-	2,148,259
					Investment Earnings	836,669	157,256	993,925
					Miscellaneous	262,472	-	262,472
					Sale/Disposal of Fixed Assets	5,739	(13,328)	(7,589)
					Total general revenues	32,689,300	144,291	32,833,591
					Change in net assets	2,404,746	1,263,294	3,668,040
					Net assets - beginning	130,963,612	16,444,116	147,407,728
					Net assets - ending	\$ 133,368,358	\$ 17,707,410	\$ 151,075,768

See accompanying notes to the financial statements.

FUND

FINANCIAL

STATEMENTS

Gallatin County, State of Montana
Balance Sheet
Governmental Funds
June 30, 2010

	GENERAL	PUBLIC SAFETY FUND	RID BOND DEBT SERVICE	COUNTY BUILDING	Other Governmental Funds	Total Governmental Funds
Assets:						
Current assets:						
Cash & Cash Equivalents	\$ 1,551,356	\$ 1,759,759	\$ 395,056	\$ 11,209,657	\$ 21,565,354	\$ 36,481,182
Cash & Cash Equivalents-Restricted	-	-	-	1,304,935		1,304,935
Real Estate	207,700	538,998	52,100	137,029	789,927	1,725,754
Personal	135,111	315,017	-	79,043	431,371	960,542
Protested	60,250	177,917	-	38,939	183,305	460,411
Accounts Receivable-Net	295,230	41,795	-	1,804	643,557	982,386
Due From Other Funds		36,693		411,307	34,273	482,273
Notes Receivable	-	-	-	-	318,658	318,658
Tax/Assessment Receivable (Net)	-	-	4,620,220	-	-	4,620,220
Inventories	-	-	-	-	217,031	217,031
Total Current assets:	<u>2,249,647</u>	<u>2,870,179</u>	<u>5,067,376</u>	<u>13,182,714</u>	<u>24,183,476</u>	<u>47,553,392</u>
Total assets	<u>\$ 2,249,647</u>	<u>\$ 2,870,179</u>	<u>\$ 5,067,376</u>	<u>\$ 13,182,714</u>	<u>\$ 24,183,476</u>	<u>\$ 47,553,392</u>
LIABILITIES AND FUND BALANCES						
Current liabilities:						
Accounts Payable	\$ 183,990	\$ 113,090	\$ -	\$ 1,172,940	\$ 1,090,270	\$ 2,560,290
Contracts/Loans Payable	-	-	19,719	-	-	19,719
Matured Interest Payable	-	-	4,998	-	-	4,998
Other Accrued Payables	318,123	287,774	-	4,605	317,942	928,444
Deferred Revenue	641,611	1,031,932	4,672,320	255,011	1,719,251	8,320,125
Due To Other Funds					482,273	482,273
Total Current liabilities:	<u>1,143,724</u>	<u>1,432,796</u>	<u>4,697,037</u>	<u>1,432,556</u>	<u>3,609,736</u>	<u>12,315,849</u>
Total liabilities	<u>1,143,724</u>	<u>1,432,796</u>	<u>4,697,037</u>	<u>1,432,556</u>	<u>3,609,736</u>	<u>12,315,849</u>
Fund balances:						
Reserved for:						
Reserve For Inventory	-	-	-	-	217,031	217,031
Unreserved, reported in						
Special Revenue	-	1,437,383	-	-	16,180,351	17,617,734
Debt Service	-	-	370,339	-	444,467	814,806
Capital Projects	-	-	-	11,750,158	3,731,891	15,482,049
General Fund	1,105,923	-	-	-	-	1,105,923
Total fund balances	<u>1,105,923</u>	<u>1,437,383</u>	<u>370,339</u>	<u>11,750,158</u>	<u>20,573,740</u>	<u>35,237,543</u>
Total liabilities and fund balances	<u>\$ 2,249,647</u>	<u>\$ 2,870,179</u>	<u>\$ 5,067,376</u>	<u>\$ 13,182,714</u>	<u>\$ 24,183,476</u>	<u>\$ 47,553,392</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, 2010

Total fund balances - governmental funds	\$	35,237,543
<p>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds</p>		
Capital assets	224,415,798	
Accumulated depreciation	<u>-77,932,540</u>	146,483,258
<p>Property taxes receivable are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>		
		7,766,926
<p>Unamortized Debt Issuance Costs</p>		
		(393,694)
<p>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</p>		
		4,459,823
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds</p>		
		(60,185,498)
Total net assets - governmental activities	\$	<u><u>133,368,358</u></u>

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, 2010

	GENERAL	PUBLIC SAFETY FUND	RID BOND DEBT SERVICE	COUNTY BUILDING	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 4,452,533	\$ 9,098,021	\$ 552,370	\$ 2,013,509	\$ 11,109,448	\$ 27,225,881
Licenses & Permits	1,080	26,255	-	-	216,690	244,025
Intergovernmental Revenues	788,061	610,574	-	744,811	9,136,204	11,279,650
Charges for Services	1,854,444	730,853	-	71,966	1,142,357	3,799,620
Fines & Forfeitures	324,847	8,330	-	-	75,941	409,118
Miscellaneous	331,497	107,682	-	7,605	1,100,904	1,547,688
Investment Earnings	169,788	20,593	4,383	336,265	230,923	761,952
Contributions/Donations	-	-	-	26,001	11,651	37,652
Total revenues	<u>7,922,250</u>	<u>10,602,308</u>	<u>556,753</u>	<u>3,200,157</u>	<u>23,024,118</u>	<u>45,305,586</u>
EXPENDITURES						
Current:						
General Government	8,054,041	-	-	83,223	641,169	8,778,433
Public Safety	997,281	9,968,903	-	247,751	1,503,072	12,717,007
Public Works	-	-	-	-	5,667,140	5,667,140
Public Health	2	-	-	-	3,058,850	3,058,852
Social & Econ Serv	-	-	-	-	472,549	472,549
Culture & Recreation	-	-	-	1,027,150	1,601,789	2,628,939
Housing & Comm Dev	-	-	-	-	3,210,730	3,210,730
Cons Nat'l Resources	-	-	-	-	102,363	102,363
Miscellaneous	5,058	-	-	-	3,345	8,403
Debt service:						
Principal Retirement	74,146	89,754	374,000	-	1,553,158	2,091,058
Interest	(3,404)	25,362	168,319	-	1,994,582	2,184,859
Capital outlay:	221,530	290,566	-	20,369,869	3,902,004	24,783,969
Total expenditures	<u>9,348,654</u>	<u>10,374,585</u>	<u>542,319</u>	<u>21,727,993</u>	<u>23,710,751</u>	<u>65,704,302</u>
Excess (deficiency) of revenues over expenditures	<u>(1,426,404)</u>	<u>227,723</u>	<u>14,434</u>	<u>(18,527,836)</u>	<u>(686,633)</u>	<u>(20,398,716)</u>
OTHER FINANCING SOURCES (USES)						
Transfers Out	(1,669)	(354,427)	(58,176)	-	(1,532,132)	(1,946,404)
Miscellaneous	-	-	-	-	-	-
Investment Earnings	-	-	1,140	-	-	1,140
Issuance of long-term debt	-	-	-	1,000,000	1,765,000	2,765,000
Premium on Bonds Issued	-	-	-	-	-	-
Sale of Fixed Assets	40	3,699	-	-	2,000	5,739
Transfers In	638,389	17,707	58,176	-	450,529	1,164,801
Total other financing sources and uses	<u>636,760</u>	<u>(333,021)</u>	<u>1,140</u>	<u>1,000,000</u>	<u>685,397</u>	<u>1,990,276</u>
Net Change in fund balances	<u>(789,644)</u>	<u>(105,298)</u>	<u>15,574</u>	<u>(17,527,836)</u>	<u>(1,236)</u>	<u>(18,408,440)</u>
Fund balances -- beginning	<u>1,895,567</u>	<u>1,542,681</u>	<u>354,765</u>	<u>29,277,994</u>	<u>20,574,976</u>	<u>53,645,983</u>
Fund balances -- ending	<u>\$ 1,105,923</u>	<u>\$ 1,437,383</u>	<u>\$ 370,339</u>	<u>\$ 11,750,158</u>	<u>\$ 20,573,740</u>	<u>\$ 35,237,543</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, 2010

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

Net change in fund balances - total governmental funds \$ (18,408,440)

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.

Asset acquisition	\$ 25,480,806	
Depreciation	<u>-5,321,647</u>	
		20,159,159

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 2,223,855

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.

Increase in compensated absences	\$ -56,998	
Increase in GASB45 (OPEB) liabilities	<u>-277,166</u>	
		(334,164)

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Intracap loans	\$ -	
Bond and RID Issues	<u>-2,765,000</u>	
		(2,765,000)

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. 2,091,058

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. (561,722)

Change in net assets - statement of activities \$ 2,404,746

See accompanying notes to the financial statements.

Gallatin County, State of Montana
Statement of Net Assets
Proprietary Funds
June 30, 2010

Business-type Activities - Enterprise Funds

	5120 Gallatin County Rest Home	5411 Gallatin County Landfill	5412 West Yellowstone Refuse District	Total Proprietary Funds	Gov. Activities Internal Service Funds
ASSETS					
Current assets:					
Cash & Cash Equivalents	\$ 4,121,187	\$ 2,220,524	\$ 1,886,960	\$ 8,228,671	\$ 4,622,672
Cash & Cash Equivalents-Restricted	-	2,338,767	-	2,338,767	-
Taxes Receivable	2,234	-	612	2,846	-
Accounts Receivable-Net	328,639	510,481	110,771	949,891	360,969
Total Current assets:	<u>4,452,060</u>	<u>5,069,772</u>	<u>1,998,343</u>	<u>11,520,175</u>	<u>4,983,641</u>
Noncurrent assets:					
Capital Assets-Net of Accum.	1,739,939	7,329,835	2,565,289	11,635,063	529,064
Total noncurrent assets	<u>1,739,939</u>	<u>7,329,835</u>	<u>2,565,289</u>	<u>11,635,063</u>	<u>529,064</u>
Total assets	<u><u>6,191,999</u></u>	<u><u>12,399,607</u></u>	<u><u>4,563,632</u></u>	<u><u>23,155,238</u></u>	<u><u>5,512,705</u></u>
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts Payable	135,588	142,613	58,485	336,686	398,829
Current Portion Long-Term Debt	-	802,530	-	802,530	-
Other Accrued Payables	154,233	132,419	6,716	293,368	627,869
Compensated Absences	21,532	4,384	974	26,890	19,884
Total Current liabilities:	<u>311,353</u>	<u>1,081,946</u>	<u>66,175</u>	<u>1,459,474</u>	<u>1,046,582</u>
Non current liabilities:					
OPEB Obligation	115,541	24,898	4,088	144,527	6,299
Long-Term Debt	-	2,186,445	-	2,186,445	-
Closure/Post Closure Costs	-	1,415,366	-	1,415,366	-
Compensated Absences	193,791	39,458	8,767	242,016	-
Total Non current liabilities:	<u>309,332</u>	<u>3,666,167</u>	<u>12,855</u>	<u>3,988,354</u>	<u>6,299</u>
Total liabilities	<u>620,685</u>	<u>4,748,113</u>	<u>79,030</u>	<u>5,447,828</u>	<u>1,052,881</u>
NET ASSETS					
Invested in capital assets, net of related debt	1,739,939	4,340,860	2,565,289	8,646,088	529,064
Restricted (expendable)	-	2,338,767	-	2,338,767	-
Unrestricted	3,831,375	971,867	1,919,313	6,722,555	3,930,759
Total net assets	<u><u>\$ 5,571,314</u></u>	<u><u>\$ 7,651,494</u></u>	<u><u>\$ 4,484,602</u></u>	<u><u>\$ 17,707,410</u></u>	<u><u>\$ 4,459,823</u></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, 2010

	Business-type Activities - Enterprise Funds				
	5120	5411	5412	Total Proprietary Funds	Gov. Activities Internal Service Funds
	Gallatin County Rest Home	Gallatin County Landfill	West Yellowstone Refuse District		
Operating revenues:					
Charges for Services	\$ 5,724,641	\$ 3,637,054	\$ 788,539	\$ 10,150,234	\$ 579,617
Miscellaneous	4,013	-	-	4,013	395
Internal Services	-	-	-	-	5,196,036
Total Operating Revenues	<u>5,728,654</u>	<u>3,637,054</u>	<u>788,539</u>	<u>10,154,247</u>	<u>5,776,048</u>
Operating expenses:					
Personnel	3,693,231	809,495	139,574	4,642,300	-
Operations	1,591,618	1,333,580	477,546	3,402,744	-
Depreciation	141,080	710,228	138,672	989,980	-
Internal Service-Personnel	-	-	-	-	241,897
Internal Service-Supplies	-	-	-	-	123,915
Internal Service-Purchased Services	-	-	-	-	1,014,863
Internal Service-Fixed Charges	-	-	-	-	1,036,265
Internal Service-Depreciation	-	-	-	-	57,273
Internal Serv-Benefit Pymts	-	-	-	-	4,718,737
Total operating expenses	<u>5,425,929</u>	<u>2,853,303</u>	<u>755,792</u>	<u>9,035,024</u>	<u>7,192,950</u>
Operating Income (loss)	<u>302,725</u>	<u>783,751</u>	<u>32,747</u>	<u>1,119,223</u>	<u>(1,416,902)</u>
Nonoperating revenues (expenses):					
Property Taxes	363	-	-	363	-
Intergovernmental Revenues	72,107	-	14,950	87,057	-
Investment Earnings	56,180	71,650	29,426	157,256	73,576
Sale of Fixed Assets	-	(13,328)	-	(13,328)	-
Interest Expense	-	(87,277)	-	(87,277)	-
Total non operating revenue (expenses)	<u>128,650</u>	<u>(28,955)</u>	<u>44,376</u>	<u>144,071</u>	<u>73,576</u>
Income (loss) before contributions and transfers	431,375	754,796	77,123	1,263,294	(1,343,326)
Transfers In	-	-	-	-	781,604
Change in net assets	<u>431,375</u>	<u>754,796</u>	<u>77,123</u>	<u>1,263,294</u>	<u>(561,722)</u>
Total net assets -- beginning	<u>5,139,939</u>	<u>6,896,698</u>	<u>4,407,479</u>	<u>16,444,116</u>	<u>5,021,545</u>
Total net assets -- ending	<u>\$ 5,571,314</u>	<u>\$ 7,651,494</u>	<u>\$ 4,484,602</u>	<u>\$ 17,707,410</u>	<u>\$ 4,459,823</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, 2010

	Business-type Activities - Enterprise Funds				
	5120	5411	5412	Total Proprietary Funds	Gov. Activities Internal Service Funds
	Gallatin County Rest Home	Gallatin County Landfill	West Yellowstone Refuse District		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash From interfund	\$ -	\$ -	\$ -	\$ -	\$ 5,610,325
Cash Other	4,013	-	-	4,013	-
Cash receipts from customer	5,740,453	3,551,793	843,837	10,136,083	157,676
Other Payments	(43,258)	121,643	-	78,385	-
Payments to employees	(3,586,616)	(784,772)	(137,673)	(4,509,061)	(241,897)
Payments to interfund	(48,715)	-	-	(48,715)	(14,550)
Payments to suppliers	(1,469,716)	(1,409,420)	(469,544)	(3,348,680)	(6,558,671)
Net cash provided by operating activities	<u>596,161</u>	<u>1,479,244</u>	<u>236,620</u>	<u>2,312,025</u>	<u>(1,047,117)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental Revenue	72,107	-	14,950	87,057	-
Subsidy from taxes	5,382	-	-	5,382	-
Transfers from (to) Other Funds	-	-	-	-	781,604
Net cash (used) by Noncapital financing	<u>77,489</u>	<u>-</u>	<u>14,950</u>	<u>92,439</u>	<u>781,604</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Interest Paid on Debt	-	(87,277)	-	(87,277)	-
Principal on Debt	-	654,249	-	654,249	-
Purchases/acquisition/const. of Capital Assets	(13,364)	(2,096,105)	(64,651)	(2,174,120)	(25,992)
Net cash (used) by capital and related financing activities	<u>(13,364)</u>	<u>(1,529,133)</u>	<u>(64,651)</u>	<u>(1,607,148)</u>	<u>(25,992)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Earnings	56,180	71,650	29,426	157,256	73,576
Net cash provided by investing activities	<u>56,180</u>	<u>71,650</u>	<u>29,426</u>	<u>157,256</u>	<u>73,576</u>
Net Increase (decrease) in cash and cash equivalents	716,466	21,761	216,345	954,572	(217,929)
Cash and cash equivalents at July 1, 2009	<u>3,404,720</u>	<u>4,537,530</u>	<u>1,670,614</u>	<u>9,612,865</u>	<u>4,840,601</u>
Cash and cash equivalents at June 30, 2010	<u>\$ 4,121,187</u>	<u>\$ 4,559,291</u>	<u>\$ 1,886,960</u>	<u>\$ 10,567,438</u>	<u>\$ 4,622,676</u>
Cash and equivalents consists of:					
Cash and investments	\$ 4,121,187	\$ 2,220,524	\$ 1,886,960	\$ 8,228,671	\$ 4,622,676
Restricted cash and investments	-	2,338,767	-	2,338,767	-
Total cash and cash equivalents	<u>\$ 4,121,187</u>	<u>\$ 4,559,291</u>	<u>\$ 1,886,960</u>	<u>\$ 10,567,438</u>	<u>\$ 4,622,676</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	302,725	783,751	32,747	1,119,223	(1,416,902)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation Expense	141,080	710,228	138,672	989,980	57,273
Changes in assets and Liabilities:					
Increase in Accounts Payable - Other	-	121,643	-	121,643	-
Increase (decrease) in Accounts Payable - Supplier	29,929	(75,840)	8,001	(37,910)	666,985
(Increase) decrease in Customer Receivables	15,812	(85,261)	55,298	(14,151)	(360,523)
Increase (decrease) in Payroll & Other Liabilities	106,615	24,723	1,902	133,240	6,050
Net Cash provided by operating activities	<u>\$ 596,161</u>	<u>\$ 1,479,244</u>	<u>\$ 236,620</u>	<u>\$ 2,312,025</u>	<u>\$ (1,047,117)</u>

See accompanying notes to the financial statements

**GALLATIN COUNTY, MONTANA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2010**

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and investments	\$ 44,691,579	\$ 10,186,508
Tax/assessment receivable (net)	-	13,182,367
Accounts Receivable	-	281,681
Accrued Interest Receivable	68,542	64,088
Total Assets	<u>\$ 44,760,121</u>	<u>\$ 23,714,644</u>
LIABILITIES		
Accounts payable	\$ -	\$ 2,626,807
Warrants Payable	-	1,896,108
Due to other governments	-	19,191,729
Total Liabilities	<u>-</u>	<u>\$ 23,714,644</u>
NET ASSETS		
Held in trust for investments and other purposes	<u>\$ 44,760,121</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, 2010**

		<u>Investment Trust Funds</u>
ADDITIONS:		
Investment earnings	\$	156,806
Contributions to investment trust		70,968,889
Total Additions		<u><u>71,125,695</u></u>
DEDUCTIONS:		
Distribution of investments		69,595,341
Total Deductions		<u><u>69,595,341</u></u>
Change in net assets		1,530,354
Net assets - July 1, 2009		<u>43,229,767</u>
Net assets - June 30, 2010	\$	<u><u>44,760,121</u></u>

See accompanying notes to the financial statements.

NOTES

TO THE

FINANCIAL

STATEMENTS

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 2010.

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, 2010

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, 2010

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, 2010

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 due from/to other funds.

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, 2010 was \$35,612. The process for determining the allowance for bad debts for Justice Court is 30% 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, 2010 was \$69,567.

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, 2010 were based upon a taxable valuation of \$223,244,000.

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, 2010

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	20-60
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, 2010

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.

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.

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY- continued

A. Budgetary Information- continued

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 2010.

C. Deficit Fund Balances

Fund Number	Fund Name	Amount	Explanation
2155	Predator Control for Cattle River Rock Planning & Zoning	\$ 3,504	Personal Property taxes for FY 2010 were not billed until the end of June & July. This caused taxes not to be collected until FY 2011.
2251	District South Gallatin Canyon Zoning	33	Outstanding receivable, transfer to be made in 2011 to correct.
2252	District	26	Transfer to be made in 2011 to correct.
2254	Bridger Canyon Zoning District	270	Outstanding receivable, transfer to be made in 2011 to correct.
2257	Sypes Canyon #1 Zoning District	8	Outstanding receivable, transfer to be made in 2011 to correct.
2258	Sypes Canyon #2 Zoning District	3	Outstanding receivable, transfer to be made in 2011 to correct.
2259	Wheatland Zoning District	5	Transfer to be made in 2011 to correct.
2682	Springhill Zoning District	39	Outstanding receivable, transfer to be made in 2011 to correct.
2683	Trail Creek Zoning District	6	Outstanding receivable, transfer to be made in 2011 to correct.
2684	Big Sky Zoning District	104	Outstanding receivable, transfer to be made in 2011 to correct.
2689	Zoning District #1	64	Transfer to be made in 2011 to correct.
3040	Open Space Bond	34,273	Personal Property taxes for FY 2010 were not billed until the end of June & July. This caused taxes not to be collected until FY 2011.
3050	Detention Center Bond	411,307	Personal Property taxes for FY 2010 were not billed until the end of June & July. This caused taxes not to be collected until FY 2011 and FY 2010 mill levy was not adequate to absorb delinquency for all taxes, with payment of 1st year principle and interest.
3560	Mystic Heights 2 & 3	396	More bonds were called than had fund balance to cover.
3565	Cimarron Subdivision RID 365	681	More bonds were called than had fund balance to cover.
3580	Looking Glass	138	More bonds were called than had fund balance to cover.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 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, 2010 are as follows:

Current use funds:		
Cash on Hand and Petty cash	\$ 345,715	
Cash in banks - Demand deposits	<u>\$ 31,136,560</u>	
		\$ 31,482,275
Investment pool funds:		
Cash in banks - Savings deposits	\$ 10,188,372	
US Government Securities (brokerage)	<u>\$ 66,183,667</u>	
		<u>\$ 76,372,039</u>
Total cash and cash equivalents		<u><u>\$ 107,854,314</u></u>

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

3. DETAILED NOTES ON ALL FUNDS - continued

A. Deposits and Investments-continued

The amounts above are reported in the accompanying financial statements as follows:

Government wide	\$ 52,976,227
Investment Trust Funds	\$ 44,691,579
Agency Funds	<u>\$ 10,186,508</u>
Total cash and cash equivalents	<u>\$ 107,854,314</u>

Cash and cash equivalents on the government-wide statement of net assets is comprised of the following:

Unrestricted	\$ 49,332,525
Restricted - See Note G	<u>\$ 3,643,702</u>
	<u>\$ 52,976,227</u>

Interest rates at June 30, 2010 ranged from 1% - 4.35%. Future maturities on investments range from July 2012 to June 2015.

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 then 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, 2010 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, 2010.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>No Maturity</u>	<u>TOTAL</u>
Primary Government Investments:						
Federal Home Loan Mortgage Corp.		\$1,000,000				1,000,000
Freddie Mac		1,000,000				1,000,000
Federal Home Loan Bank	2,510,000	11,400,000	13,050,000	9,731,579		36,691,579
Federal Farm Credit Bank		3,000,000	3,000,000			6,000,000
Savings Deposits					98,359	98,359
Equity Mutual Fund					15,778	15,778
Government Money Market					4,226,310	4,226,310
Certificate of Deposits					27,340,013	27,340,013
Totals	<u>\$2,510,000</u>	<u>\$16,400,000</u>	<u>\$16,050,000</u>	<u>\$9,731,579</u>	<u>\$31,680,460</u>	<u>\$76,372,039</u>

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

3. DETAILED NOTES ON ALL FUNDS - continued

A. Deposits and Investments-continued

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.	\$ 1,000,000	AAA
Freddie Mac	1,000,000	AAA
Federal Home Loan Bank	36,691,579	AAA
Federal Farm Credit Bank	6,000,000	AAA
Savings Deposits	98,359	NR
Equity Mutual Fund	15,778	NR
Government Money Market	4,226,310	NR
Certificate of Deposits	27,340,013	NR
TOTAL	\$ <u>76,372,039</u>	

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

3. DETAILED NOTES ON ALL FUNDS - continued

B. Interfund 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 2010:

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>
Transfers In:							
<u>Governmental funds:</u>							
General Fund					638,389		638,389
Public Safety					17,707		17,707
RID Bonds			58,176				58,176
Capital Development							
Nonmajor Governmental	1,669	354,427			94,433		450,529
Total governmental funds							1,164,801
Internal Service					781,604	-	781,604
	<u>1,669</u>	<u>354,427</u>	<u>58,176</u>	<u>-</u>	<u>1,532,132</u>		
Total transfers out - governmental funds					<u>1,946,404</u>		
Total transfers out - internal service funds						-	
Total transfers out							\$ <u>1,946,404</u>

The composition of interfund balances as of June 30, 2010 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Public Safety	Other Governmental Funds	\$ 36,693
County Building	Other Governmental Funds	\$ 411,307
Other Governmental Funds	Other Governmental Funds	\$ 34,273

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

3. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

A summary of changes in capital assets is as follows:

	Balance July 1, 2009	Increases	Decreases	Transfers	Balance June 30, 2010
Governmental activities:					
Land	\$ 15,381,700	\$ 2,032,750	\$ 143,070	\$ -	17,271,380
Buildings	21,005,773	77,646	-	2,603,896	23,687,315
Improvements other than buildings	967,387	336,236	-	-	1,303,623
Machinery and equipment	17,328,879	3,131,415	1,887,497	-	18,572,798
Infrastructure	135,114,909	336,662	-	-	135,451,571
Total capital assets being depreciated	174,416,948	3,881,959	1,887,497	-	176,411,411
Construction in progress	11,860,574	19,747,767	-	(2,603,896)	29,004,445
Total capital assets	\$ 201,659,222	\$ 25,662,476	\$ 2,030,566	\$ -	222,687,236
Less accumulated depreciation:	74,774,778	5,378,921	1,874,888	-	78,278,811
Governmental activities capital assets, net	\$ 126,884,444	\$ 20,283,555	\$ 155,678	\$ -	147,012,321
Business-type activities:					
Land	\$ 6,822	\$ 1,650,785	\$ -	\$ -	1,657,607
Buildings	6,555,337	58,239	-	-	6,613,576
Improvements other than buildings	2,848,537	48,401	-	-	2,896,938
Machinery and equipment	6,082,824	111,366	29,919	-	6,164,271
Total capital assets being depreciated	15,486,698	218,006	29,919	-	15,674,785
Construction in progress	1,844	33,835	-	-	35,679
Total capital assets	\$ 15,495,364	\$ 1,902,626	\$ 29,919	\$ -	17,368,071
Less accumulated depreciation:	4,759,369	989,980	16,341	-	5,733,008
Business-type activities capital assets, net	\$ 10,735,995	\$ 912,646	\$ 13,578	\$ -	11,635,063

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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	\$	585,864
Public Safety		918,843
Public Works		3,739,981
Public Health		7,938
Social and Economic Services		1,087
Culture and Recreation		120,265
Housing and Community Development		2,269
Conservation of Natural Resources		2,674
		<u>2,674</u>

Total depreciation expense - governmental activities \$ 5,378,921

Business-type activities:

Rest Home	\$	141,080
Gallatin County Landfill		710,228
West Yellowstone Refuse Dist.		138,672
		<u>138,672</u>

Total depreciation expense - business-type activities \$ 989,980

D. Long-Term Debt

During year ended June 30, 2010, the following changes in liabilities were reported in long-term debt:

	Balance 01-Jul-09	Additions	Deletions	Balance 30-Jun-10	Due within one year
Governmental Activities:					
General Obligation Bonds	\$ 46,431,871	\$ 1,000,000	\$ 921,285	\$ 46,510,586	\$ 1,790,390
Special Assessment Bonds	3,290,000	1,765,000	374,000	4,681,000	170,000
Compensated Absences	1,663,865	58,649	-	1,722,514	172,251
OPEB Liability	282,365	280,568	-	562,933	-
Intercap Loans	6,210,239	-	702,050	5,508,189	727,626
Capital Leases	1,320,182	-	93,724	1,226,459	97,932
Total	<u>\$ 59,198,522</u>	<u>\$ 3,104,218</u>	<u>\$ 2,091,059</u>	<u>\$ 60,211,681</u>	<u>\$ 2,958,199</u>

	Balance 01-Jul-09	Additions	Deletions	Balance 30-Jun-10	Due within one year
Business-Type Activities					
Revenue Bonds	\$ 1,612,000	\$ 1,250,000	\$ 440,000	\$ 2,422,000	\$ 518,500
Intercap Loans	155,751	-	155,751	-	-
Compensated Absences	233,354	36,771	1,219	268,906	26,890
OPEB Liability	64,006	80,521	-	144,527	-
Closure/postclosure care costs	1,284,005	139,424	8,063	1,415,366	-
Capital Leases	838,716	-	271,742	566,974	284,030
Total	<u>\$ 4,187,832</u>	<u>\$ 1,506,717</u>	<u>\$ 876,775</u>	<u>\$ 4,817,774</u>	<u>\$ 829,420</u>

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010 were as follows:

Purpose	Issue Date	Interest Rate	Term of years	Final maturity	Bonds issued	Outstanding 6/30/10	Annual serial payment
Open Space	10/01/2001	3.75-4.7	20	07/01/2021	\$ 3,800,000	\$ 2,490,000	Varies
Pogreba Mobile Home	11/25/2002	4.8	10	08/01/2012	30,000	10,486	Varies
Open Space	04/01/2003	2.0-4.75	20	07/01/2023	4,000,000	2,975,000	Varies
Pogreba Field	07/07/2005	2.00	10	02/28/2016	8,500	5,100	850
Open Space	06/28/2005	3.625-4.25	20	02/01/2026	5,000,000	4,410,000	Varies
Open Space	12/15/2008	4.3	18	07/01/2026	4,000,000	3,940,000	Varies
Pogreba Animal Fence	07/29/2008	3.625	10	02/28/2018	12,500	10,000	1250
Detention Center	02/01/2009	3.5-4.6	18	02/01/2027	32,000,000	31,670,000	Varies
Hope House	07/01/2010	2.0-4.0	20	07/01/2030	1,000,000	1,000,000	Varies
Total G.O. Bonds					\$ 49,851,000	\$ 46,510,586	\$ 2,100

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-10	Annual serial payment
Landfill Cell 3	2007	3.75	5	2013	\$ 2,242,000	\$ 1,172,000	Varies
Landfill Land	2010	1.95	10	2020	\$ 1,250,000	\$ 1,250,000	Varies
Total Revenue Bonds					\$ 3,492,000	\$2,422,000	

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, 2010.

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, 2010**

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>Date</u>	<u>Rate</u>	<u>years</u>	<u>maturity</u>	<u>issued</u>	<u>6/30/10</u>	<u>serial</u>
							<u>payment</u>
1997							
Refunding	1997	2.9-5.0	11	2012	\$ 1,340,000	\$ 25,000	Varies
#358 & #359	1992	3.5-6.75	20	2012	533,000	65,000	Varies
#361	1995	3.78-7.0	18	2013	187,200	40,000	Varies
#366	1995	3.5-8.25	16	2012	130,000	25,000	Varies
#368	1996	4.0-6.5	20	2016	125,000	30,000	Varies
#370	1998	4.4-6.0	20	2018	198,500	45,000	Varies
#371	1999	3.0-7.2	20	2020	63,000	27,000	Varies
#372	1999	3.0-6.1	15	2014	200,000	30,000	Varies
#375	2001	3.0-6.5	15	2015	113,000	10,000	Varies
#376	2001	3.6-5.5	20	2021	540,000	175,000	Varies
#378	2001	3.6-5.5	20	2021	1,188,000	660,000	Varies
#382	2002	1.85-4.25	15	2017	199,000	110,000	Varies
#383	2002	2.2-5.5	20	2022	200,200	95,000	Varies
#384	2003	2.0-5.0	15	2018	160,000	60,000	Varies
#386	2003	1.75-4.9	15	2018	300,000	175,000	Varies
#387	2005	2.1-5.0	15	2020	180,000	130,000	Varies
#388	2005	2.1-5.0	15	2020	160,000	105,000	Varies
#391	2006	2.0-5.25	20	2026	395,000	305,000	Varies
#392	2006	3.0-7.0	20	2026	60,000	34,000	Varies
#393	2007	4.2-5.5	20	2028	900,000	770,000	Varies
#395	2010	2.0-6.0	20	2030	1,765,000	1,765,000	Varies
Total Special Assessment Bonds					\$ 8,936,900	\$ 4,681,000	

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

3. DETAILED NOTES ON ALL FUNDS - continued

D. Long-term debt- continued

Loans/Contracted Debt:

Loans and Contracted Debt outstanding as of June 30, 2010 were as follows:

Purpose	Original Amount	Date of Issue	Interest Rate	Outstanding 6/30/2010	Date of Last Payment
Guenther Building Purchase (1)	999,000	2004	Varies	431,757	2014
Capital Improvement Libraries (1)	999,000	2005	Varies	598,985	2016
Re-Entry Facility (1)	800,000	2006	Varies	518,730	2016
Fair Grounds Improvement (1)	500,000	2007	Varies	341,960	2016
3rd District Court Building (1)	999,000	2007	Varies	778,673	2017
Courthouse Annex (1)	999,000	2007	Varies	789,611	2018
9-1-1 Center (1)	1,000,000	2009	Varies	910,246	2019
Road & Bridge Shop Complex (1)	<u>1,300,000</u>	2008	Varies	<u>1,138,228</u>	2019
Total	<u>\$ 7,596,000</u>			<u>\$ 5,508,190</u>	

(1) Reported in general long-term debt account group: \$5,508,190

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	\$ 268,907
General Governmental Activities	1,702,630
Internal Service Funds	<u>19,884</u>
	<u>\$ 1,991,421</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, 2010, including the following:

Equipment	\$ 2,751,775
Less: Accumulated depreciation	<u>(696,678)</u>
Total	<u>\$ 2,055,097</u>

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

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010 were as follows:

For Fiscal Year Ended	G. O.		Revenue Bond	Revenue Bonds
	Principal	Interest	Principal	Interest
2011	1,790,390	1,867,288	518,500	55,406
2012	1,885,548	1,803,227	599,000	49,162
2013	1,980,848	1,733,260	367,000	28,444
2014	2,067,100	1,659,573	125,000	23,438
2015	2,162,100	1,586,842	125,000	20,313
2016-2020	12,444,600	6,701,319	625,000	78,750
2021-2025	13,850,000	4,149,744	62,500	3,125
2026-2030	10,330,000	1,187,816	-	-
Total	<u>\$ 46,510,586</u>	<u>\$ 20,689,069</u>	<u>\$ 2,422,000</u>	<u>\$ 258,638</u>
Continued:	Special Bonds	Special Bonds	Contract Debt	Contract Debt
	Principal	Interest	Principal	Interest
2011	170,000	168,455	727,625	103,861
2012	215,000	172,592	757,963	102,775
2013	298,000	167,008	789,582	107,275
2014	283,000	160,336	821,668	93,554
2015	298,000	153,379	741,301	80,178
2016-2020	1,616,000	622,003	1,670,050	128,262
2021-2025	1,031,000	354,666	-	-
2026-2030	770,000	121,775	-	-
Total	<u>\$ 4,681,000</u>	<u>\$ 1,920,214</u>	<u>\$ 5,508,189</u>	<u>\$ 615,905</u>
Continued:	Capital Lease	Capital Lease		Grand
	Principal	Interest		Total
2011	381,962	79,616		5,863,103
2012	385,272	62,921		6,033,459
2013	106,926	46,077		5,624,420
2014	919,273	41,275		6,194,218
2015	-	-		5,167,113
2016-2020	-	-		23,885,984
2021-2025	-	-		19,451,035
2026-2030	-	-		12,409,591
Total	<u>\$ 1,793,433</u>	<u>\$ 229,889</u>		<u>\$ 84,628,923</u>

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010 were:

	<u>PERS</u>	<u>SRS</u>	<u>TRS</u>
Employer	7.07%	10.115%	7.47%
Employee	6.90%	9.245%	7.15%
State	0.10%	0.000%	2.49%

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 & Sheriff Retirement System, 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, 2010, 2009 and 2008 as listed below were equal to the required contributions for each year.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
PERS			
County	877,148	918,687	947,933
Employee	878,381	914,050	925,140
State	12,693	13,266	13,408
SRS			
County	370,628	378,255	392,232
Employee	354,036	355,925	358,496
TRS			
County	4,749	4,796	4,796
Employee	4,553	4,591	4,591
State	70	67	1,599

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010. These amounts are reported within the cash and investment account on the fund financial statement.

<u>Description</u>	<u>Amount</u>
Gallatin County Landfill - Proprietary	\$ 2,338,767
Detention Center Construction Retainage - Government	1,215,266
911 Building Construction Retainage - Government	<u>89,669</u>
Total	<u>\$ 3,643,702</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.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

3. DETAILED NOTES ON ALL FUNDS - continued

I. 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 \$1,415,366 liability for landfill closure and post closure as of June 30, 2010, which represents the cumulative amount reported to date based on the use of 43.91% 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 \$1,807,634. These amounts are based on what it should cost to perform all closure and post closure in 2010. 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, 2009 Gallatin County demonstrated its ability to handle closure and post closure care costs by passing the local government financial test.

J. 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.

K. 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.

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

3. DETAILED NOTES ON ALL FUNDS – continued

K. Risk Management-continued

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, 2010 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, 2010, were estimated by the plan administrator. Claims payable as of year end are:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Beginning claims payable	\$ 270,394	\$ 228,665	\$ 304,752
Claims incurred	3,397,017	3,092,963	4,718,738
Claims paid	<u>(3,438,746)</u>	<u>(3,016,876)</u>	<u>(4,405,261)</u>
Ending claims payable	\$ <u>228,665</u>	\$ <u>304,752</u>	\$ <u>618,229</u>

L. Commitments

Primary Government

At June 30, 2010, Gallatin County had approximate contractual commitments of the following:

<u>Department</u>	<u>Amount</u>	<u>Project</u>
Commission	\$ 36,300	External Audit
Finance	322,361	Clarkston RID
Grants	22,994	9-1-1 Equipment Maintenance
Grants	74,646	CTEP Bridge Project
Grants	98,862	L&J Master Plan
Grants	92,285	Middle Creek Dam Early Warning System
Grants	4,104,129	Neighborhood Stabilization
Grants	15,000	Public Land Survey
Grants	212,990	Fairgrounds Restroom
Grants	2,226	Fairgrounds Storm Water Survey
Grants	9,888,375	Detention Center
Parks	11,458	Parks & Trails Plan
Procurement	55,757	Detention Center Furniture
Procurement	7,995	Courthouse Annex Boiler Replacement
Road & Bridge	796,867	Chip Sealing of County Roads
Solid Waste Management District	<u>243,795</u>	2010 Crawler/Dozer
	\$ <u><u>15,986,039</u></u>	

Future appropriations will fund these commitments as work is performed.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

3. DETAILED NOTES ON ALL FUNDS – continued

M. Other Postemployment 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 2010.

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 2010 there are 30 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 actuarial 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	\$	418,749
Interest on net OPEB obligation		14,720
Ajustment to annual required contribution		<u> -</u>
Annual OPEB cost (expense)		433,469
Contributions made		<u>(72,379)</u>
Increase in net OPEB obligation		361,090
Net OPEB obligation - beginning of year		<u>346,370</u>
Net OPEB obligation - end of year	\$	<u><u>707,460</u></u>

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

3. DETAILED NOTES ON ALL FUNDS – continued

M. Other Postemployment Benefits (OPEB) – continued

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the years ended June 30, 2010 and 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 418,749	17.3%	\$ 346,371
2010	\$ 433,469	16.7%	\$ 707,461

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, 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. The covered payroll (annual payroll of active employees covered by the Plan) was \$16,009,520, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 23.3%.

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.

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:

1. 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 set forward one year.
2. 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.
3. 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.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

3. DETAILED NOTES ON ALL FUNDS – continued

M. Other Postemployment Benefits (OPEB) – continued

4. 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.
5. Health insurance premiums for 2009 retirees were used as the basis for calculation of the present value of total benefits to be paid.

N. Pending Litigation

The County is involved in numerous lawsuits, which arise out of the normal course of operations. Management intends to vigorously defend each claim, and does not believe any of the outstanding cases have a probable negative outcome, except as described in Note P. It is reasonably possible that some of the cases may result in future losses, but, based on the complexities of each case, it is not possible to determine or reasonably estimate any losses as of the date of this financial report.

O. Subsequent Events

Gallatin County issued bonds on August 17, 2010 for \$4,715,000 for Rural Improvement District No. 396, Series 2010. The bonds issued are for improvement of Clarkston road.

In December 2010, a District Court judge ruled in favor of 54 sheriff's deputies in relation to a 2007 lawsuit over compensation rates. As of the date of this financial report, losses related to this case cannot be reasonably estimated.

P. Recent Accounting Pronouncements

The Government Accounting Standards Board has issued GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for the County beginning in fiscal year 2011. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The County has not assessed the impact of these statements on its financial position and results of operations and has not determined if the adoption of these statements will have a material effect on its basic financial statements.

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	3,145,315	3,145,315	2,993,564	(151,751)
Local Option Taxes	1,555,000	1,555,000	1,458,969	(96,031)
General Business Licenses	-	-	1,080	1,080
Federal Grants	75,375	80,375	31,286	(49,089)
Federal Payments in Lieu of Tx	-	-	158	158
State Grants	-	56,350	66,519	10,169
State Shared Revenue	662,755	662,755	682,098	19,343
Local Grants	-	8,000	8,000	-
Charges for Services	1,666,853	1,661,853	1,854,444	192,591
Fines & Forfeitures	561,981	561,981	324,847	(237,134)
Miscellaneous	67,000	67,000	331,497	264,497
Investment Earnings	550,000	550,000	169,788	(380,212)
Total revenues	<u>8,284,279</u>	<u>8,348,629</u>	<u>7,922,250</u>	<u>(426,379)</u>
EXPENDITURES				
Current:				
General Government-Personnel	6,553,450	6,553,450	6,383,955	169,495
General Government-Operations	1,724,655	1,714,030	1,670,086	43,944
Public Safety-Personnel	498,422	498,422	486,193	12,229
Public Safety-Operations	427,594	455,393	511,088	(55,695)
Public Health-Operations	-	-	2	(2)
Miscellaneous	79,222	79,222	5,058	74,164
Total current:	<u>9,283,343</u>	<u>9,300,517</u>	<u>9,056,382</u>	<u>244,135</u>
Debt service:				
Principal Retirement	92,813	92,813	74,146	18,667
Interest	-	-	(3,404)	3,404
Total debt service:	<u>92,813</u>	<u>92,813</u>	<u>70,742</u>	<u>22,071</u>
Capital outlay:				
General Government-Capital Exp	62,824	73,449	221,530	(148,082)
Total capital outlay:	<u>62,824</u>	<u>73,449</u>	<u>221,530</u>	<u>(148,082)</u>
Total expenditures	<u>9,438,980</u>	<u>9,466,779</u>	<u>9,348,654</u>	<u>118,124</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,154,701)</u>	<u>(1,118,150)</u>	<u>(1,426,404)</u>	<u>(308,255)</u>
OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS				
Sale of Fixed Assets	-	-	40	40
Transfers In	432,589	432,589	638,389	205,800
General Government.	(75)	(75)	-	75
Transfers Out	(16,000)	(16,000)	(1,669)	14,331
Total other financing sources and uses and special items	<u>416,514</u>	<u>416,514</u>	<u>636,760</u>	<u>220,246</u>
Net change in fund balances	(738,187)	(701,636)	(789,644)	(88,009)
Fund balances -- beginning	1,112,452	1,112,452	1,112,452	-
Fund balances -- ending	<u>\$ 374,265</u>	<u>\$ 410,816</u>	<u>\$ 1,105,923</u>	<u>\$ 982,482</u>

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, 2010

	<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	9,318,861	9,318,861	9,098,021	(220,840)
Other licenses	20,000	20,000	26,255	6,255
Federal Grants	195,585	187,793	188,221	428
State Grants	110,360	110,360	-	(110,360)
State Shared Revenue	430,679	430,679	422,354	(8,325)
Charges for Services	673,947	673,947	730,853	56,906
Fines & Forfeitures	6,000	6,000	8,330	2,330
Miscellaneous	15,000	15,000	107,682	92,682
Investment Earnings	17,000	17,000	20,593	3,593
Total revenues	<u>10,787,432</u>	<u>10,779,640</u>	<u>10,602,308</u>	<u>(177,331)</u>
EXPENDITURES				
Current:				
Public Safety-Personnel	7,127,714	7,145,054	7,009,667	135,387
Public Safety-Operations	2,946,414	2,965,997	2,959,236	6,761
Total current:	<u>10,074,128</u>	<u>10,111,051</u>	<u>9,968,903</u>	<u>142,148</u>
Debt service:				
Principal Retirement	-	-	89,754	(89,754)
Interest	122,900	122,900	25,362	97,538
Total debt service:	<u>122,900</u>	<u>122,900</u>	<u>115,116</u>	<u>7,784</u>
Capital outlay:				
Public Safety-Capital Expend	348,475	307,465	290,567	16,898
Total capital outlay:	<u>348,475</u>	<u>307,465</u>	<u>290,567</u>	<u>16,898</u>
Total expenditures	<u>10,545,503</u>	<u>10,541,416</u>	<u>10,374,585</u>	<u>166,830</u>
Excess (deficiency) of revenues over (under) expenditures	<u>241,929</u>	<u>238,224</u>	<u>227,723</u>	<u>(10,501)</u>
OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS				
Sale of Fixed Assets	-	-	3,699	3,699
Transfers In	-	-	17,707	17,707
Transfers Out	(557,316)	(557,316)	(354,427)	202,889
Total other financing sources and uses and special items	<u>(557,316)</u>	<u>(557,316)</u>	<u>(333,021)</u>	<u>224,295</u>
Net change in fund balances	(315,387)	(319,092)	(105,298)	213,794
Fund balances -- beginning	<u>1,552,097</u>	<u>1,552,097</u>	<u>1,542,681</u>	<u>-</u>
Fund balances -- ending	<u>\$ 1,236,710</u>	<u>\$ 1,233,005</u>	<u>\$ 1,437,383</u>	<u>\$ 204,378</u>

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unvunded AAL (UAAL)	Runded Ratio %	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll %
	(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.

SINGLE

AUDIT

SECTION

GALLATIN COUNTY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Beginning Balance June 30, 2009	Federal Revenue	Federal Expenditures	Ending Balance June 30, 2010
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) (includes mod 1)	10.557	09-07-5-21-009-0	\$ 185,064.00	\$ -	\$ 52,410.00	\$ 52,410.00	\$ -
Special Supplemental Food Program for Women, Infants, and children (WIC) (includes amendment)	10.557	10-07-5-21-009-0	\$ 178,954.00	\$ -	\$ 126,976.00	\$ 126,976.00	\$ -
Special Supplemental Food Program for Women, Infants, and children (WIC) Breast Feeding Outreach Program	10.557	10-07-5-21-039-0	\$ 24,256.00	\$ -	\$ 13,076.62	\$ 13,076.62	\$ -
<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	\$ -	\$ 3,659.58	\$ 3,659.58	\$ -
Total U.S. Department of Agriculture			\$ 409,622.00	\$ -	\$ 196,122.20	\$ 196,122.20	\$ -
U.S. Department of Commerce							
<i>Passed Through the State Department of Commerce:</i>							
Community Development Block Grant - Rae Water Sewer	14.228	MT-CDBG-07PF-04	\$ 121,320.00	\$ -	\$ -	\$ -	\$ -
Community Development Block Grant - Belgrade Senior Center	14.228	MT-CDBG-08PG-08	\$ 15,000.00	\$ -	\$ -	\$ -	\$ -
Total U.S. Department of Commerce			\$ 136,320.00	\$ -	\$ -	\$ -	\$ -
U.S. Department of Justice							
<i>Direct:</i>							
LLEBG Bulletproof Vest Program	16.607	2008 Fund	\$ 3,889.00	\$ -	\$ 421.12	\$ 421.12	\$ -
LLEBG Bulletproof Vest Program	16.607	2009 Fund	\$ 2,909.00	\$ -	\$ -	\$ -	\$ -
JAG Edward Memorial Justice Assistance Grant - Command Vehicle	16.738	2008-DD-BX-0347	\$ 263,833.00	\$ -	\$ 263,833.00	\$ 263,833.00	\$ -
COPS Technology Grant - 911 Communications	16.710	2009CKWX0129	\$ 500,000.00	\$ -	\$ 321,308.50	\$ 321,308.50	\$ -
ARRA-FY 09 Recovery Act Edward Byrne Memorial Justice Assistance Grant - Data Terminals	16.804	2009-SB-B9-1896	\$ 44,715.00	\$ -	\$ 44,715.00	\$ 44,715.00	\$ -
<i>Passed through the State Department of Justice - Montana Board of Crime Control:</i>							
Victim Witness Program	16.588	09-W03-90539	\$ 40,953.00	\$ -	\$ 40,953.00	\$ 40,953.00	\$ -
Operation Freedom from Fear	16.588	09-W02-90540	\$ 54,634.00	\$ -	\$ 54,634.00	\$ 54,634.00	\$ -
ARRA-Byrne Formula Grant - Missouri River Drug Task Force	16.803	09-GR01-90622	\$ 448,180.00	\$ -	\$ 437,370.00	\$ 437,370.00	\$ -
ARRA-Misdemeanor Probation - Domestic Violence	16.588	09-WR01-90546	\$ 64,700.00	\$ -	\$ 20,611.00	\$ 20,611.00	\$ -
<i>Passed through the Office of Court Administrator:</i>							
Montana Judicial Branch - Gallatin County Adult Drug Court	16.585		\$ 5,000.00	\$ -	\$ 2,941.57	\$ 2,941.57	\$ -
Total U.S. Department of Justice			\$ 1,428,813.00	\$ -	\$ 1,186,787.19	\$ 1,186,787.19	\$ -
U.S. Department of Homeland Security							
<i>Passed through the Montana Disaster & Emergency Services</i>							
Montana DES - Middle Creek Early Warning System	97.067	2008-GE-T8-0023	\$ 267,206.00	\$ -	\$ 159,669.00	\$ 159,669.00	\$ -
Homeland Security Grant Program (Equipment for Command Vehicle)	97.067	2009-SS-T9-0005	\$ 97,870.00	\$ -	\$ 97,870.00	\$ 97,870.00	\$ -
Homeland Security Grant Program (Emergency Planning Grant)	97.067	2009-SS-T9-0005	\$ 36,922.77	\$ -	\$ 15,000.00	\$ 15,000.00	\$ -
Emergency Management Performance Grant	97.042	2008-EM-E8-0029 & 2009-EP-E9-0009	\$ 110,360.00	\$ -	\$ 48,927.52	\$ 48,927.52	\$ -
Total U.S. Department of Homeland Security			\$ 512,358.77	\$ -	\$ 321,466.52	\$ 321,466.52	\$ -
U.S. Department of Transportation							
<i>Passed through the State Department of Transportation:</i>							
Montana Air and Congestion Initiative (MACI) - R&B Flush Truck	20.205		\$ 114,520.00	\$ -	\$ 114,520.00	\$ 114,520.00	\$ -
State and Community Highway Safety - DUI Task Force Grant	20.600	2010-02-20-12	\$ 12,995.00	\$ -	\$ -	\$ -	\$ -
Montana Department of Transportation - STEP Overtime Grant	20.600	2009-11-04-12, 2009-17-04-12	\$ 26,500.00	\$ -	\$ 8,488.09	\$ 8,488.09	\$ -
Montana Department of Transportation - STEP Overtime Grant	20.600	2010-05-04-12, 2010-16-04-12	\$ 23,000.00	\$ -	\$ 17,935.00	\$ 17,935.00	\$ -
Community Transportation Enhancement Pgm - CTEP Manhattan Sidewalks	20.205	UPN 6775	\$ 71,197.00	\$ -	\$ 62,598.00	\$ 62,598.00	\$ -
Community Transportation Enhancement Pgm - CTEP Three Forks Pedestrian Bridge	20.205	UPN 6649	\$ 87,090.00	\$ -	\$ 71,135.00	\$ 71,135.00	\$ -
Total U.S. Department of Transportation			\$ 335,302.00	\$ -	\$ 274,676.09	\$ 274,676.09	\$ -
U.S. Department of Energy							
<i>Direct</i>							
ARRA EECBG - Energy Efficiency & Conservation Block Grant	81.128	DE-RW0000148	\$ 198,700.00	\$ -	\$ 53,283.49	\$ 53,283.49	\$ -
Total U.S. Department of Energy			\$ 198,700.00	\$ -	\$ 53,283.49	\$ 53,283.49	\$ -

GALLATIN COUNTY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Beginning Balance June 30, 2009	Federal Revenue	Federal Expenditures	Ending Balance June 30, 2010
Environmental Protection Agency							
<i>Passed through the Montana Department of Environmental Quality:</i>							
Radon Grant 07/01/09-06/30/10	66.605	210061	\$ 2,300.00	\$ -	\$ 2,300.00	\$ 2,300.00	\$ -
Public Water Supply System Testing 09/01/09 - 12/31/09	66.605	510033	3,000.00	-	1,085.00	1,085.00	-
Public Water Supply System Testing Mod 1 12/21/09 - 12/31/10 (Original \$3,000 increased to \$4,600)	66.605	510037 MOD 1	4,600.00	-	2,810.00	2,810.00	-
Total Environmental Protection Agency			\$ 9,900.00	\$ -	\$ 6,195.00	\$ 6,195.00	\$ -
U.S. Department of Health and Human Services							
<i>Passed through the State Department of Public Health and Human Services:</i>							
Maternal & Child Health Services Block Grant - MCH 07/01/09-06/30/10	93.994	10-07-5-01-016-0	\$ 103,883.00	\$ -	\$ 103,883.00	\$ 103,883.00	\$ -
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	\$ -
Immunization Action Plan 01/01/10-12/31/10	93.268	10-07-4-31-016-0	\$ 33,394.00	\$ -	\$ 19,636.00	\$ 19,636.00	\$ -
Breast & Cervical Screening (includes grant & screening)(07/01/09 - 06/30/10)	93.283	10-07-3-01-007-0	\$ 79,500.00	\$ -	\$ 79,500.00	\$ 79,500.00	\$ -
Colorectal Cancer Screening Program	93.283	10-07-3-01-069-0	\$ 11,680.00	\$ -	\$ 11,680.00	\$ 11,680.00	\$ -
Montana Comprehensive Cancer Control Integration of MBCHP & MCCCC Info	93.283	10-07-3-01-048-0	\$ 10,000.00	\$ -	\$ 10,000.00	\$ 10,000.00	\$ -
Title II STD/HIV Grant and Case Management 04/01/09-03/31/10	93.117	09-07-4-51-104-0	\$ 5,000.00	\$ -	\$ 3,559.00	\$ 3,559.00	\$ -
Title II STD/HIV Grant & Case Mgmt 04/01/10-03/31/11	93.117	10-07-4-51-104-0	\$ 8,750.00	\$ -	\$ 843.00	\$ 843.00	\$ -
TB Vaccination Program 01/01/09-12/31/09	93.116; 93.991	09-07-4-11-041-0	\$ 5,000.00	\$ -	\$ 1,079.00	\$ 1,079.00	\$ -
TB Vaccination Program 01/01/10-12/31/10	93.116; 93.991	10-07-4-11-041-0	\$ 5,000.00	\$ -	\$ 1,033.00	\$ 1,033.00	\$ -
Public Health Emergency Preparedness (PHEP) 09/01/08-08/31/09	93.069	09-07-6-11-021-0	\$ 127,645.00	\$ -	\$ 44,258.88	\$ 44,258.88	\$ -
Public Health Emergency Preparedness (PHEP) 09/01/09-08/31/10	93.069	10-07-6-11-021-0	\$ 108,196.00	\$ -	\$ 90,163.00	\$ 90,163.00	\$ -
PHER Phase I, II	93.069	10-07-6-11-021-0	\$ 51,964.00	\$ -	\$ 51,964.00	\$ 51,964.00	\$ -
PHER Phase III	93.069	10-07-6-11-021-0	\$ 202,886.00	\$ -	\$ 133,051.92	\$ 133,051.92	\$ -
Montana Learning Collaborative 04/15/09-04/14/10	93.991	10-07-1-01-003-0	\$ 20,219.29	\$ -	\$ 15,000.00	\$ 15,000.00	\$ -
Montana Learning Collaborative 04/15/10-04/14/11 (not shared with L & C County)	93.991	11-07-1-01-003-0	\$ 15,000.00	\$ -	\$ 4,860.45	\$ 4,860.45	\$ -
<i>Passed through Montana State University</i>							
NAPA Grant-Amended 01/01/09 - 06/30/10 (Includes Amendment 1)	93.283	G248-09-W2236	\$ 24,000.00	\$ -	\$ 15,000.00	\$ 15,000.00	\$ -
<i>Passed through Yellowstone City/County Health Dept/Riverstone Health</i>							
Title III Ryan White STD/HIV Early Intervention Services	93.918	none	\$ 5,000.00	\$ -	\$ 5,000.00	\$ 5,000.00	\$ -
Total U.S. Department of Public Health and Human Services			\$ 839,887.29	\$ -	\$ 601,896.25	\$ 601,896.25	\$ -
U.S. Bureau of Land Management							
<i>Passed through the Montana Bureau of Land Management/Department of Administration</i>							
Montana Land Information Act 2009 (GIS)	15.227	MLIA_2009_12	\$ 7,500.00	\$ -	\$ 7,500.00	\$ 7,500.00	\$ -
Total U.S. Bureau of Land Management			\$ 7,500.00	\$ -	\$ 7,500.00	\$ 7,500.00	\$ -
U.S. Department of Housing and Urban Development							
<i>Passed through the Montana Department of Commerce</i>							
HERA-FY 08 Neighborhood Stabilization Program	14.228	MT-NSP-008-01-001	\$ 7,007,462.00	\$ -	\$ 2,906,212.00	\$ 2,906,212.00	\$ -
Home Investment Partnership - REACH Facility	14.239	M-08-SG3001-28	\$ 119,911.00	\$ -	\$ 119,911.00	\$ 119,911.00	\$ -
Total U.S. Department of Housing and Urban Development			\$ 7,127,373.00	\$ -	\$ 3,026,123.00	\$ 3,026,123.00	\$ -
U.S. Department of the Interior, National Park Service							
<i>Passed through Montana Fish, Wildlife & Parks</i>							
Land & Water Conservation Fund 1965 - Public Outdoor Recreation	15.916	30-00684	\$ 73,272.00	\$ -	\$ 1,334.93	\$ 1,334.93	\$ -
Total U.S. Department of the Interior, National Park Service			\$ 73,272.00	\$ -	\$ 1,334.93	\$ 1,334.93	\$ -
Total Federal Assistance			\$ 11,079,048.06	\$ -	\$ 5,675,384.67	\$ 5,675,384.67	\$ -

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 requirement 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 basic financial statements.

Non-Cash Awards

The Montana Air and Congestion Initiative grant, CFDA# 20.205, represents a non-cash award.

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, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 31, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2010-01, and 2010-04 through 2010-07 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs as 2010-08 to be a significant deficiency.

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 findings identified in our audit is described in the enclosed County Response to Audit Comments. 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, 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 Zurmuehlen & Co., P.C.

Bozeman, Montana
March 31, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of County Commissioners
Gallatin County, Montana

Compliance

We have audited Gallatin County's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have direct and material effect on each of the County's major federal programs for the year ended June 30, 2010. Gallatin 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.

As described in the accompanying schedule of findings and questioned costs (Findings 2010-02, and 2010-03), the County did not comply with requirements regarding Sub-recipient Monitoring and special requirements of the American Recovery and Reinvestment Act. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to these programs.

In our opinion, except for the non-compliance described in the preceding paragraph, Gallatin County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-01 to be a material weakness.

The County's responses to the findings identified in our audit are described in the enclosed County Response to Audit Comments. We did not audit the County's response and, accordingly, we express no opinion on the responses.

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 Zurmuehlen & Co., P.C.

Bozeman, Montana
March 31, 2011

GALLATIN COUNTY, MONTANA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2010

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?	Yes
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:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

14.228 Neighborhood Stabilization Program	\$2,906,212
16.710 COPS Technology Grant – 911 Communications	321,308
16.803 Byrne Formula Grant – Missouri River Drug Task Force (ARRA)	437,370
93.069 Public Health Emergency Preparedness	134,422
93.069 Public Health Emergency Response	185,016

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, 2010

Federal Award Findings and Questioned Costs:

2010-01 OMB A-133 Schedule of Expenditures of Federal Awards

Criteria:

Recipients of Federal awards should maintain internal control over Federal programs that provides reasonable assurance that the entity is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition:

The Schedule of Expenditures of Federal Awards that was prepared by Management contained timing errors. A grant from the U.S. Department of Transportation for \$114,520 was erroneously omitted from the schedule. Grants awarded under the Community Transportation Enhancement Program for \$75,688 and the COPS Technology Grant – 911 Communications for \$178,692 were erroneously reported as 2010 expenditures, though they should have been reported in 2009. We noted other insignificant errors for various grants. Prior period amounts were restated by management to properly state the financial statements.

Context:

Audit tests revealed errors in relation to the COPS Technology Grant. Detailed review by the Internal Auditor identified additional timing variances and identified the U.S. Department of Transportation grant. We performed detailed audit procedures over the Community Transportation Enhancement Program, which revealed underlying documentation to support the above condition.

Effect:

The Schedule of Expenditures of Federal Awards was misstated.

Cause:

Management did not have controls in place to ensure that the Schedule of Expenditures of Federal Awards is accurate.

Recommendation:

Employee roles and responsibilities should be established to ensure proper delegation, authority, responsibility, and training in relation to the gathering of information and proper reporting of grant revenues and expenditures.

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs (continued):

2010-02 Sub-recipient Monitoring over Federal Awards – Missouri River Drug Task Force Grant – CFDA No. 16.803

Criteria:

OMB Circular A-133 requires that pass-through grantors provide each sub-recipient certain information in relation to the grant. Such information should include the CFDA title and number, award year, and name of Federal agency. Pass-through entities should also advise sub-recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements. They are also required to monitor the activities of sub-recipients as necessary to ensure compliance, ensure sub-recipients meet the audit requirements under this circular, issue a management decision on audit findings within six months of receipt of the sub-recipient's audit report and take appropriate corrective action, and consider whether sub-recipients audits necessitate adjustment of the pas-through entity's own records. OMB Circular A-133 also requires additional disclosure in relation to pass-through grants made with American Recovery and Reinvestment funds, which includes specific identification and reporting of ARRA funds.

Condition:

The County is the recipient of a grant from the U.S. Department of Justice. This grant is the Byrne Formula Grant - Missouri River Drug Task Force (ARRA). The County did not meet all of its pass-through entity responsibilities. The executed Inter-local Agreement does not contain the required information, and the required information was not provided by other means. The County did not obtain evidence that sub-recipients were meeting audit requirements, or that such audits reflected findings or adjustments to this grant. There was no communication to sub-recipients of the identification of the funding as ARRA funds.

Context:

Total grant expenditures during the year ended June 30, 2010 amounted to \$437,370. Of this amount, \$303,744 was passed through to other governmental entities that are part of the Task Force.

Effect:

Sub-recipient compliance with the Federal grant requirements cannot be reasonably assured.

Cause:

No specific procedures are in place to ensure compliance with sub-recipient monitoring requirements.

Recommendation:

Employee roles and responsibilities should be established to ensure proper delegation, authority, and responsibility in relation to sub-recipient monitoring requirements. Appropriate training of key personnel is recommended, with an emphasis on continuous learning.

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs (continued):

2010-03 Sub-recipient Monitoring over Federal Awards – Community Transportation Enhancement Program – CFDA No. 20.205

Criteria:

OMB Circular A-133 requires pass-through entities monitor each sub-recipient's use of Federal awards through reporting, site visits, regular contract, or other means to provide reasonable assurance that the sub-recipient administers Federal awards in compliance with laws, regulations, and the provision of contracts or grant agreements, and that performance goals are achieved. In addition, Federal expenditures should be reported in the year in which the funds are expended.

Condition:

For the Community Transportation Enhancement Program, the County did not provide sufficient sub-recipient monitoring procedures to ensure that federal expenditures were reported in the proper period.

Context:

The County's sub-recipients under this program incurred \$75,688 of expenditures during fiscal year 2009, which accounted for approximately 40% of the grant effort. These costs were reported to the County in 2010, at which time the County included these in their Schedule of Federal Awards.

Effect:

The County reported federal expenditures in the wrong fiscal year.

Cause:

The County did not provide adequate monitoring of its sub-recipients in relation to this project.

Recommendation:

County personnel should be properly trained on Federal compliance requirements. In addition, personnel should have sufficient financial expertise to ensure proper financial reporting of program progress and outcomes.

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

Financial Statement Findings:

2010-04 Infrastructure Assets

Criteria:

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

Condition:

For self-constructed road improvements, the County records the infrastructure asset addition at the time a project is complete rather than when the expenditures were incurred. Therefore, costs incurred for these infrastructure projects in progress were erroneously omitted from the County's capital asset reporting. In addition, we noted that projects completed in 2009 were erroneously excluded from reporting at the end of that fiscal year. We also noted that costing data provided by the Road Department to the Accounting Department includes costs that should not be capitalized in accordance with GAAP.

Context:

The Road Department reported \$1,143,266 of costs related to construction projects in progress at June 30, 2010. Of this amount, \$746,210 should be capitalized. Accordingly, an adjustment of \$746,210 of construction in progress for road improvements was proposed by us and posted by management to properly state the 2010 financial statements.

Effect:

The effect was improper reporting of capital assets on the financial statements.

Cause:

The County does not have a process in place to review financial information for completeness and accuracy. Information provided to the accounting department was not reviewed for reasonableness or reviewed to ensure the reporting is in conformity with GAAP.

Recommendation:

We recommend management implement a process to review financial reports and underlying data for completeness and accuracy. This process should include key control activities and methodologies to ensure proper financial reporting.

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

Financial Statement Findings (continued):

2010-05 Subsidiary Records

Criteria:

Controls should be in place and operating effectively to ensure all subsidiary ledgers are accurate and reconcile to the accounting system, to ensure proper financial reporting.

Condition:

The County uses separate software to initiate, process, and record activity at the County Treasurer's office. Monthly transactions related to tax revenues and cash activity are uploaded into the accounting software, EDEN, from this subsidiary system. In 2010, property taxes were billed after year-end. As a result, property tax receivables were not uploaded into the proper accounting period in EDEN. In addition, the County Treasurer's office tracks all cash activity of the County in their subsidiary system. They prepare a periodic reconciliation between their records and the County's Accounting office cash balance. At June 30, 2010, this reconciliation had two large reconciling items. We performed audit tests to verify the validity and nature of these items. One item was determined to be a receivable balance from the State of Montana. The other item was determined to be an error in the County Treasurer's detailed reports.

Context:

Property taxes billed for 2010 amounting to \$3 million were improperly excluded from the financial statements. Reconciling items amounting to \$614,000 were determined to be errors in the detailed subsidiary ledger, but resulted in no adjustment to the financial statements.

Effect:

The effect was an understatement of tax receivable on the financial statements, and potential misstatement in cash balances.

Cause:

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

Recommendation:

We recommend management implement a process to review the completed financial information for completeness and accuracy. A sound system of internal controls includes activities that foster communication, facilitates information among departments, and assigns accountability and responsibility for all aspects of financial reporting.

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

Financial Statement Findings (continued):

2010-06 Fund Allocation

Criteria:

Governmental accounting standards require the use of fund accounting. Under fund accounting, each fund is used to segregate resources for specific purposes. Controls should be in place and operating effectively to ensure the financial statements are complete and accurate, including proper allocation of costs and revenues to each fund level.

Condition:

Accrued interest on investments of approximately \$115,000 was posted to the General Fund. However, these amounts were earned by several funds based on their respective cash positions. Accordingly, this amount should have been allocated to each of the funds where it was earned. In addition, the County recorded approximately \$790,000 of accrued interest expense to the general fund at June 30, 2009. This amount should have been allocated to each fund where the expense was incurred. This resulted in an understatement of fund balance in the general fund and an overstatement of fund balances in other funds.

Context:

The errors were discovered during audit testing of cash and debt. The error relating to the accrued interest income was material, and an adjustment was posted to reverse the amount recorded to the General Fund, and record the portion of the accrual relating the Agency Funds of \$68,000. The remaining amount of accrued interest was not material to the remaining opinion units. Accordingly, the County chose to not record this immaterial misstatement. The error relating to the accrued interest expense was material, and a the prior period financial statements were restated to correct the error.

Effect:

The effect was improper reporting of accrued interest receivable and accrued interest expense by fund. This impacts individual fund balances.

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. A sound system of internal controls includes activities that foster communication, facilitates information among departments, and assigns accountability and responsibility for all aspects of financial reporting.

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

Financial Statement Findings (continued):

2010-07 Significant Estimates

Criteria:

Controls should be in place and operating effectively to ensure that significant estimates are reasonable and appropriately calculated and that the financial statements are complete and accurate.

Condition:

The basic financial statements of the County contain estimates embedded in certain reported amounts. Significant estimates for the County include the allowance for doubtful accounts and the estimate for the claims incurred but not reported for the self insurance fund. The County's methodology for calculating the allowance for doubtful accounts in relation to fines and forfeitures was not appropriate. This resulted in overstated revenue and receivables, as balances aged over one year do not meet the measurable and available criteria for recognition. In addition, the County's estimate for self-insurance health claims incurred but unreported liability was overstated. It was determined that there was a likely misstatement of \$180,000 based on the methodology used by the County to calculate the liability. The County estimated the liability based on the June 2010 amount of actual claims paid, which was unusually high based the previous three year's trending.

Context:

Outstanding fines and forfeitures past due more than one year do not meet the revenue recognition criteria under governmental accounting standards. This resulted in an adjustment of approximately \$325,000 to the carrying balances of receivables. The revised estimate for claims incurred but not reported was \$180,000 lower than the recorded estimate. However, this was deemed to be immaterial to the fund affected, and thus, was not corrected in the accompanying financial statements.

Effect:

The effect was that accounts receivable and the liability for claims incurred but not reported were overstated.

Cause:

The County does not have a process in place to analyze significant estimates for reasonableness.

Recommendation:

We recommend management implement a process to review the completed financial information for completeness and accuracy. A sound system of internal controls includes activities that foster communication, facilitates information among departments, and assigns accountability and responsibility for all aspects of financial reporting.

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

Financial Statement Findings (continued):

2010-08 Negative Cash Balances

Criteria:

It is common for governments to pool cash and investments from various funds to improve investment performance. Each fund's position in the pool is reflected in the respective fund as an asset. When an individual fund overdraws its share of pooled cash, the overdraft should be reflected as an interfund liability rather than as a credit balance in an asset account.

Condition:

We noted 24 funds with negative cash balances as of June 30, 2010. Of these, 3 were considered significant, with amounts over \$10,000. An adjustment was proposed to reclassify \$482,000 of negative cash balances as inter-fund borrowings.

Context:

The errors were discovered during audit testing of cash and deemed material to each relative opinion unit for three funds.

Effect:

Negative cash balances in funds were not properly accounted for in 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. A sound system of internal controls includes activities that foster communication, facilitates information among departments, and assigns accountability and responsibility for all aspects of financial reporting.

Prior Year Audit Findings:

2009-01 OMB A-133 Schedule of Expenditures of Federal Awards
Status - Not implemented. See current year finding 2010-1.

2008-02 Completeness and Accuracy of Financial Statements
Status - Not implemented. See current year finding 2010-5 through 2010-8.

State Of Montana
County of Gallatin



Bozeman

March 28, 2011

AZ & Company
Attn: Kyla Q. Stafford, CPA
1007 East Main Street Suite 300
Bozeman, Mt. 59715

RE: Official Responses to Conditions:

Dear Kyla Stafford:

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.

2010-01 OMB A-133 Schedule of Expenditures of Federal Awards

Criteria:

Recipients of Federal awards should maintain internal control over Federal programs that provides reasonable assurance that the entity is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition:

The Schedule of Expenditures of Federal Awards that was prepared by Management contained timing errors. A grant from the U.S. Department of Transportation for \$114,520 was erroneously omitted from the schedule. Grants awarded under the Community Transportation Enhancement Program for \$75,688 and the COPS Technology Grant – 911 Communications for \$178,692 were erroneously reported as 2010 expenditures, though they should have been reported in 2009. We noted other insignificant errors for various grants. A prior period adjustment was proposed by us and posted by management to properly state the financial statements.

Context:

Audit tests revealed errors in relation to the COPS Technology Grant. Detailed review by the Internal Auditor identified additional timing variances and identified the U.S. Department of Transportation grant. We performed detailed audit procedures over the Community Transportation Enhancement Program, which revealed underlying documentation to support the above condition.

Effect:

The Schedule of Expenditures of Federal Awards is misstated.

Cause:

Management did not have controls in place to ensure that the Schedule of Expenditures of Federal Awards is accurate.

Recommendation:

Employee roles and responsibilities should be established to ensure proper delegation, authority, responsibility, and training in relation to the gathering of information and proper reporting of grant revenues and expenditures.

Client Response:

The County is in the process of updating the Grant policy and procedures manual to address internal control deficiencies, assign authority, responsibility and appropriate training, as well as centralize all application and award documents. The County has identified the Grant and Projects Department as responsible for all grant tracking and the accurate reporting of the SEFA. Training for all pertinent County staff will be mandatory.

2010-02 Sub-recipient Monitoring over Federal Awards – Missouri River Drug Task Force Grant**Criteria:**

OMB Circular A-133 requires that pass-through grantors provide each sub-recipient certain information in relation to the grant. Such information should include the CFDA title and number, award year, and name of Federal agency. Pass-through entities should also advise sub-recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements. They are also required to monitor the activities of sub-recipients as necessary to ensure compliance, ensure sub-recipients meet the audit requirements under this circular, issue a management decision on audit findings within six months of receipt of the sub-recipient's audit report and take appropriate corrective action, and consider whether sub-recipients audits necessitate adjustment of the pas-through entity's own records. OMB Circular A-133 also requires additional disclosure in relation to pass-through grants made with American Recovery and Reinvestment funds, which includes specific identification and reporting of ARRA funds.

Condition:

The County is the recipient of a grant from the U.S. Department of Justice. This grant is the Byrne Formula Grant - Missouri River Drug Task Force (ARRA). The County did not meet all of its pass-through entity responsibilities. The executed Inter-local Agreement does not contain the required information, and the required information was not provided by other means. The County did not obtain evidence that sub-recipients were meeting audit requirements, or that such audits reflected findings or adjustments to this grant. There was no communication to sub-recipients of the identification of the funding as ARRA funds.

Context:

Total grant expenditures during the year ended June 30, 2010 amounted to \$437,370. Of this amount, \$303,744 was passed through to other governmental entities that are part of the Task Force.

Effect:

Sub-recipient compliance with the Federal grant requirements cannot be reasonably assured.

Cause:

No specific procedures are in place to ensure compliance with sub-recipient monitoring requirements.

Recommendation:

Employee roles and responsibilities should be established to ensure proper delegation, authority, and responsibility in relation to sub-recipient monitoring requirements. Appropriate training of key personnel is recommended, with an emphasis on continuous learning.

Client Response:

The County is in the process of updating the Grant policy and procedures manual to address internal control deficiencies, assign authority, responsibility and appropriate training, as well as centralize all application and award documents. The County has identified the Grant and Projects Department as responsible for all grant tracking and the accurate reporting of the SEFA. Training and continuous learning for all pertinent County staff will be mandatory.

2010-03 Sub-recipient Monitoring over Federal Awards – Community Transportation Enhancement Program

Criteria:

OMB Circular A-133 requires pass-through entities monitor each sub-recipient’s use of Federal awards through reporting, site visits, regular contract, or other means to provide reasonable assurance that the sub-recipient administers Federal awards in compliance with laws, regulations, and the provision of contracts or grant agreements, and that performance goals are achieved. In addition, Federal expenditures should be reported in the year in which the funds are expended.

Condition:

For the Community Transportation Enhancement Program, the County did not provide sufficient sub-recipient monitoring procedures to ensure that federal expenditures were reported in the proper period.

Context:

The County’s sub-recipients under this program incurred \$75,688 of expenditures during fiscal year 2009, which accounted for approximately 40% of the grant effort. These costs were reported to the County in 2010, at which time the County included these in their Schedule of Federal Awards.

Effect:

The County reported federal expenditures in the wrong fiscal year.

Cause:

The County did not provide adequate monitoring of its sub-recipients in relation to this project.

Recommendation:

County personnel should be properly trained on Federal compliance requirements. In addition, personnel should have sufficient financial expertise to ensure proper financial reporting of program progress and outcomes.

Client Response:

Research and preliminary training on Federal compliance requirements are on-going. Contracts, Inter-Local Agreements and MOU documents are being revised to include all appropriate sub-recipient language. The Grants and Projects Department will be responsible for monitoring sub-recipient compliance. Pertinent County personnel will be properly trained and that information will be disseminated to all necessary departments during the remainder of FY 11 and into FY 12 with future continuous education when required. In addition, the Finance Department, Accounting Office, Grants Department and Auditor’s Office, as well as all departments that are grantees, will be trained on the proper financial reporting of program progress and outcomes.

2010-04 Infrastructure Assets

Criteria:

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

Condition:

For self-constructed road improvements, the County records the infrastructure asset addition at the time a project is complete rather than when the expenditures were incurred. Therefore, costs incurred for these infrastructure projects in progress were erroneously omitted from the County's capital asset reporting. In addition, we noted that projects completed in 2009 were erroneously excluded from reporting at the end of that fiscal year. We also noted that that costing data provided by the Road Department to the Accounting Department includes costs that should not be capitalized in accordance with GAAP.

Context:

The Road Department reported \$1,143,266 of costs related to construction projects in progress at June 30, 2010. Of this amount, \$746,210 should be capitalized. Accordingly, an adjustment of \$746,210 of construction in progress for road improvements was proposed by us and posted by management to properly state the 2010 financial statements.

Effect:

The effect is improper reporting of capital assets on the financial statements.

Cause:

The County does not have a process in place to review financial information for completeness and accuracy. Information provided to the accounting department was not reviewed for reasonableness or reviewed to ensure the reporting is in conformity with GAAP.

Recommendation:

We recommend management implement a process to review financial reports and underlying data for completeness and accuracy. This process should include key control activities and methodologies to ensure proper financial reporting.

Client Response:

Gallatin County's procedure for bringing on new self-constructed road improvements has been to add the improvement at the time of completion. We will now handle the improvements as CIP if not completed at the end of the year. All costs supplies by the Road Department will be required to show all backup documentation for review of the costs to the insurance of GAAP compliance.

2010-05 Subsidiary Records**Criteria:**

Controls should be in place and operating effectively to ensure all subsidiary ledgers are accurate and reconcile to the accounting system, to ensure proper financial reporting.

Condition:

The county uses separate software to initiate, process, and record activity at the County Treasurer's office. Monthly transactions related to tax revenues and cash activity are uploaded into the accounting software, EDEN, from this subsidiary system. In 2010, property taxes were billed after year-end. As a result, property tax receivables were not uploaded into the proper accounting period in EDEN. In addition, the County Treasurer's office tracks all cash activity of the county in their subsidiary system. They prepare a periodic reconciliation between their records and the County's Accounting office cash balance. At June 30, 2010, this reconciliation had two large reconciling items. We performed audit tests to verify the validity and nature of these items. One item was determined to be a receivable balance from the State of Montana. The other item was determined to be an error in the County Treasurer's detailed reports.

Context:

Property taxes billed for 2010 amounting to \$3 million were improperly excluded from the financial statements. Reconciling items amounting to \$614,000 were determined to be errors in the detailed subsidiary ledger, but resulted in no adjustment to the financial statements.

Effect:

The effect is an understatement of tax receivable on the financial statements, and potential misstatement in cash balances.

Cause:

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

Recommendation:

We recommend management implement a process to review the completed financial information for completeness and accuracy. A sound system of internal controls includes activities that foster communication, facilitates information among departments, and assigns accountability and responsibility for all aspects of financial reporting.

Client Response:

Property Taxes billed – Gallatin County receives tax billing information from the Montana Department of Revenue. In a normal year, Real Estate property tax is billed in October, Mobile Home tax is billed in April, and Personal Property tax is billed in May. For FY2010, Personal Property billing information was not received from Montana Department of Revenue until July 2010 and billing did not occur until August 2010. Since Gallatin County can't rely on timely billing information from the Montana Department of Revenue, the County Treasurer's Office has added an item to our checklist to document the tax receivable information has been provided to Gallatin County Finance Office – Accounting Department to be properly recorded in the correct fiscal year.

Reconciling Items – Gallatin County Treasurer's Office will provide Gallatin County Finance Office a cash reconciliation report each month which would have any reconciling items listed. The Cash Reconciliation Report compares the cash ending balance from the County Treasurer's computer system (CSA) to the County's computer system (EDEN). Gallatin County Treasurer's Office and Gallatin County Finance Office will meet to discuss and resolve the reconciling items.

2010-06 Fund Allocation**Criteria:**

Governmental accounting standards require the use of fund accounting. Under fund accounting, each fund is used to segregate resources for specific purposes. Controls should be in place and operating effectively to ensure the financial statements are complete and accurate, including proper allocation of costs and revenues to each fund level.

Condition:

Accrued interest on investments of approximately \$115,000 was posted to the General Fund, However, these amounts were earned by several funds based on their respective cash positions. Accordingly, this amount should have should have been allocated to each of the funds where it was earned. In addition, the County recorded approximately \$790,000 of accrued interest expense to the general fund at June 30, 2009. This amount should have been allocated to each fund where the expense was incurred. This resulted in an understatement of fund balance in the general fund and an overstatement of fund balances in other funds.

Context:

The errors were discovered during audit testing of cash and debt. The error relating to the accrued interest income was material, and an adjustment was posted to reverse the amount recorded to the General Fund, and

record the portion of the accrual relating the Agency Funds of \$68,000. The remaining amount of accrued interest was not material to the remaining opinion units. Accordingly, the County chose to not record this immaterial misstatement. The error relating to the accrued interest expense was material, and a prior period adjustment was posted to correct the error.

Effect:

The effect is improper reporting of accrued interest receivable and accrued interest expense by fund. This impacts individual fund balances.

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. A sound system of internal controls includes activities that foster communication, facilitates information among departments, and assigns accountability and responsibility for all aspects of financial reporting.

Client Response:

The recording of the accrued interest expense of \$790,000 into the General Fund has been corrected in fiscal year 2009 with a reissuance of the financial statements. The accrued interest expense for fiscal year 2010 was handled properly. Fiscal year 2010 was the first year that the County recognized accrued interest on investments and erroneously applied them to the General Fund. This practice is being address and will be allocated to the appropriate funds in the future.

2010-07 Significant Estimates

Criteria:

Controls should be in place and operating effectively to ensure that significant estimates are reasonable and appropriately calculated and that the financial statements are complete and accurate.

Condition:

The basic financial statements of the County contain estimates embedded in certain reported amounts. Significant estimates for the County include the allowance for doubtful accounts and the estimate for the claims incurred but not reported for the self insurance fund. The County's methodology for calculating the allowance for doubtful accounts in relation to fines and forfeitures was not appropriate. This resulted in overstated revenue and receivables, as balances aged over one year do not meet the measurable and available criteria for recognition. In addition, the County's estimate for self-insurance health claims incurred but unreported liability was overstated. It was determined that there was a likely misstatement of \$180,000 based on the methodology used by the County to calculate the liability. The County estimated the liability based on the June 2010 amount of actual claims paid, which was unusually high based the previous three year's trending.

Context:

Outstanding fines and forfeitures past due more than one year do not meet the revenue recognition criteria under governmental accounting standards. This resulted in an adjustment of approximately \$325,000 to the carrying balances of receivables. The revised estimate for claims incurred but not reported was \$180,000 lower than the recorded estimate. However, this was deemed to be immaterial to the fund affected, and thus, was not corrected in the accompanying financial statements.

Effect:

The effect is that accounts receivable and the claims incurred but not reported are overstated.

Cause:

The County does not have a process in place to analyze significant estimates for reasonableness.

Recommendation:

We recommend management implement a process to review the completed financial information for completeness and accuracy. A sound system of internal controls includes activities that foster communication, facilitates information among departments, and assigns accountability and responsibility for all aspects of financial reporting.

Client Response:

A process will be implemented to analyze significant estimates for reasonableness prior to entries being made to the County's general ledger.

2010-08 Negative Cash Balances

Criteria:

It is common for governments to pool cash and investments from various funds to improve investment performance. Each fund's position in the pool is reflected in the respective fund as an asset. When an individual fund overdraws its share of pooled cash, the overdraft should be reflected as an interfund liability rather than as a credit balance in an asset account.

Condition:

We noted 24 funds with negative cash balances as of June 30, 2010. Of these, 3 were considered significant, with amounts over \$10,000. An adjustment was proposed to reclassify \$482,000 of negative cash balances as inter-fund borrowings.

Context:

The errors were discovered during audit testing of cash and deemed material to each relative opinion unit for three funds.

Effect:

Negative cash balances in funds are not properly accounted for in 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. A sound system of internal controls includes activities that foster communication, facilitates information among departments, and assigns accountability and responsibility for all aspects of financial reporting.

Client Response:

The County will implement a process to review all negative cash balances. The review will include for grants comparing negative cash and accounts receivable to confirm that cash will be negative. Review will include materiality (\$50,000) of the negative cash to the group of funds (1000, 2000, 3000, 4000, 5000 and 6000). If the negative cash is material the county will transfer adequate cash to cover the negative from an appropriate fund.

Charlotte Mills
Gallatin County Clerk & Recorder

Jennifer Blossom
Gallatin County Auditor

Kimberly Buchanan
Kim Buchanan
Gallatin County Treasurer

Ed Blackman
Ed Blackman
Gallatin County Finance Director

STATISTICAL

SECTION

Gallatin County, Montana
Annual Information to be submitted pursuant to 15c2-12

Gallatin County, Montana – General Obligation Bonds
 \$3,800,000 Series 2001 Open Space General Obligation Bonds
 \$4,000,000 Series 2003 Open Space General Obligation Bonds
 \$5,000,000 Series 2006 Open Space General Obligation Bonds
 \$4,000,000 Series 2008 Open Space General Obligation Bonds
 \$32,000,000 Series 2009 Detention Center General Obligation Bonds
 \$1,000,000 Series 2010 Limited Tax General Obligation Bonds

Gallatin County, Montana – Special Assessment Bonds
 \$1,188,000 Series 2001 RID Bonds No. 378
 \$1,765,000 Series 2010 RID Bonds No. 395
 \$4,715,000 Series 2010 RID Bonds No. 396

1. Financial Statement (Audited) - Fiscal Year Ended June 30, 2010

2. General Obligation Debt Outstanding as of : 6/30/10 - **\$46,510,586**

6/30/09 - \$46,405,950 6/30/08 - \$11,026,800
 6/30/07 - \$11,627,650 6/30/06 - \$ 7,100,000

3. Market and Taxable Valuations:

Fiscal Year	Total County Market Valuation	Total County Taxable Valuation ¹	County Open Space Taxable Valuation
2010/11	\$7,779,879,169	\$230,919,537	\$225,562,849
2009/10	7,303,040,362	\$223,244,509	\$217,532,000
2008/09	6,641,798,174	\$209,638,913	\$203,197,000
2007/08	6,105,440,980	196,866,339	190,388,900
2006/07	5,526,323,702	181,081,364	174,462,565
2005/06	5,004,202,230	166,681,835	160,125,399
2004/05	4,539,777,444	154,680,038	147,774,143

¹ The taxable valuations presented above exclude valuations for tax increment financing districts.

4. Estimated Population:

Year	Gallatin County
2009 ¹	90,434
2008 ¹	89,824
2007 ¹	87,359
2004 ¹	75,831

¹ The Estimated Populations presented above are estimates provided by the U. S. Bureau of the Census.

5. Debt Capacity Remaining as of June 30, 2010 \$132,866,115.

6. Description of Future Borrowing:

The County may borrow \$3,200,000 in open space bonds within the next two to three years.

7. Tax Levies

Taxing Entity	----- Fiscal Year -----				
	2006/07	2007/08	2008/09	2009/10	2010/11
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	71.13	79.50	79.78	85.19	89.94
County Road Fund	18.30	18.30	19.09	19.17	19.25
County Library Levy	6.38	6.38	6.38	6.06	6.14
County-wide School Levy	95.64	97.05	100.26	94.02	95.74
Bozeman High School District Levies	62.42	65.34	71.40	69.05	75.34
Bozeman Elementary School District Levies	120.32	118.51	141.13	130.49	121.55
Open Space Bond Levy	5.91	4.17	4.63	5.81	6.14
Total	426.10	435.25	468.67	455.79	460.10
City of Bozeman	163.42	154.18	171.16	171.16	166.75

8. Tax Collections – General Fund

Fiscal Year	Total Tax Levy ²	Current Property Tax Collections	Total Property Tax Collections ¹
2009/10	\$3,140,315	\$2,851,686 ⁴	\$3,141,990
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	\$14,755,281
2. Qwest Corporation	Telecommunications	2,242,025
3. Holcim, Inc. (formerly Holnam)	Cement Manufacturer	1,008,432
4. Montana Rail Link	Railroad	1,457,217
5. Luzenac America, Inc.	Talc Processing Facility	906,489
6. PPL Montana	Utility Distribution	785,400
7. Cellco Partnership	Technology	768,724
8. Black Bull Run	Development	636,780
9. Zoot Properties LLC	Technology	589,648
10. Daum Harry	Mall / Developer	524,108

10. Revolving Fund

Fiscal Year End (June 30)	Revolving Fund Cash Balance	Principal Amount of Bonds	Percentage
2010	\$854,654	\$4,681,000	18.2%
2009	766,111	3,290,000	23.3
2008	762,158	3,600,000	21.2
2007	686,431	3,576,000	18.9
2006	638,110	3,520,000	18.1
2005	603,405	4,223,000	14.3

Bond issued for RID Number 395 for Ousel Falls in the amount of \$1,765,000 maturing in 2030.

11. Rural Improvement District Assessment Billings and Collections

Set forth in the following table are the rural improvement district assessment billing and collection history for the County for the fiscal years ending June 30, 2005 through 2010.

Tax Year	Assessment Billing	Current Tax Collections in Year Assessed	Percent of Assessments Collected
2009/10 ¹	\$526,259	\$489,624	93.0% ¹
2008/09	639,663	591,338	92.5
2007/08	632,867	596,541	94.3
2006/07	616,814	593,164	96.2
2005/06	627,743	603,725	96.2
2004/05	609,267	575,488	94.5

12. Statement of Changes in Fund Balance of the Revolving Fund

Set forth in the following table is a summary of the changes in fund balance of the Revolving Fund for the period June 30, 2005 through June 30, 2010.

	Audited 2005/06	Audited 2006/07	Audited 2007/08	Audited 2008/09	Audited 2009/10
Beginning Balance – July 1	\$603,405	\$638,110	\$686,430	\$762,158	\$766,111
Property Taxes	\$75	\$7	\$5,363	\$472	\$41
Investment Earnings	20,581	28,773	28,611	19,573	12,248
Transfer In ¹	17,141	22,750	45,003	0	88,250
Transfer (Out) ²	3,092	3,209	3,249	16,092	11,996
Receipts Over Disbursements	\$34,705	\$48,321	\$75,728	\$3,953	\$88,543
Ending Balance – June 30	\$638,110	\$686,431	\$762,158	\$766,111	\$854,654
Assets:					
Cash/Investments	\$638,110	\$686,430	\$762,158	\$766,111	\$854,654
Receivables	33	26	597	114	79
Total Assets	\$638,143	\$686,456	\$762,755	\$766,225	\$854,733
Total Liabilities	\$33	\$26	\$597	\$114	\$79
Fund Balance (Reserved)	\$176,000	\$178,800	\$180,000	\$164,500	\$234,050
Fund Balance (Unreserved)	462,110	507,630	582,158	601,611	620,604
Total Fund Balance	\$638,110	\$686,430	\$762,158	\$766,111	\$854,654
Total Liabilities/Fund Balances	\$638,143	\$686,456	\$762,755	\$766,225	\$854,733

¹ Transfers in represent contributions to the Revolving Fund as a result of the issuance of debt secured by the Revolving Fund.

² The transfers out represents funds in excess of the 5% of the principal amount of outstanding bonds.