



GALLATIN COUNTY, MONTANA

Fiscal Year Ended June 30, 2012

AUDIT REPORT

GALLATIN COUNTY, MONTANA
AUDIT REPORT
Fiscal Year Ended June 30, 2012

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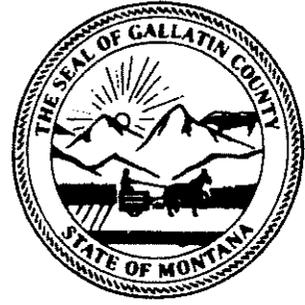
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INTRODUCTORY SECTION

State of Montana

County of Gallatin

Bozeman



GALLATIN COUNTY CLERK AND RECORDER

December 27, 2012

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, 2012, 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, 2012 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, 2012

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

RICK WEST
BRYON ADAMS
MARY ELLEN FITZGERALD
BRIAN GOOTKIN
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, 2012, 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, 2012, 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 December 21, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board,

who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them

Anderson Zur Muehlen & Co., P.C.

Bozeman, Montana
December 21, 2012

MANAGEMENT'S

DISCUSSION

AND

ANALYSIS

Gallatin County, Montana
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012

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 a narrative on the financial activities of Gallatin County, Montana, for the fiscal year ended June 30, 2012. 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.

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 2012, the fund balance for the General Fund was \$3,638,843 – up \$347,696 from June 30, 2011 – increase associated with combining expenses being lower than anticipated;
- The County will face a number of fiscal challenges in the future. The challenges have not 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, completion of a new Detention Center, adoption and implementation of the Growth Policy, adoption and full funding of 'Core Rolling Stock Vehicles Replacement Policy, beginning of Bridge Replacement Program and continued increases in taxable value and continued increase in total net assets.
- The assets of the County exceeded its liabilities at year-end by \$159.0 million (net assets). Of this amount \$47.7 million (31.60%) is unrestricted and may be used to meet the County's 2013 budgetary needs and Operating Reserves.
- Revenues from Taxes/Assessment were \$30,201,126 for governmental funds, down \$4,969,293 from fiscal year 2011. This decrease was from FY 2011. This comes from receivables decreasing for FY 2012.
- The County Landfill saw an increase in net assets. The activity increased net assets by \$872,444 during fiscal year 2012.
- County Health Insurance Fund saw continued positive financial position for FY 2012, as represented by unreserved cash sitting at \$2,507,888 (cash \$2,778,279- Claims Payable \$270,391), 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, fiscal year 2009 balance of \$3.0M, fiscal year 2010 at \$2.4M and fiscal year 2011 at \$2.5M
- The County's debt (excluding OPEB liability) for Governmental Activity debt decreased by \$4,858,992 to \$57,914,983 with Business-Type Activity debt decreasing \$665,573 to \$3,315,468 with total debt decreasing by \$5,524,565 during fiscal year 2012. The Governmental Activities debt decreased with the payoff of the settlement loan, payoff of the District Court #3 loan and normal debt service payments.

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. 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, Court Services, Finance, Geographic Information, Grant/Project Administration, Human Resources, Information Technology, and Community/Development/Planning.

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, Facilities/Procurement, 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 principle 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 41 funds and the RID Maintenance Fund includes 65 Funds) and 3 major proprietary funds, 93 non- major funds and 217 trust and agency funds. This means the County maintains 423 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 Maintenance, and RID Bonds. The Non-major governmental funds include 71 operating funds, 6 debt funds, 9 capital funds, 6 revolving funds and 217 trust and agency funds. The information for the Non-Major Governmental Funds is combined into a single, aggregated presentation. Data for funds is provided in the form of combining statements elsewhere in this report.

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

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

services benefit governmental activities rather than business type activities, they have been included within governmental activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, but in greater detail. All funds are aggregated when the final statements are compiled. The basic proprietary fund financial statements are found in the government-wide financial statements section of this report, which immediately follows the MD & A.

Fiduciary Funds – The County maintains a significant number of fiduciary funds including fire districts, fire service areas, school districts, cities, and other state and local accounts. Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

Fiduciary funds are not reflected in the governmental-wide financial statements because the resources of those funds are not available for expenditures by the government, but are restricted for use by the agency having control of the fund. The basic fiduciary fund financial statements are found in the government-wide financial statement section, which immediately follows the MD & A Section.

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

The County as a whole

Gallatin County, State of Montana
Statement of Net Assets
June 30, 2012

| | Primary Government | | | FY 11 TOTALS | FY 10 TOTALS | FY 09 TOTALS |
|-------------------------------------------------|----------------------------|-------------------|----------------|-----------------|-----------------|-----------------|
| | Governmental Activities | Business- type | Total | | | |
| ASSETS | | | | | | |
| Cash & Cash Equivalents | 33,766,573 | 13,197,403 | 46,963,976 | 48,266,136 | 52,976,227 | 71,370,187 |
| Other Assets | 12,648,958 | 867,456 | 13,516,414 | 15,036,019 | 10,598,711 | 7,988,779 |
| Capital Assets (net) | 154,522,252 | 10,341,739 | 164,863,991 | 167,235,038 | 158,647,384 | 137,620,438 |
| Total assets | \$ 200,937,783 | \$24,406,598 | \$225,344,381 | \$ 230,537,193 | \$222,222,322 | \$216,979,404 |
| LIABILITIES | | | | | | |
| Current Liabilities | 6,867,982 | 943,497 | 7,811,479 | 9,876,763 | - | - |
| Long-Term Liabilities | 55,366,375 | 3,119,421 | 58,485,796 | 63,311,288 | 61,241,836 | 60,932,118 |
| Total liabilities | 62,234,357 | 4,062,918 | 66,297,275 | 73,188,051 | 61,241,836 | 60,932,118 |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 98,592,729 | 9,036,239 | 107,628,968 | 105,057,164 | 97,732,177 | 77,761,679 |
| Restricted | 1,390,765 | 2,338,767 | 3,729,532 | 3,729,532 | 3,153,573 | 3,776,598 |
| Unrestricted | 38,719,932 | 8,968,674 | 47,688,606 | 48,562,445 | 50,190,018 | 65,611,667 |
| Total net assets | \$ 138,703,426 | \$ 20,343,680 | \$ 159,047,106 | \$ 157,349,141 | \$ 151,075,768 | \$ 147,149,944 |

See accompanying notes to the financial statements.

The County is providing condensed financial information for fiscal years 2009 through 2011. The comparative information is being provided for four 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 for payoff of debt in FY 2012.

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
- Fiscal Year 2011 (June 30, 2011) 157,349,141
- Fiscal Year 2012 (June 30, 2012) 159,047,106

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 \$159,047,106, compared to 2011's \$157,349,141, 2010's \$151,075,769, fiscal year 2009's \$147,407,727, and fiscal year 2008's \$142,083,747. Business-Type Activities for fiscal year 2012 show an increase in net assets to \$20,343,680 an increase of \$870,843. The increase comes primarily from Rest Home and Landfill.

| Gallatin County, State of Montana Statement of Activities For the Year Ended June 30, 2012 | | | | | | | |
|--------------------------------------------------------------------------------------------------|---------------|----------------------|------------------------------------|----------------------------------|------------------------------------------------|--------------------------|-----------------|
| 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 | \$ 9,473,100 | \$ 2,001,464 | \$ 1,672,123 | \$ 279,416 | \$ (5,520,097) | \$ - | \$ (5,520,097) |
| Public Safety | 16,489,018 | 1,763,039 | 1,777,691 | - | (12,948,288) | - | (12,948,288) |
| Public Works | 9,496,497 | 157,004 | 809,861 | 175,333 | (8,354,299) | - | (8,354,299) |
| Public Health | 3,391,539 | 343,248 | 1,329,347 | - | (1,718,944) | - | (1,718,944) |
| Social & Economic Services | 485,585 | 29,990 | - | - | (455,595) | - | (455,595) |
| Culture & Recreation | 1,822,716 | 502,987 | 8,101 | - | (1,311,628) | - | (1,311,628) |
| Housing & Community Dev. | 89,737 | 180,104 | - | 24,107 | 114,474 | - | 114,474 |
| Conservation of Natural Resour | 110,871 | 116,995 | - | - | 6,124 | - | 6,124 |
| Debt Service-Debt Serv Int | 2,376,239 | - | - | - | (2,376,239) | - | (2,376,239) |
| Total governmental activities | 43,735,302 | 5,094,831 | 5,597,123 | 478,856 | (32,564,492) | - | (32,564,492) |
| Business-type Activities: | | | | | | | |
| West Yellowstone Refuse District | 828,661 | 885,666 | 42,979 | - | - | 99,984 | 99,984 |
| Gallatin County Rest Home | 5,735,565 | 5,324,435 | 251,825 | - | - | (159,305) | (159,305) |
| Gallatin County Landfill | 3,158,842 | 3,975,555 | - | - | - | 816,713 | 816,713 |
| Total business-type activities | 9,723,068 | 10,185,656 | 294,804 | - | - | 757,392 | 757,392 |
| Total primary government | \$ 53,458,370 | \$ 15,280,487 | \$ 5,891,927 | \$ 478,856 | \$ (32,564,492) | \$ 757,392 | \$ (31,807,100) |

**Gallatin County, Montana - Statement of Changes in Net Assets
For the Year Ended June 30, 2012
Net (Expenses Revenues and Changes in Net Assets)**

| | Changes in Net Assets | | |
|--------------------------------------------------|----------------------------|--------------------------|----------------|
| | --- Primary Government --- | | |
| | Governmental Activities | Business-Type Activities | TOTAL |
| Property Taxes for General Purposes | 30,201,336 | (210) | 30,201,126 |
| Grants & entitlements not restricted to specific | 2,345,984 | - | 2,345,984 |
| Investment Earnings | 315,656 | 114,833 | 430,489 |
| Miscellaneous | 543,174 | - | 543,174 |
| Sale/Disposal of Fixed Assets | (14,536) | (1,172) | (15,708) |
| | 33,391,614 | 113,451 | 33,505,065 |
| Change in net assets | 827,122 | 870,843 | 1,697,965 |
| Net assets - beginning | 137,876,304 | 19,472,837 | 157,349,141 |
| Net assets - ending | \$ 138,703,426 | \$ 20,343,680 | \$ 159,047,106 |

See accompanying notes to the financial statements.

Government Activities

Gallatin County spent \$ 43,735,302 for primary governmental activities in fiscal year 2012. 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, Facilities/Procurement Noxious Weed Control, Road, Junk Vehicle, and Rural Improvement Maintenance are reported as special revenues. 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 \$30,201,126 or 71.03% of primary government activity expenses. The following table shows the changes in the percentage Taxes are to government activity expenses:

| | |
|--------|--------|
| • 2012 | 69.05% |
| • 2011 | 71.03% |
| • 2010 | 65.12% |
| • 2009 | 67.98% |
| • 2008 | 58.04% |
| • 2007 | 57.17% |
| • 2006 | 52.08% |
| • 2005 | 66.74% |
| • 2004 | 62.77% |
| • 2003 | 67.48% |

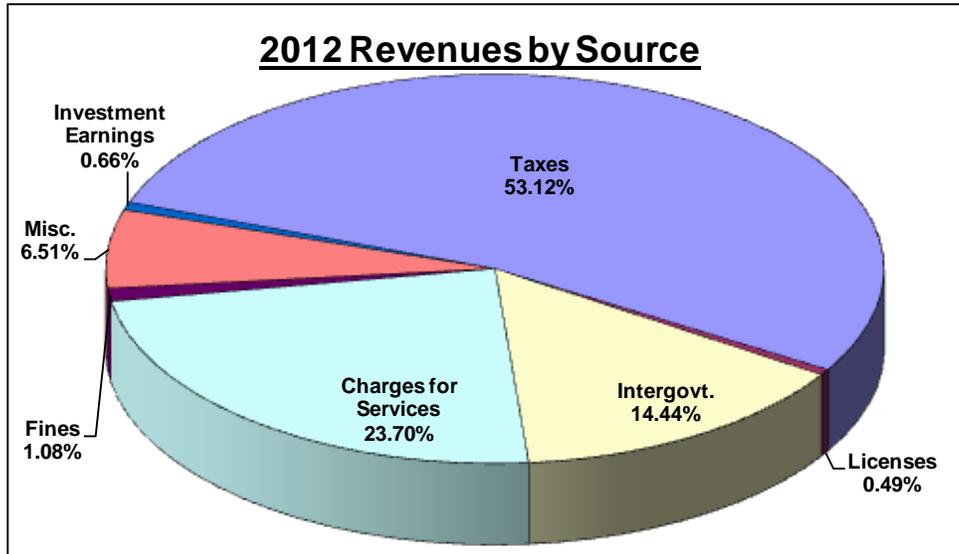
Some costs, as shown on the schedule at the top of page 11, were paid directly by users of a service (Charges for Services), these revenues accounted for \$5,094,831 (11.61%) of fiscal year 2012 Governmental Activity expenses. Operating Grants & Contributions (Intergovernmental Revenues) generated \$5,597,123, accounting for 12.79% 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 \$15,280,487 from charges for services, while operating grants and contributions equaled \$5,891,927 accounting for \$21,172,414 or \$22,562,888 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.

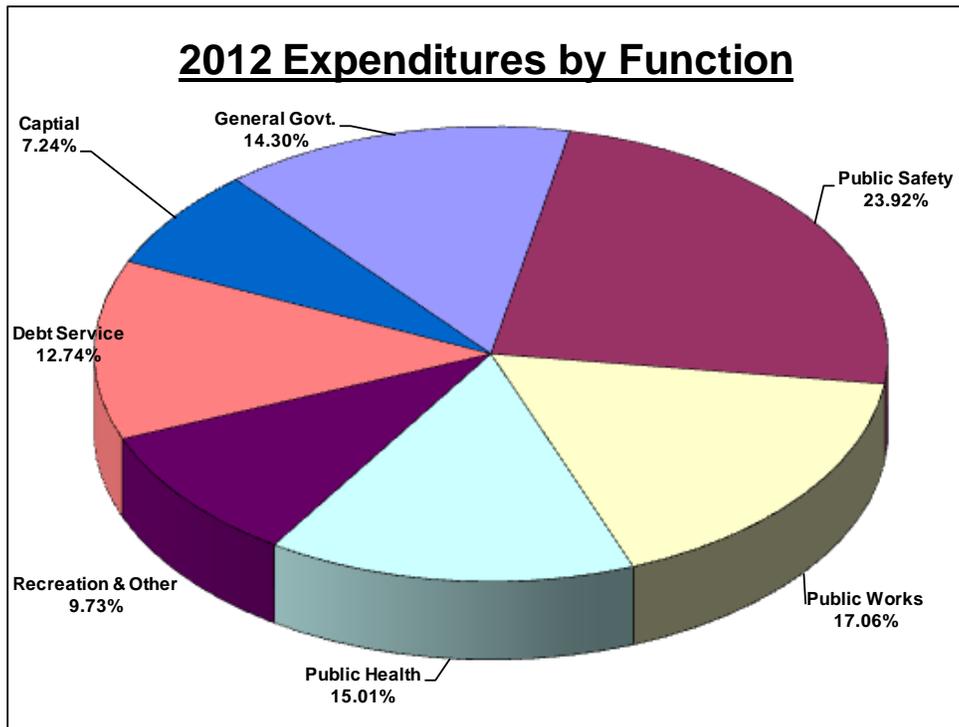
Graph of Revenues by Source – Activities

Gallatin County received \$44,562,424 in revenues to finance governmental operations. Total expenses for governmental activities were \$43,735,302; thus the County's net fund balance increased by \$827,122 from expenses being less than revenues.

After all activities are considered, net assets increased from \$157,349,141 to \$159,047,106 for governmental activities and business type activities. The graphs that follow show revenues by source and expenditures by activity for all activities.

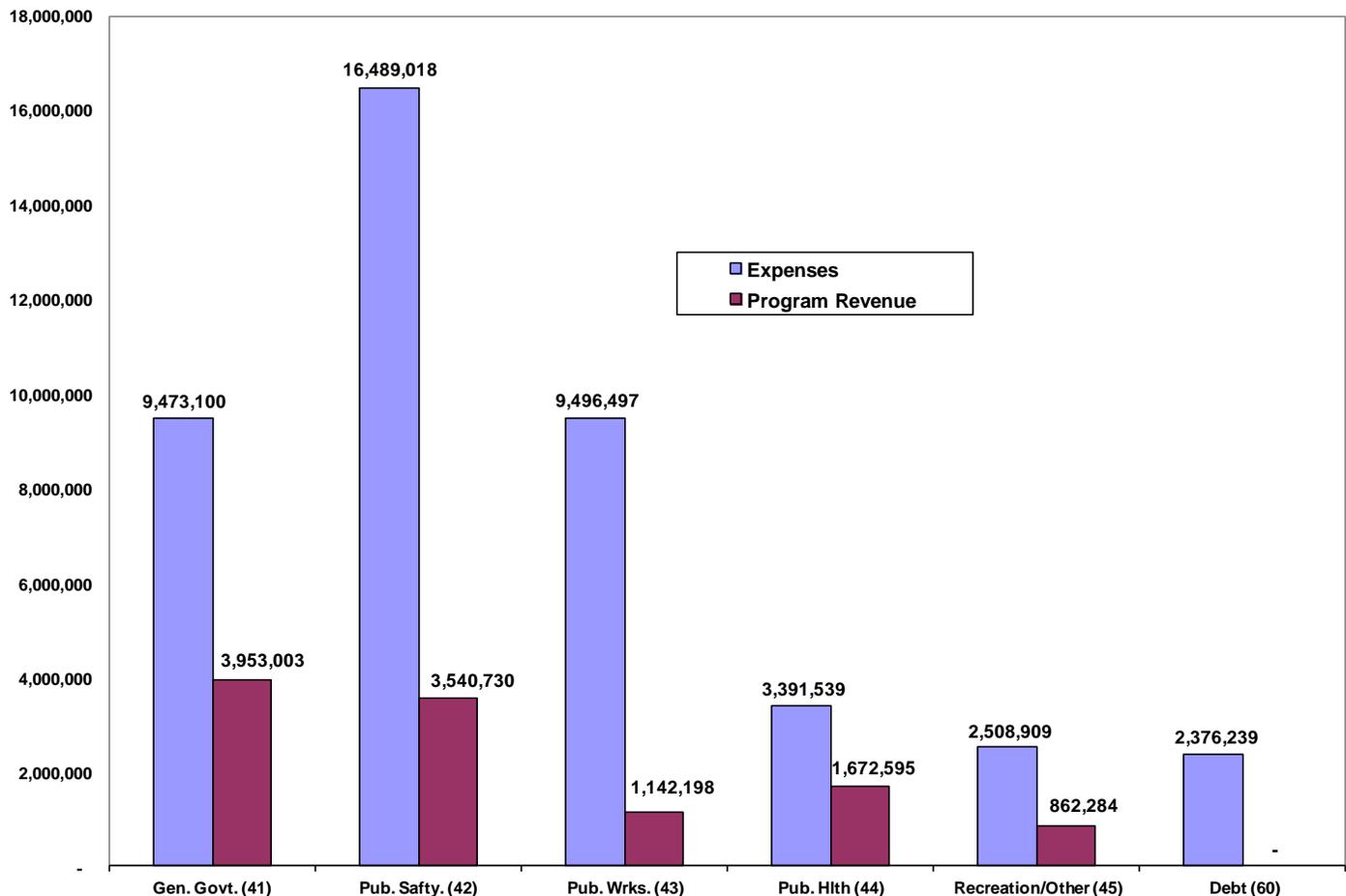


A listing of what departments are included in each function section of the following pie chart can be found earlier in the document.



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

Expenses and Program Revenues by Activity FY 2012



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:

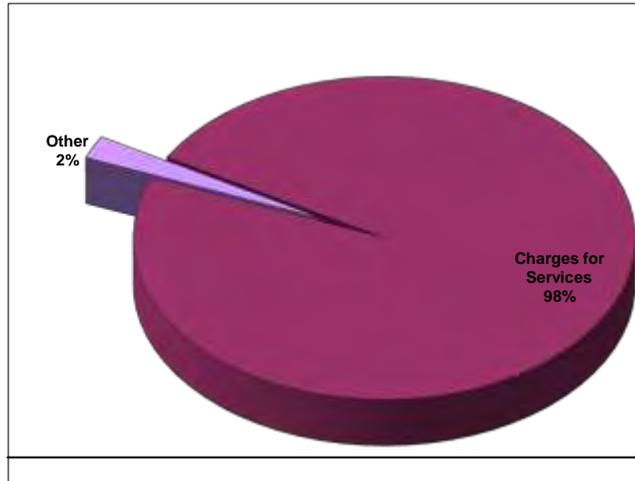
- 1) receive authorization from the state legislature to increase local government' ability to charge the true cost of services, or authorize changes in current methods of funding local government (local option taxes), and/or
- 2) the County Commission would need to utilize current taxing authority or 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 \$9,723,068. The amount paid by users' of the Rest Home, Landfill and Refuse District was \$10,185,656.

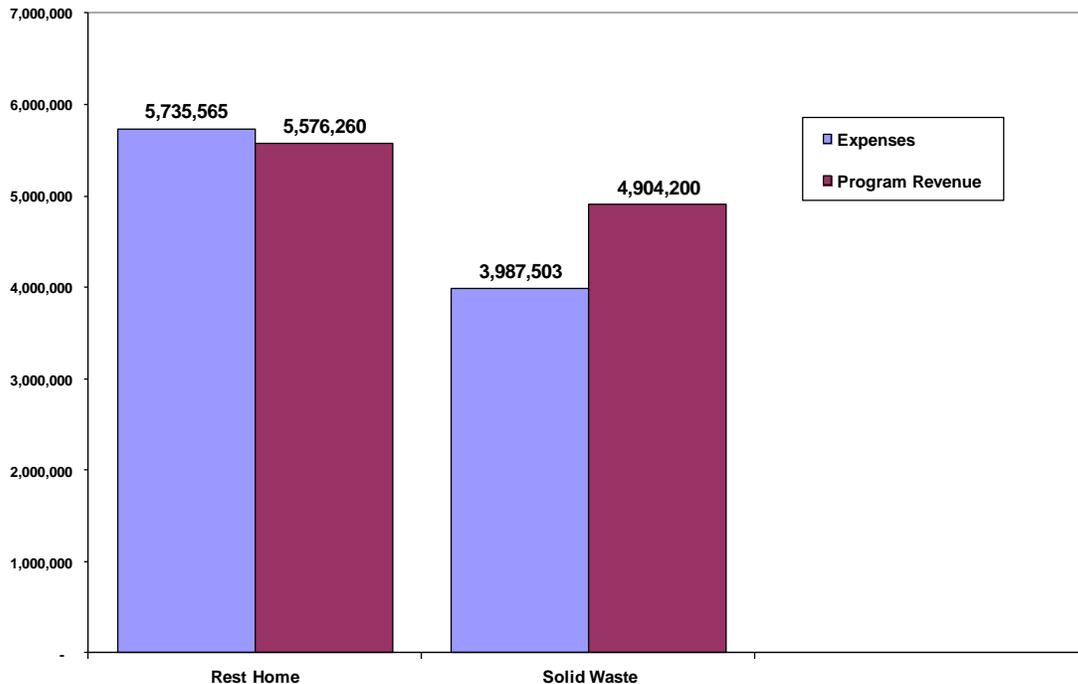
Total resources for fiscal year 2012 to finance proprietary funds (business type) were \$10,480,460 (Charges for Services \$10,185,656 and Grants / Contributions \$294,804).

2012 Revenues by Type - Business Areas



Total proprietary expenses during the year were \$9,723,068

Business Type Activity - Expenses and Revenues FY 2012



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 shows prior year revenues and expenses.

General Major Governmental Functions

The information below compares revenues in FY 2012 to FY 2011:

| Gallatin County, State of Montana Statement of Activities For the Year Ended June 30, 2012 | | | | | | | |
|--------------------------------------------------------------------------------------------------|-------------------|-------------------|--------------------|---------------------|-----------------------|-----------------------|-------------------|
| | PUBLIC | | | | Other | Total | FY 2011 |
| | GENERAL | SAFETY FUND | RID MAINTENANCE | RID DEBT SERVICE | Governmental Funds | Governmental Funds | TOTALS |
| REVENUES | | | | | | | |
| Property Taxes | 6,124,954 | 11,368,029 | 991,457 | 1,008,360 | 11,819,565 | 31,312,365 | 30,973,477 |
| Licenses & Permits | 1,075 | 32,215 | - | - | 258,193 | 291,483 | 280,763 |
| Intergovernmental Revenues | 1,034,561 | 617,881 | - | - | 6,564,081 | 8,216,523 | 11,527,205 |
| Charges for Services | 1,952,401 | 935,185 | - | - | 891,181 | 3,778,767 | 3,797,263 |
| Fines & Forfeitures | 379,534 | 14,839 | - | - | 239,638 | 634,011 | 609,080 |
| Miscellaneous | 81,722 | 527,530 | - | - | 511,915 | 1,121,167 | 1,850,657 |
| Investment Earnings | 112,117 | 7,475 | 42,648 | 4,029 | 110,182 | 276,451 | 492,415 |
| Transfers In | 551,355 | 14,698 | - | 25,317 | 2,121,335 | 2,712,705 | 3,448,934 |
| Contributions/Donations | - | 3,180 | - | - | 1,260 | 4,440 | 8,598,824 |
| Total revenues | 10,237,719 | 13,521,032 | 1,034,105 | 1,037,706 | 22,517,350 | 48,347,912 | 61,578,618 |

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

| EXPENSES: | | | | | | | |
|-----------------------|------------------|-------------------|------------------|-----------------------|-----------------------|-------------------|-------------------|
| General Government | 7,574,067 | - | - | - | 1,000,148 | 8,574,215 | 9,231,907 |
| Public Safety | 1,012,089 | 11,389,877 | - | - | 1,939,827 | 14,341,793 | 16,734,556 |
| Public Works | 710,602 | - | 1,301,693 | - | 4,224,766 | 6,237,061 | 6,127,201 |
| Public Health | - | - | - | - | 3,264,437 | 3,264,437 | 3,156,749 |
| Social & Econ Service | 393,408 | - | - | - | 62,120 | 455,528 | 504,302 |
| Culture & Recreation | - | - | - | - | 1,680,016 | 1,680,016 | 1,687,534 |
| Housing & Comm Dev | - | - | - | - | 40,930 | 40,930 | 3,812,182 |
| Cons Nat'l Resources | - | - | - | - | 102,060 | 102,060 | 132,472 |
| Miscellaneous | - | - | - | - | - | - | 637,527 |
| Principal Retirement | 129,095 | 511,409 | - | 602,000 | 4,020,005 | 5,262,509 | 5,397,003 |
| Interest | (11,352) | 18,025 | - | 457,475 | 1,912,091 | 2,376,239 | 2,424,179 |
| Capital Outlay | 55,043 | 101,934 | - | - | 4,182,184 | 4,339,161 | 13,468,852 |
| Transfer Out | 27,072 | 617,649 | - | - | 2,907,021 | 3,551,742 | 4,233,453 |
| Total Expenses | 9,890,024 | 12,638,894 | 1,301,693 | 1,059,475 | 25,335,605 | 50,225,691 | 67,547,916 |
| | PUBLIC | RID | RID DEBT | Other | Total | FY 2011 | |
| | GENERAL | SAFETY FUND | MAINTENANCE | Governmental Funds | Governmental Funds | TOTALS | |

The General Fund is always a 'Major Fund'. Public Safety and RID Maintenance Funds are 'Major Funds' 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.

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, 2012 | | | | | |
| 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 | 5,324,399 | 3,973,156 | 884,166 | 10,181,721 | 582,260 |
| Miscellaneous | 36 | - | - | 36 | 1,675 |
| Internal Services | - | - | - | - | 5,435,331 |
| Total Operating Revenues | 5,324,435 | 3,973,156 | 884,166 | 10,181,757 | 6,019,266 |
| Operating expenses: | | | | | |
| Sale of Assets | - | - | 48,478 | 48,478 | - |
| Public Safety Personnel Serv. | - | 4 | - | 4 | - |
| Public Works Personnel Serv. | - | 829,921 | 151,865 | 981,786 | - |
| Public Works Operations | - | 1,381,419 | 467,120 | 1,848,539 | - |
| Public Works-Depreciation | - | 901,217 | 146,972 | 1,048,189 | - |
| Public Health Personnel | 3,832,653 | - | - | 3,832,653 | - |
| Public Health Operations | 1,766,151 | - | - | 1,766,151 | - |
| Internal Service-Personnel | - | - | - | - | 417,731 |
| Internal Service-Supplies | - | - | - | - | 193,262 |
| Internal Service-Purchased Ser | - | - | - | - | 1,152,696 |
| Internal Service-Fixed Charges | - | - | - | - | 749,138 |
| Internal Service-Depreciation | - | - | - | - | 59,625 |
| Internal Serv-Benefit Pymts | - | - | - | - | 4,113,875 |
| Public Health Depreciation | 136,761 | - | - | 136,761 | - |
| Total operating expenses | 5,735,565 | 3,112,561 | 814,435 | 9,662,561 | 6,686,327 |
| Operating Income (loss) | (411,130) | 860,595 | 69,731 | 519,196 | (667,061) |
| Nonoperating revenues (expenses): | | | | | |
| Property Taxes | (210) | - | - | (210) | - |
| Intergovernmental Revenues | 251,825 | - | - | 251,825 | - |
| State Grants | - | - | 42,979 | 42,979 | - |
| Miscellaneous | - | 2,401 | 1,500 | 3,901 | - |
| Investment Earnings | 39,054 | 55,629 | 20,149 | 114,832 | 39,204 |
| Sale of Fixed Assets | (1,272) | 100 | - | (1,172) | - |
| Sale of Assets | - | - | (14,226) | (14,226) | - |
| Transfers Out | - | - | - | - | (6,450) |
| Interest Expense | - | (46,281) | - | (46,281) | - |
| Total non operating revenue (expenses) | 289,397 | 11,849 | 50,402 | 351,648 | 32,754 |
| Income (loss) before transfers in | | | | | |
| | (121,733) | 872,444 | 120,133 | 870,844 | (634,307) |
| Transfers In | - | - | - | - | 845,487 |
| Change in net assets | (121,733) | 872,444 | 120,133 | 870,844 | 211,180 |
| Total net assets -- beginning | 5,943,688 | 8,937,797 | 4,591,351 | 19,472,837 | 4,879,708 |
| Total net assets -- ending | \$ 5,821,955 | \$ 9,810,241 | \$ 4,711,484 | \$ 20,343,681 | \$ 5,090,888 |

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 ----- | | | | CURRENT |
|----------------------------------|-------------------------|------------|------------|------------|------------|
| | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 |
| TOTAL ASSETS | 20,614,978 | 21,292,464 | 23,155,238 | 24,220,996 | 24,406,597 |
| NET ASSETS | 14,462,781 | 16,444,115 | 17,707,410 | 19,472,837 | 20,343,681 |
| TOTAL LIABILITIES | 6,152,197 | 4,848,349 | 5,447,828 | 5,748,159 | 4,062,916 |
| NET INCOME – BUSINESS ACTIVITIES | 5,958,258 | 1,783,866 | 1,119,223 | 1,765,427 | 519,196 |
| <i>(divided by)</i> | | | | | |
| ENDING NET ASSETS | 14,462,781 | 16,444,115 | 17,707,410 | 19,472,837 | 20,343,681 |
| <i>(equals)</i> | | | | | |
| RETURN ON ENDING NET ASSETS | 41.20% | 10.85% | 6.32% | 9.06% | 2.56% |

Debt Administration

Gallatin County continues to have a bond rating from Standard and Poor of AA-, based on the 2011 General Obligation \$2,300,000 refunding bond for Open Space. Loans, bonds, lease/purchase instruments, and similar obligations of Gallatin County are considered a liability of governmental activities. As a whole, Governmental Activities debt decreased in fiscal-year 2012 by \$4,757,164. This came from normal principle payments and early payoff of the 3rd District Court Loan and the Settlement note of \$1,300,000.

The cost per capita for governmental debt outstanding decreased from \$690.98 to \$635.94 in fiscal year 2012 (\$57,914,983 divided by estimated population of 91,070). Governmental activity debt summary for fiscal year 2012 is presented below:

| | ----- PRIOR YEARS ----- | | | | CURRENT |
|-----------------------------------|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 |
| DEBT PAYABLE ON (June 30) | | | | | |
| BEGINNING BALANCE | 21,127,460 | 22,371,830 | 58,916,157 | 59,648,747 | 62,773,975 |
| ADD: Intercap Loan / Notes | 2,299,000 | 1,000,000 | -0- | 1,300,000 | 300,000 |
| Special Assessment Bonds | 900,000 | -0- | 1,765,000 | 4,715,000 | -0- |
| G. O Bonds | -0- | 36,031,152 | 1,000,000 | 2,301,000 | -0- |
| Compensated Absences (INC) | 76,669 | 224,565 | 58,649 | 159,428 | 109,168 |
| Capital Lease Agreements | -0- | 1,473,182 | -0- | 1,273,260 | -0- |
| LESS: Loan/Lease Payments | 554,449 | 1,232,933 | 795,774 | 1,954,084 | 2,774,953 |
| Special Assessment Payments | 876,000 | 310,000 | 374,000 | 568,000 | 602,000 |
| Compensated Absence (DEC) | -0- | 15,558 | -0- | -0- | 5,650 |
| G.O. Payment/Refinancing | 600,850 | 626,081 | 921,285 | 4,101,377 | 1,885,557 |
| DEBT PAYABLE (July 1) | 22,371,830 | 58,916,157 | 59,648,747 | 62,773,975 | 57,914,983 |
| Cost Per Capita | \$256.09 | \$655.91 | \$656.58 | \$690.98 | \$635.94 |

Debt includes compensated absences (amount due to employees for accrued leave, including 1/4 sick leave, all vacation and compensatory time) of \$1,985,460 up \$104K from FY 11. The increase of \$103,518 represents a change of 5.50%, primarily from increased Deputy costs. Debt does not include Other Post Employment Benefits (OPEB) of \$760,139 for Governmental Activities and \$200,129 for Business Type Activities.

The County, by statute, can have debt of 2.50% of Assessed Valuation. For fiscal year 2012 this equals \$218,070,877. County debt of \$50,449,122 (\$58,675,122 less Special Assessment Bonds (RID) \$8,226,000) means the County has used 23.13% of its borrowing capacity through fiscal year 2012, with unused borrowing capacity being \$167,621,755.

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 (\$8,226,000 X 5% = \$411,300 (cash balance in RSID Revolving Fund amounted to \$1,071,284 as of June 30, 2012). Debt from Business-Type Activities does not affect the county's debt limit.

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, 2012, net capital assets of our governmental activities totaled \$166,345,274 and the net capital assets associated with business-type activities equaled \$10,341,737.

At the end of 2012 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 2012 included:

| | <u>Governmental</u> | <u>Business-Type</u> |
|----------------------------|---------------------|----------------------|
| ▪ Land – Intangibles | \$ -0- | \$ -0- |
| ▪ Building Improvements | 940,406 | 99,076 |
| ▪ Intangibles Software | -0- | -0- |
| ▪ Intangibles Easements | 85,316 | -0- |
| ▪ Infrastructure | 5,364,165 | -0- |
| ▪ Improvements | 2,275 | 94,500 |
| ▪ Machinery & Equipment | 875,462 | 69,376 |
| ▪ Construction in Progress | (2,519,311) | 43,093 |

As the previous table shows, 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 fiscal year 2012 adopted and final budget for the General and Public Safety Funds were \$24,666,797. The budgets increased by \$4,338,602 during the year. Individual department budgets were amended, throughout the year, without affecting the total budget.

| | | | | | | |
|-----------------|---|---------------------------|---|--------------|---|---------------|
| Original Budget | + | Continuing Appropriations | + | Encumbrances | = | Beg. Balance |
| \$ 23,820,100 | + | -0- | + | -0- | = | \$ 23,820,100 |

| | | | | |
|---------------|-----|----------------------|---|---------------|
| Beg. Balance | +/- | Supplemental Changes | = | Final Budget |
| \$ 23,820,100 | + | \$ 323,373 | = | \$ 24,142,473 |

The beginning to final budget shows an increase of 13.58% from budget amendments. Changes were caused by a payoff of the settlement loan and changes associated with normal budget amendments for grants and increase in fee revenue.

Budget Changes – FY 12 Compared to FY 2013

No major changes in operational budgets occurred between fiscal year 2013 and fiscal year 2012 by the County Commission. Changes in staffing were:

Staffing Changes (FTE)

| DEPARTMENT/DIVISION | Net Increase (Decrease) |
|-----------------------------------------------|----------------------------|
| COUNTY AUDITOR | 0.17 |
| COURT SERVICES | (0.08) |
| DETENTION CENTER | (1.00) |
| ENVIRONMENTAL HEALTH | 0.25 |
| EXTENSION | (0.50) |
| FAIR - Accountant if sufficient revenue | 0.25 |
| FINANCE - Accounting | 0.50 |
| HEALTH - HUMAN SERVICES | 0.69 |
| ITS | 0.04 |
| 9-1-1 - Law Enforcement Records (prev. temp.) | 1.00 |
| NOXIOUS WEED | (0.12) |
| ROAD MAINTENANCE | 0.75 |
| SHERIFF | 0.36 |
| TREASURER | 0.53 |
| TOTAL COUNTY TAX SUPPORTED PERSONNEL | 2.84 |
| HEALTH - CITY/COUNTY - GRANTS | 0.62 |
| PUBLIC SAFETY / MRDTF GRANT | (0.75) |
| REST HOME (if CNA's can be hired) | 0.91 |
| SOLID WASTE SYSTEM | 1.00 |
| OTHER CHANGES | (0.74) |
| TOTAL NON TAX SUPPORTED PERSONNEL | 1.04 |
| TOTAL CHANGES IN PERSONNEL | 3.88 |

The following Capital Projects table identifies estimated costs of projects, amount expended through June 30, 2012 and the amount budgeted for FY 2013. 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.

| CAPITAL OUTLAY / CAPITAL PROJECTS | | | | | | | | |
|---------------------------------------------------|------|-------------------|----------------------|-------------------|------------------|-------------------|--------------------|------------------|
| FY 2013 CAPITAL PROJECTS/OUTLAY - Approved Budget | | | | | | | | |
| Projects by Department/Project Name | | | | | | | | |
| CAPITAL PROJECTS | | | | | | | | |
| DESCRIPTION | YEAR | FY 2013 BUDGET | ESTIMATED PROJECT | REVENUE SOURCES | | | | Amount Needed |
| | | | | County | Department | Other | TOTAL | |
| Core Rolling Stock | 2013 | 1,331,336 | 7,900,000 | 5,400,000 | 2,500,000 | - | 7,900,000 | - |
| Bridge Replacement Program | 2013 | 200,000 | 23,948,640 | 21,448,640 | 2,500,000 | - | 23,948,640 | - |
| Building Reserve (\$.95/sq. ft.) | 2013 | 780,000 | 780,000 | - | 780,000 | - | 780,000 | - |
| Judicial / Law Enforcement Building | 2013 | 100,000 | 43,210,200 | 28,086,630 | - | 15,123,570 | 43,210,200 | - |
| Guenther Update/Remodel | 2013 | 175,000 | 250,000 | 250,000 | - | - | 250,000 | - |
| Airport Interchange | 2013 | 10,976,224 | 37,800,000 | 2,000,000 | - | 35,800,000 | 37,800,000 | - |
| CTEP PROJECTS | 2013 | 26,000 | 531,231 | 26,000 | - | 505,231 | 531,231 | - |
| subtotal Budgeted Projects | | 13,588,560 | 114,420,071 | 57,211,270 | 5,780,000 | 51,428,801 | 114,420,071 | - |
| CIP - Long Term | | | | ESTIMATES ONLY | | | | |
| Fair - Indoor Arena | 2016 | - | 1,500,000 | - | - | - | - | 1,500,000 |
| DES - Storage Facility | 2018 | - | 400,000 | - | - | - | - | 400,000 |
| Fair - Move RV Pedestals | 2014 | - | 50,000 | - | - | - | - | 50,000 |
| Fair - Parking North of Office | 2015 | - | 62,000 | - | 20,667 | 20,667 | 41,334 | 20,666 |
| Historical Society - Old Jail | | - | 150,000 | - | - | - | - | 150,000 |
| Fair - Indoor Swim Center | 5+ | - | 7,195,000 | - | - | 7,195,000 | 7,195,000 | - |
| Fair - Storm Water Management | 2016 | - | 60,000 | - | - | - | - | 60,000 |
| Fair - Year Round Ice Facility | 2015 | - | 4,500,000 | - | - | 4,500,000 | 4,500,000 | - |
| Fair- Exhibit Bldg Remodel | 2015 | - | 55,000 | - | - | - | - | 55,000 |
| Fair - Remodel Midway Facility | 5+ | - | 62,000 | - | - | - | - | 62,000 |
| Fair - Sale Pavilion | 2014 | - | 60,000 | - | - | - | - | 60,000 |
| Fair - Event Center | 5+ | - | 4,500,000 | - | - | - | - | 4,500,000 |
| Fair - New Animal Wash Rack | 2015 | - | 50,000 | - | - | - | - | 50,000 |
| Fair - Signage at Entrances | 2014 | - | 60,000 | - | - | - | - | 60,000 |
| Fair - Outdoor Lazy River Water Park | 5+ | - | 2,700,000 | - | - | 2,700,000 | 2,700,000 | - |
| Fair - Concourse Building | 2018 | - | 2,500,000 | - | - | - | - | 2,500,000 |
| Fair - Model Train Building | | - | 150,000 | - | - | - | - | 150,000 |
| subtotal CIP Long - Term | | - | 24,054,000 | - | 20,667 | 14,415,667 | 14,436,334 | 9,617,666 |
| TOTAL CAPITAL PROJECTS | | 13,588,560 | 138,474,071 | 57,211,270 | 5,800,667 | 65,844,468 | 128,856,405 | 9,617,666 |

Capital Projects increased to \$138.5 million for FY 2013, with \$13,588,560 funded in FY 2013. 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 2013 Budget. The Commission authorized \$1,331,336 for the Core Rolling Stock, \$200,000 for a new Bridge Replacement Program, \$805,000 for repair, remodeling and updating of County Facilities, \$100,000 for co-design of the Law Enforcement Building, Guenther Remodel \$150,000, \$10,976,224 for the East Belgrade (Airport) I-90 Interchange, with \$2,000,000 being a county debt and the balance coming from outside sources and \$26,000 in CTEP Projects.

Summary

The fiscal year 2013 budget sees increases in taxes for operations and decreases in taxes for debt service. A comparison of budgeted taxes and mill levies for fiscal year 2009 through fiscal year 2013 shows:

| | <u>TAXES</u> | | | | | |
|------------------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| <u>Description</u> | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2011</u> | <u>FY 2012</u> | <u>FY 2013</u> | <u>% Change</u> |
| County Operating Taxes | \$15,408,210 | \$16,343,857 | \$16,901,437 | \$17,122,165 | \$17,362,033 | 1.40% |
| Road and Library Taxes | 2,980,571 | 3,153,566 | 3,294,337 | 3,373,752 | 3,563,417 | 5.62% |
| Debt Service/Insurance Taxes | 2,251,477 | 3,941,648 | 5,250,549 | 5,173,537 | 4,719,997 | (8.77%) |
| <u>MILL LEVIES:</u> | | | | | | |
| County Operating Taxes | 73.52 | 73.20 | 73.20 | 72.62 | 72.50 | (0.02%) |
| Road and Library Taxes | 25.47 | 25.23 | 25.39 | 25.48 | 26.34 | 3.37% |
| Debt Service/Insurance Taxes | 10.89 | 17.80 | 22.88 | 22.08 | 19.79 | (10.37%) |
| <u>TAXABLE VALUATIONS:</u> | | | | | | |
| County Wide Valuations | 209,639 | 223,244 | 230,919 | 235,791 | 239,468 | 1.56% |
| Road and Library Valuations | 117,027 | 125,025 | 129,779 | 132,432 | 135,307 | 2.17% |
| Open Land Valuations | 203,197 | 217,532 | 225,562 | 231,290 | 235,498 | 1.82% |

The previous table shows growth in the valuation of property (primarily new construction) accounted for 1.56% 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 2013 did increase, therefore 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 \$1,788,976. 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 \$1,285,043 in Permissive Medical Taxes.

Contacting the County Financial Management

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

Gallatin County, Montana
Board of County Commissioners


R. Stephen White, Chairman

BASIC

FINANCIAL

STATEMENTS

GOVERNMENT-WIDE

FINANCIAL

STATEMENTS

Gallatin County, State of Montana
Statement of Net Assets
June 30, 2012

| | Primary Government | | |
|-------------------------------------------------|------------------------------------|-------------------------------------|----------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash & Cash Equivalents | 33,766,573 | 10,858,636 | 44,625,209 |
| Cash & Cash Equivalents-Restricted | | 2,338,767 | 2,338,767 |
| Tax/Assessments Receivable (Net) | 10,853,049 | 957 | 10,854,006 |
| Other Receivables | 1,591,431 | 866,499 | 2,457,930 |
| Inventories | 204,478 | - | 204,478 |
| Capital Assets (net) | 154,522,252 | 10,341,738 | 164,863,990 |
| Total assets | \$ 200,937,783 | \$ 24,406,597 | \$ 225,344,380 |
| LIABILITIES | | | |
| Accounts Payable | 1,562,343 | 261,317 | 1,823,660 |
| Accrued Payroll & Other Liabilities | 1,321,470 | 286,003 | 1,607,473 |
| Deferred Revenue | 655,704 | - | 655,704 |
| Deposits Payable | 19,719 | - | 19,719 |
| Current Portion Of Long Term Debt | 3,308,746 | 396,177 | 3,704,923 |
| Long Term Debt | 54,606,237 | 1,191,091 | 55,797,328 |
| Closure/Post Closure Costs | - | 1,728,200 | 1,728,200 |
| GASB45 OPEB Obligation | 760,138 | 200,129 | 960,267 |
| Total liabilities | 62,234,357 | 4,062,917 | 66,297,274 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 98,592,729 | 9,036,239 | 107,628,968 |
| Restricted | 1,390,765 | 2,338,767 | 3,729,532 |
| Unrestricted | \$ 38,719,932 | \$ 8,968,674 | \$ 47,688,606 |
| Total net assets | \$ 138,703,426 | \$ 20,343,680 | \$ 159,047,106 |

See accompanying notes to the financial statements.

Gallatin County, State of Montana
Statement of Activities
For the Year Ended June 30, 2012

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue & 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 | \$ 9,473,100 | \$ 2,001,464 | \$ 1,672,123 | \$ 279,416 | \$ (5,520,097) | \$ - | \$ (5,520,097) |
| Public Safety | 16,489,018 | 1,763,039 | 1,777,691 | - | (12,948,288) | - | (12,948,288) |
| Public Works | 9,496,497 | 157,004 | 809,861 | 175,333 | (8,354,299) | - | (8,354,299) |
| Public Health | 3,391,539 | 343,248 | 1,329,347 | - | (1,718,944) | - | (1,718,944) |
| Social & Economic Services | 485,585 | 29,990 | - | - | (455,595) | - | (455,595) |
| Culture & Recreation | 1,822,716 | 502,987 | 8,101 | - | (1,311,628) | - | (1,311,628) |
| Housing & Community Dev. | 89,737 | 180,104 | - | 24,107 | 114,474 | - | 114,474 |
| Conservation of Natural Resour | 110,871 | 116,995 | - | - | 6,124 | - | 6,124 |
| Debt Service-Debt Serv Int | 2,376,239 | - | - | - | (2,376,239) | - | (2,376,239) |
| Total governmental activities | <u>43,735,302</u> | <u>5,094,831</u> | <u>5,597,123</u> | <u>478,856</u> | <u>(32,564,492)</u> | <u>-</u> | <u>(32,564,492)</u> |
| Business-type Activities: | | | | | | | |
| West Yellowstone Refuse District | 828,661 | 885,666 | 42,979 | - | - | 99,984 | 99,984 |
| Gallatin County Rest Home | 5,735,565 | 5,324,435 | 251,825 | - | - | (159,305) | (159,305) |
| Gallatin County Landfill | 3,158,842 | 3,975,555 | - | - | - | 816,713 | 816,713 |
| Total business-type activities | <u>9,723,068</u> | <u>10,185,656</u> | <u>294,804</u> | <u>-</u> | <u>-</u> | <u>757,392</u> | <u>757,392</u> |
| Total primary government | <u>\$ 53,458,370</u> | <u>\$ 15,280,487</u> | <u>\$ 5,891,927</u> | <u>\$ 478,856</u> | <u>\$ (32,564,492)</u> | <u>\$ 757,392</u> | <u>\$ (31,807,100)</u> |
| | | | | | Property Taxes for General Purposes | (210) | 30,201,126 |
| | | | | | Grants & entitlements not restricted to specific | - | 2,345,984 |
| | | | | | Investment Earnings | 114,833 | 430,489 |
| | | | | | Miscellaneous | - | 543,174 |
| | | | | | Sale/Disposal of Fixed Assets | (1,172) | (15,708) |
| | | | | | Total general revenues | 113,451 | 33,505,065 |
| | | | | | Change in net assets | 870,843 | 1,697,965 |
| | | | | | Net assets - beginning | 19,472,837 | 157,349,141 |
| | | | | | Net assets - ending | \$ 20,343,680 | \$ 159,047,106 |

See accompanying notes to the financial statements.

FUND

FINANCIAL

STATEMENTS

Gallatin County, State of Montana
Balance Sheet
Governmental Funds
June 30, 2012

| | GENERAL | PUBLIC SAFETY FUND | RID MAINTENANCE | RID BOND DEBT SERVICE | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------|---------------------|-----------------------|---------------------|-----------------------------|--------------------------------|--------------------------------|
| Current assets: | | | | | | |
| Cash & Cash Equivalents | \$ 3,927,301 | \$ 1,881,742 | \$ 4,320,944 | \$ 323,196 | \$ 18,215,546 | \$ 28,668,729 |
| Real Estate | 239,187 | 494,954 | 58,072 | 167,539 | 620,685 | 1,580,437 |
| Personal | 64,052 | 103,256 | - | - | 150,665 | 317,973 |
| Protested | 100,073 | 204,559 | - | 4,884 | 235,518 | 545,034 |
| Special Assessments | - | - | - | 8,409,605 | - | 8,409,605 |
| Accounts Receivable-Net | 347,635 | 96,466 | - | - | 839,026 | 1,283,127 |
| Notes Receivable | - | - | - | - | 253,334 | 253,334 |
| Due from Advance to Other fund | - | 286,993 | - | - | 23,553 | 310,546 |
| Inventories | 149,113 | - | - | - | 55,365 | 204,478 |
| Total Current assets: | 4,827,361 | 3,067,970 | 4,379,016 | 8,905,224 | 20,393,692 | 41,573,263 |
| Total assets | \$ 4,827,361 | \$ 3,067,970 | \$ 4,379,016 | \$ 8,905,224 | \$ 20,393,692 | \$ 41,573,263 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts Payable | 203,094 | 234,057 | 25,322 | - | 911,007 | 1,373,480 |
| Contracts/Loans Payable | - | - | - | 19,719 | - | 19,719 |
| Other Accrued Payables | 365,694 | 345,142 | - | 4,998 | 318,522 | 1,034,356 |
| Due To Other Funds | - | - | - | 13,021 | 297,525 | 310,546 |
| Deferred Revenue | 621,730 | 802,769 | 58,072 | 8,582,028 | 1,077,616 | 11,142,215 |
| Total Current liabilities: | 1,190,518 | 1,381,968 | 83,394 | 8,619,766 | 2,604,670 | 13,880,316 |
| Total liabilities | 1,190,518 | 1,381,968 | 83,394 | 8,619,766 | 2,604,670 | 13,880,316 |
| Fund balances: | | | | | | |
| Nonspendable: | | | | | | |
| Inventories | 149,113 | - | - | - | 55,365 | 204,478 |
| Restricted for: | | | | | | |
| Grants | 382,745 | - | - | - | 3,317,904 | 3,700,649 |
| Debt Service Obligations | - | - | - | - | 853,875 | 853,875 |
| RID Debt Services | - | - | - | 285,458 | - | 285,458 |
| Construction Projects | - | - | - | - | 3,937,551 | 3,937,551 |
| General Government | - | - | - | - | 12,874 | 12,874 |
| Public Safety | - | 21,097 | - | - | - | 21,097 |
| Committed for: | | | | | | |
| RID Maintenance | - | - | 4,295,622 | - | - | 4,295,622 |
| General Government | 2,732,530 | - | - | - | 4,797,887 | 7,530,417 |
| Public Safety | - | 1,631,897 | - | - | 57,971 | 1,689,868 |
| Public Works | - | - | - | - | 2,506,952 | 2,506,952 |
| Public Health | - | - | - | - | 1,155,637 | 1,155,637 |
| Culture & Recreation | - | - | - | - | 545,797 | 545,797 |
| Conservation Of Natural Resources | - | - | - | - | 547,209 | 547,209 |
| Assigned for: | | | | | | |
| General Government | 372,455 | - | - | - | - | 372,455 |
| Public Safety | - | 33,008 | - | - | - | 33,008 |
| Total fund balances | 3,636,843 | 1,686,002 | 4,295,622 | 285,458 | 17,789,022 | 27,692,947 |
| Total liabilities and fund balances | \$ 4,827,361 | \$ 3,067,970 | \$ 4,379,016 | \$ 8,905,224 | \$ 20,393,692 | \$ 41,573,263 |

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, 2012

| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------|
| Total fund balances - governmental funds | \$ | 27,692,947 |
| <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 | 243,376,149 | |
| Accumulated depreciation | -89,300,236 | 154,075,913 |
| <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> | | |
| | | 10,853,049 |
| <p>Unamortized Debt Issuance Costs</p> | | |
| | | (366,538) |
| <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> | | |
| | | 5,090,887 |
| <p>Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds</p> | | |
| | | (58,642,832) |
| Total net assets - governmental activities | \$ | 138,703,426 |

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, 2012

| | GENERAL | PUBLIC SAFETY FUND | RID MAINTENANCE | RID BOND DEBT SERVICE | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------------------|---------------------|---------------------|---------------------|-----------------------|--------------------------|--------------------------|
| REVENUES | \$ | \$ | \$ | \$ | \$ | \$ |
| Property Taxes | 6,124,954 | 11,368,029 | 991,457 | 1,008,360 | 11,819,565 | 31,312,365 |
| Licenses & Permits | 1,075 | 32,215 | - | - | 258,193 | 291,483 |
| Intergovernmental Revenues | 1,034,561 | 617,881 | - | - | 6,564,081 | 8,216,523 |
| Charges for Services | 1,952,401 | 935,185 | - | - | 891,181 | 3,778,767 |
| Fines & Forfeitures | 379,534 | 14,839 | - | - | 239,638 | 634,011 |
| Miscellaneous | 81,723 | 527,530 | - | - | 511,915 | 1,121,168 |
| Investment Earnings | 112,117 | 7,475 | 42,648 | 4,029 | 110,182 | 276,451 |
| Contributions/Donations | - | 3,180 | - | - | 1,260 | 4,440 |
| Total revenues | <u>9,686,365</u> | <u>13,506,334</u> | <u>1,034,105</u> | <u>1,012,389</u> | <u>20,396,015</u> | <u>45,635,208</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General Government | 7,574,067 | - | - | - | 1,000,148 | 8,574,215 |
| Public Safety | 1,012,089 | 11,389,877 | - | - | 1,939,827 | 14,341,793 |
| Public Works | 710,602 | - | 1,301,693 | - | 4,224,766 | 6,237,061 |
| Public Health | - | - | - | - | 3,264,437 | 3,264,437 |
| Social & Econ Service | 393,408 | - | - | - | 62,120 | 455,528 |
| Culture & Recreation | - | - | - | - | 1,680,016 | 1,680,016 |
| Housing & Comm Dev | - | - | - | - | 40,930 | 40,930 |
| Cons Nat'l Resources | - | - | - | - | 102,060 | 102,060 |
| Debt service: | | | | | | |
| Principal Retirement | 129,095 | 511,409 | - | 602,000 | 4,020,005 | 5,262,509 |
| Interest | (11,352) | 18,025 | - | 457,475 | 1,912,091 | 2,376,239 |
| Capital Outlay | 55,043 | 101,934 | - | - | 4,182,184 | 4,339,161 |
| Total expenditures | <u>9,862,952</u> | <u>12,021,245</u> | <u>1,301,693</u> | <u>1,059,475</u> | <u>22,428,584</u> | <u>46,673,949</u> |
| Excess (deficiency) of revenues over expenditures | <u>(176,587)</u> | <u>1,485,089</u> | <u>(267,588)</u> | <u>(47,086)</u> | <u>(2,032,569)</u> | <u>(1,038,741)</u> |
| OTHER FINANCINGSOURCES (USES) | | | | | | |
| Transfers Out | (27,072) | (617,649) | - | - | (2,907,021) | (3,551,742) |
| Proc. Notes/Loans/Intercap. | - | - | - | - | 300,000 | 300,000 |
| Sale of Fixed Assets | - | - | - | - | 2,475 | 2,475 |
| Transfers In | 551,355 | 14,698 | - | 25,317 | 2,121,335 | 2,712,705 |
| Total other financing sources and uses | <u>524,283</u> | <u>(602,951)</u> | <u>-</u> | <u>25,317</u> | <u>(483,211)</u> | <u>(536,562)</u> |
| Net Change in fund balances | 347,696 | 882,138 | (267,588) | (21,769) | (2,515,780) | (1,575,303) |
| Fund balances -- beginning | <u>3,289,147</u> | <u>803,864</u> | <u>4,563,210</u> | <u>307,227</u> | <u>20,304,802</u> | <u>29,268,250</u> |
| Fund balances -- ending | <u>\$ 3,636,843</u> | <u>\$ 1,686,002</u> | <u>\$ 4,295,622</u> | <u>\$ 285,458</u> | <u>\$ 17,789,022</u> | <u>\$ 27,692,947</u> |

See accompanying notes to the financial statements.

Gallatin County, State of Montana
Statement of Net Assets
Proprietary Funds
June 30, 2012

| | Business-type Activities - Enterprise Funds | | | | |
|-------------------------------------------------|---------------------------------------------|--------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|
| | GALLATIN COUNTY REST HOME | GALLATIN COUNTY LANDFILL | YELLOWSTONE REFUSE DISTRICT | Total Proprietary Funds | Gov. Activities Internal Service Funds |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash & Cash Equivalents | \$ 4,577,401 | \$ 4,041,986 | \$ 2,239,248 | \$ 10,858,635 | \$ 5,097,845 |
| Cash & Cash Equiv-Restricted | - | 2,338,767 | - | 2,338,767 | - |
| Real Estate | 139 | - | 612 | 751 | - |
| Personal | 206 | - | - | 206 | - |
| Accounts Receivable-Net | 244,746 | 402,899 | 218,855 | 866,500 | 54,970 |
| Capital Assets-Net of Accum. | 1,586,321 | 6,389,283 | 2,366,134 | 10,341,738 | 446,335 |
| Total Current assets | <u>6,408,813</u> | <u>13,172,935</u> | <u>4,824,849</u> | <u>24,406,597</u> | <u>5,599,150</u> |
| Total assets | <u>6,408,813</u> | <u>13,172,935</u> | <u>4,824,849</u> | <u>24,406,597</u> | <u>5,599,150</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Current liabilities: | | | | | |
| Accounts Payable | 71,242 | 106,075 | 84,000 | 261,317 | 188,862 |
| Contracts/Loans Payable | - | 1,305,500 | - | 1,305,500 | - |
| Other Accrued Payables | 147,290 | 130,306 | 8,407 | 286,003 | 287,111 |
| Compensated Absences | 20,603 | 6,082 | 1,492 | 28,177 | 21,369 |
| Total Current liabilities: | <u>239,135</u> | <u>1,547,963</u> | <u>93,899</u> | <u>1,880,997</u> | <u>497,342</u> |
| Non current liabilities: | | | | | |
| GASB 45 OPEB Obligation | 162,299 | 31,790 | 6,040 | 200,129 | 10,920 |
| Closure/Post Closure Costs | - | 1,728,200 | - | 1,728,200 | - |
| Compensated Absences | 185,424 | 54,741 | 13,426 | 253,591 | - |
| Total Non Current Liabilities | <u>347,723</u> | <u>1,814,731</u> | <u>19,466</u> | <u>2,181,920</u> | <u>10,920</u> |
| Total liabilities | <u>586,858</u> | <u>3,362,694</u> | <u>113,365</u> | <u>4,062,917</u> | <u>508,262</u> |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | | | | | |
| | 1,739,939 | 4,311,596 | 2,565,289 | 8,616,824 | - |
| Restricted (expendable) | - | 2,338,767 | - | 2,338,767 | - |
| Unrestricted | 4,082,016 | 3,159,878 | 2,146,195 | 9,388,089 | 5,090,888 |
| Total net assets | <u>\$ 5,821,955</u> | <u>\$ 9,810,241</u> | <u>\$ 4,711,484</u> | <u>\$ 20,343,680</u> | <u>\$ 5,090,888</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, 2012

| | Business-type Activities - Enterprise Funds | | | | |
|--------------------------------------------------|---------------------------------------------|--------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|
| | GALLATIN COUNTY REST HOME | GALLATIN COUNTY LANDFILL | YELLOWSTONE REFUSE DISTRICT | Total Proprietary Funds | Gov. Activities Internal Service Funds |
| Operating revenues: | | | | | |
| Charges for Services | \$ 5,324,399 | \$ 3,973,156 | \$ 884,166 | \$ 10,181,721 | \$ 582,260 |
| Miscellaneous | 36 | - | - | 36 | 1,675 |
| Internal Services | - | - | - | - | 5,435,331 |
| Total Operating Revenues | <u>5,324,435</u> | <u>3,973,156</u> | <u>884,166</u> | <u>10,181,757</u> | <u>6,019,266</u> |
| Operating expenses: | | | | | |
| Sale of Assets | - | - | 48,478 | 48,478 | - |
| Public Safety Personnel Serv. | - | 4 | - | 4 | - |
| Public Works Personnel Serv. | - | 829,921 | 151,865 | 981,786 | - |
| Public Works Operations | - | 1,381,419 | 467,120 | 1,848,539 | - |
| Public Works-Depreciation | - | 901,217 | 146,972 | 1,048,189 | - |
| Public Health Personnel | 3,832,653 | - | - | 3,832,653 | - |
| Public Health Operations | 1,766,151 | - | - | 1,766,151 | - |
| Internal Service-Personnel | - | - | - | - | 417,731 |
| Internal Service-Supplies | - | - | - | - | 193,262 |
| Internal Service-Purchased Ser | - | - | - | - | 1,152,696 |
| Internal Service-Fixed Charges | - | - | - | - | 749,138 |
| Internal Service-Depreciation | - | - | - | - | 59,625 |
| Internal Serv-Benefit Pymts | - | - | - | - | 4,113,875 |
| Public Health Depreciation | 136,761 | - | - | 136,761 | - |
| Total operating expenses | <u>5,735,565</u> | <u>3,112,561</u> | <u>814,435</u> | <u>9,662,561</u> | <u>6,686,327</u> |
| Operating Income (loss) | <u>(411,130)</u> | <u>860,595</u> | <u>69,731</u> | <u>519,196</u> | <u>(667,061)</u> |
| Nonoperating revenues (expenses): | | | | | |
| Property Taxes | (210) | - | - | (210) | - |
| Intergovernmental Revenues | 251,825 | - | - | 251,825 | - |
| State Grants | - | - | 42,979 | 42,979 | - |
| Miscellaneous | - | 2,401 | 1,500 | 3,901 | - |
| Investment Earnings | 39,054 | 55,629 | 20,149 | 114,832 | 39,204 |
| Sale of Fixed Assets | (1,272) | 100 | - | (1,172) | - |
| Sale of Assets | - | - | (14,226) | (14,226) | - |
| Transfers Out | - | - | - | - | (6,450) |
| Interest Expense | - | (46,281) | - | (46,281) | - |
| Total non operating revenue (expenses) | <u>289,397</u> | <u>11,849</u> | <u>50,402</u> | <u>351,648</u> | <u>32,754</u> |
| Income (loss) before contributions and transfers | (121,733) | 872,444 | 120,133 | 870,844 | (634,307) |
| Transfers In | - | - | - | - | 845,487 |
| Change in net assets | <u>(121,733)</u> | <u>872,444</u> | <u>120,133</u> | <u>870,844</u> | <u>211,180</u> |
| Total net assets -- beginning | 5,943,688 | 8,937,797 | 4,591,351 | 19,472,836 | 4,879,708 |
| Total net assets -- ending | <u>\$ 5,821,955</u> | <u>\$ 9,810,241</u> | <u>\$ 4,711,484</u> | <u>\$ 20,343,680</u> | <u>\$ 5,090,888</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, 2012

| | Business-type Activities - Enterprise Funds | | | | |
|-------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------|------------------------------------|-------------------------------|---------------------------------------------|
| | GALLATIN COUNTY REST HOME | GALLATIN COUNTY LANDFILL | YELLOWSTON E REFUSE DISTRICT | TOTAL PROPRIETARY FUNDS | GOV ACTIVITIES INTERNAL SERVICE FUNDS |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Cash From interfund | \$ - | \$ - | \$ - | \$ - | \$ 5,847,196 |
| Cash Other | 36 | - | - | 36 | - |
| Cash receipts from customer | 5,483,279 | 4,029,115 | 851,066 | 10,363,460 | 565,607 |
| Other Payments | (30,009) | 200,525 | - | 170,516 | - |
| Payments to employees | (3,824,773) | (815,354) | (148,702) | (4,788,829) | (935,678) |
| Payments to interfund | (56,700) | - | - | (56,700) | (16,913) |
| Payments to suppliers | (1,754,191) | (1,374,039) | (478,664) | (3,606,894) | (6,130,809) |
| Net cash provided by operating activities | <u>(182,358)</u> | <u>2,040,247</u> | <u>223,700</u> | <u>2,081,588</u> | <u>(670,597)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Intergovernmental Revenue | 251,825 | - | 42,979 | 294,804 | - |
| Subsidy from taxes | 1,043 | - | - | 1,043 | - |
| Transfers from (to) Other Funds | - | - | - | - | 839,037 |
| Net cash (used) by Noncapital financing | <u>252,868</u> | <u>-</u> | <u>42,979</u> | <u>295,847</u> | <u>839,037</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Interest Paid on Debt | - | (46,281) | - | (46,281) | - |
| Principal on Debt | - | (598,000) | - | (598,000) | - |
| Purchases/acquisition/const. of Capital Assets | (88,148) | (453,442) | (80,878) | (622,468) | (14,000) |
| Net cash (used) by capital and related financing | <u>(88,148)</u> | <u>(1,097,723)</u> | <u>(80,878)</u> | <u>(1,266,749)</u> | <u>(14,000)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest Earnings | 39,054 | 58,129 | 21,649 | 118,832 | 39,204 |
| Net cash provided by investing activities | <u>39,054</u> | <u>58,129</u> | <u>21,649</u> | <u>118,832</u> | <u>39,204</u> |
| Net Increase (decrease) in cash and | 21,416 | 1,000,652 | 207,450 | 1,229,518 | 193,644 |
| Balances - beginning of year | <u>4,555,985</u> | <u>5,380,101</u> | <u>2,031,798</u> | <u>11,967,884</u> | <u>4,904,201</u> |
| Balances - end of the year | <u>\$ 4,577,401</u> | <u>\$ 6,380,753</u> | <u>\$ 2,239,248</u> | <u>\$ 13,197,402</u> | <u>\$ 5,097,845</u> |
| Cash and Equivalents consists of: | | | | | |
| Cash and investments | \$ 4,577,401 | \$ 4,041,986 | \$ 2,239,248 | \$ 10,858,635 | \$ 5,097,845 |
| Restricted cash and investments | | 2,338,767 | | 2,338,767 | |
| Total cash and cash equivalents | <u>\$ 4,577,401</u> | <u>\$ 6,380,753</u> | <u>\$ 2,239,248</u> | <u>\$ 13,197,402</u> | <u>\$ 5,097,845</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | (411,130) | 860,595 | 69,731 | 519,196 | (667,061) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | |
| Depreciation Expense | 136,761 | 901,217 | 146,973 | 1,184,951 | 59,627 |
| Changes in assets and Liabilities: | | | | | |
| Increase in Accounts Payable - Other | (9,888) | 200,525 | - | 190,637 | 55,550 |
| Increase (decrease) in Accounts Payable - | (51,485) | 7,380 | 36,934 | (7,171) | (3,974) |
| Increase (decrease) in Compensated | (5,496) | 11,833 | 2,434 | 8,771 | - |
| (Increase) decrease in Customer Receivables | 158,880 | 55,958 | (33,100) | 181,738 | 393,535 |
| Increase (decrease) in Salaries & Benefits | - | 2,739 | 728 | 3,467 | (508,274) |
| Net Cash provided by operating activities | <u>\$ (182,358)</u> | <u>\$ 2,040,247</u> | <u>\$ 223,700</u> | <u>\$ 2,081,589</u> | <u>\$ (670,597)</u> |

See accompanying notes to the financial statements

**GALLATIN COUNTY, MONTANA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2012**

| | <u>Investment Trust Funds</u> | <u>Agency Funds</u> |
|--------------------------------------------------|-----------------------------------|-------------------------|
| ASSETS | | |
| Cash and investments | \$ 55,140,000 | \$ 10,480,842 |
| Tax/assessment receivable (net) | - | 8,744,446 |
| Accrued Interest Receivable | - | 70,020 |
| Total Assets | \$ 55,140,000 | \$ 19,295,308 |
| LIABILITIES | | |
| Accounts payable | - | \$ 3,505,608 |
| Due to other governments | - | 15,789,701 |
| Total Liabilities | - | \$ 19,295,309 |
| NET ASSETS | | |
| Held in trust for investments and other purposes | \$ 55,140,000 | - |

See accompanying notes to the financial statements.

**COUNTY OF GALLATIN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2012**

| | | <u>Investment Trust Funds</u> |
|-----------------------------------|----|-------------------------------|
| ADDITIONS: | | |
| Investment earnings | \$ | 654,216 |
| Contributions to investment trust | | 45,035,784 |
| Total Additions | | <u>45,690,000</u> |
| DEDUCTIONS: | | |
| Distribution of investments | | 47,136,866 |
| Total Deductions | | <u>47,136,866</u> |
| Change in net assets | | (1,446,866) |
| Net assets - July 1, 2011 | | <u>56,586,866</u> |
| Net assets - June 30, 2012 | \$ | <u>55,140,000</u> |

See accompanying notes to the financial statements.

NOTES

TO THE

FINANCIAL

STATEMENTS

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

A. 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 Numbers 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.

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, Cities, 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.

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.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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, fines and forfeitures, 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 governmental funds:

General Fund – The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds – To account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Fund – To account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Fund – To account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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 Special Revenue 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 Maintenance Special Revenue Fund- This fund accounts for financial resources for the maintenance costs associated with the rural improvement districts.

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

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 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.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 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.

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.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 uncollectible accounts. 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. For the County Rest Home the allowance for doubtful accounts at June 30, 2012 was \$74,598. 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, 2012 was \$81,906.

Property tax levies are set on the later of the first Thursday in September or within thirty calendar days after receiving certified taxable valuation (MCA 7-6-4036) 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. These taxes attach as an enforceable lien immediately if not paid when due. 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 set based on a square foot, per lot or per utilization basis for each district created by the County Commission (RID Bond, RID Maintenance, Local Water Quality, Planning / Zoning, and Lighting Districts) on the later of the first Thursday in September or within thirty calendar days after receiving certified taxable valuation, in connection with the budget process. They 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 then 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 November 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges. Personal property taxes attach as an enforceable lien immediately if not paid when due.

The tax levies for the fiscal year ended June 30, 2012 were based upon the County wide taxable valuation of \$235,791,240.

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 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 County's policy to use restricted resources first, then unrestricted resources as they are needed.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 |
| Intangibles: | |
| Software | 7 |

Capital assets that are not depreciated include land and easements.

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 accounting. The County also allows exempt employees to carry up to 40 hours in compensatory time. Compensatory time is paid at 100 percent 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

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 Balance

Governmental Accounting Standard Board (GASB) Statement No. 54 requires presentation of governmental fund balances by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate for the following fund balance classifications: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable represents the portion of fund balance that is not in spendable form. Nonspendable fund balance includes items such as inventory or amounts legally or contractually required to remain intact. Spendable fund balance is further categorized as restricted, committed, assigned and unassigned.

Restricted fund balance classification includes amounts that can only be spent or used for specific purposes and the constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws and/or regulations of other governments, imposed by law through constitutional provisions, or imposed by enabling legislation that is legally enforceable by an external party.

Committed fund balance classification includes amounts that can only be used for specific purposes when constraints placed on the resources are either imposed by formal action of the governments highest level of decision making authority or amounts that are contractual obligations to the extent the existing resources in the fund have been specifically committed for uses in satisfying those contractual requirements. Committed fund balances will be authorized by the County Commission in a public meeting by resolution and according to policy.

Assigned fund balance classification includes amounts that are constrained by the government's intent to be used for a specific purpose and the intent to spend down fund balance to fund the next year's projected deficit spending if this exists or amounts that are neither nonspendable, restricted or committed. Assigned fund balance may be assigned by the County Commission informally after a fund balance review has been completed by the accounting department and reviewed and approved by the F.A.Ac.T. (Finance, Auditor, Accounting, Treasurer) Committee.

Unassigned fund balance represents spendable amounts that have not been Restricted, Committed or Assigned to a specific purpose within the general fund.

Hierarchy of spending

The County has adopted a policy determining whether restricted, committed, assigned and unassigned amounts are considered to have been spent. In the General Fund and the Special Revenue Funds, the policy for assumed order of spending is restricted first, committed second, and assigned last unless there are legal documents/contracts that prohibit this approach.

Minimum General Fund-Fund Balance

The County does not maintain a stabilization fund. The County has a formal minimum fund balance policy that requires maintaining a minimum 10% of expenses in the General Fund as Unrestricted Fund Balance. No specific circumstances in which this balance in the General Fund can be spent exist; it is determined in the budget process which is formally adopted by the County Commission and as circumstances arise and deemed necessary by the County Commission.

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.

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 first Thursday in September or within thirty calendar days after receiving certified taxable valuation from the Department of Revenue (County assessor). The County must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

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

Appropriations are created by fund, function, and activity and may further be detailed by department. Per MCA 7-6-4004 expenditures are 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.

B. Excess of Expenditures over Appropriations

There were no excess of expenditures over appropriations for fiscal year ended 2012.

C. Deficit Fund Balances

In fiscal year 2012, there were no funds with deficit fund balances.

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.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012 are as follows:

| | | |
|--------------------------------------|----|----------------|
| Current use funds: | | |
| Cash on Hand and Petty cash | \$ | 536,120 |
| Cash in banks - Demand deposits | \$ | 9,947,741 |
| | | \$ 10,483,861 |
| Investment pool funds: | | |
| Cash in banks - Savings deposits | \$ | 43,461,499 |
| US Government Securities (brokerage) | \$ | 58,639,458 |
| | | \$ 102,100,957 |
| Total cash and cash equivalents | | \$ 112,584,818 |

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

| | | |
|---------------------------------|----|-------------|
| Government wide | \$ | 46,963,976 |
| Investment Trust Funds | \$ | 55,140,000 |
| Agency Funds | \$ | 10,480,842 |
| Total cash and cash equivalents | \$ | 112,584,818 |

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

| | | |
|-------------------------|----|---------------|
| Unrestricted | \$ | 44,625,209 |
| Restricted - See Note G | \$ | 2,338,767 |
| | | \$ 46,963,976 |

Interest rates at June 30, 2012 ranged from .25% - 5.50%. Future maturities on investments range from July 2014 to June 2017.

4. Deposits

Montana statutes require that the County obtain securities for the uninsured portion of the deposits as follows 1) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more or 2) securities equal to 100% of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for County deposits at June 30, 2012 equaled or exceeded the amount required by State statutes.

5. Categorized Risk

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, 2012.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

| | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> | <u>No Maturity</u> | <u>Total</u> |
|----------------------------------------|----------------|----------------|----------------|----------------|----------------|--------------------|----------------|
| Primary Government Investments: | | | | | | | |
| Federal National Mortgage Association | | | 1,000,000 | | | | 1,000,000 |
| Federal Home Loan Bank | | 1,000,000 | | 11,000,000 | 30,950,000 | | 42,950,000 |
| Federal Farm Credit Bank | | | 1,000,000 | 9,000,000 | 2,500,000 | | 12,500,000 |
| Savings Deposits | | | | | | 1,917 | 1,917 |
| State Short-Term Investment Pool | | | | | | 43,000,000 | 43,000,000 |
| Government Money Market | | | | | | 2,189,458 | 2,189,458 |
| Certificate of Deposits | | | | | | 479,660 | 479,660 |
| Totals | \$ 0 | \$ 1,000,000 | \$ 2,000,000 | \$ 20,000,000 | \$ 33,450,000 | \$ 45,671,035 | \$ 102,121,035 |

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 National Mortgage Association | \$ 1,000,000 | AAA |
| Federal Home Loan Bank | 42,950,000 | AAA |
| Federal Farm Credit Bank | 12,500,000 | AAA |
| Savings Deposits | 1,917 | NR |
| State Short-Term Investment Pool | 43,000,000 | NR |
| Government Money Market | 2,189,458 | NR |
| Certificate of Deposits | 479,660 | NR |
| TOTAL | \$ 102,121,035 | |

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 2012:

Transfers Out:

| <u>Transfer In:</u> | General Fund | Public Safety | RID Bonds | Nonmajor Governmental | Internal Service | Total Transfers In |
|----------------------------|-----------------|------------------|--------------|--------------------------|---------------------|-----------------------|
| <u>Governmental funds:</u> | | | | | | |
| General Fund | \$ | \$ | \$ | \$ 551,355 | \$ | \$ 551,355 |
| Public Safety | | | | 14,698 | | 14,698 |
| RID Maintenance | | | | | | |
| RID Bonds | | | | | | 25,317 |
| Nonmajor Governmental | 27,072 | 617,649 | | 1,495,481 | 6,450 | <u>2,121,335</u> |
| Total governmental funds | | | | | | <u>2,712,705</u> |
| <u>Proprietary funds</u> | | | | | | |
| Internal Service | | | | <u>845,487</u> | | <u>845,487</u> |
| | <u>27,072</u> | <u>617,649</u> | | <u>2,907,021</u> | | 3,558,192 |
| | | | | <u>3,551,742</u> | | |
| | | | | | <u>6,450</u> | |
| | | | | | | \$ 3,558,192 |
| | | | | | | Total transfers out |

The composition of interfund balances as of June 30, 2012 is as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|----------------------------|-------------------|
| Other Governmental Funds | Other Governmental Funds | \$ 10,532 |
| Public Safety | Other Governmental Funds | 286,993 |
| Other Governmental Funds | RID Bond Debt Service Fund | <u>13,021</u> |
| | | <u>\$ 310,546</u> |

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

C. Capital Assets

A summary of changes in capital assets is as follows:

| | Balance July 1, 2011 | Increases | Decreases | Transfers | Balance June 30, 2012 |
|----------------------------------------------|-------------------------|----------------|-----------|-------------|--------------------------|
| Governmental activities: | | | | | |
| Land | \$ 4,446,080 | \$ - | \$ - | \$ - | \$ 4,446,080 |
| Buildings | 59,172,360 | 937,506 | 2,750 | 5,650 | 60,112,766 |
| Intangibles Software | 1,595,359 | - | - | - | 1,595,359 |
| Intangibles Easements | 12,945,300 | 85,316 | - | - | 13,030,616 |
| Improvements other than buildings | 1,322,088 | 2,275 | - | - | 1,324,363 |
| Machinery and equipment | 18,960,519 | 1,180,225 | 304,763 | - | 19,835,981 |
| Infrastructure | 137,198,283 | 2,002,288 | - | 3,361,877 | 142,562,448 |
| Total capital assets being depreciated | 231,193,909 | 4,207,611 | 307,513 | 3,367,527 | 238,461,535 |
| Construction in progress | 3,862,348 | 848,216 | - | (3,367,527) | 1,343,037 |
| Total capital assets | 239,502,337 | 5,055,827 | 307,513 | - | 244,250,651 |
| Less accumulated depreciation: | 83,469,965 | 6,546,182 | 287,747 | - | 89,728,400 |
| Governmental activities capital assets, net | \$ 156,032,372 | \$ (1,490,355) | \$ 19,766 | \$ - | \$ 154,522,252 |
| Business-type activities: | | | | | |
| Land | \$ 1,657,607 | \$ - | \$ - | \$ - | \$ 1,657,607 |
| Buildings | 6,670,216 | 87,227 | - | 11,849 | 6,769,292 |
| Intangibles | 65,152 | - | - | - | 65,152 |
| Improvements other than buildings | 2,944,599 | 95,075 | 575 | - | 3,039,099 |
| Machinery and equipment | 6,449,950 | 102,339 | 32,962 | - | 6,519,327 |
| Total capital assets being depreciated | 16,129,917 | 284,641 | 33,537 | - | 16,392,870 |
| Construction in progress | 11,849 | 54,942 | - | (11,849) | 54,942 |
| Total capital assets | 17,799,373 | 339,583 | 33,537 | - | 18,105,419 |
| Less accumulated depreciation: | 6,596,710 | 1,184,950 | 17,979 | - | 7,763,681 |
| Business-type activities capital assets, net | \$ 11,202,663 | \$ (845,367) | \$ 15,558 | \$ - | \$ 10,341,738 |

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

| | |
|-------------------------------------------------------|---------------------|
| Governmental activities: | |
| General Government | \$ 515,900 |
| Public Safety | 1,933,652 |
| Public Works | 3,927,579 |
| Public Health | 20,862 |
| Social and Economic Services | 3,512 |
| Culture and Recreation | 136,625 |
| Housing and Community Development | 4,829 |
| Conservation of Natural Resources | <u>3,223</u> |
| Total depreciation expense - governmental activities | \$ <u>6,546,182</u> |
| Business-type activities: | |
| Rest Home | 136,761 |
| Gallatin County Landfill | 901,217 |
| West Yellowstone Refuse Dist. | <u>146,972</u> |
| Total depreciation expense - business-type activities | \$ <u>1,184,950</u> |

D. Other Accrued Liabilities

Other Accrued Liabilities reported on the Statement of Net Assets include:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---------------------------|------------------------------------|-------------------------------------|---------------------|
| Payroll Payable | \$ 900,145 | \$ 191,550 | \$ 1,091,695 |
| Security Deposits Payable | 38,278 | 89,500 | 127,778 |
| Accrued Interest Payable | 41,606 | 4,953 | 46,559 |
| Abandon Property Payable | 54,330 | - | 54,330 |
| Internal Service Payables | <u>287,111</u> | <u>-</u> | <u>287,111</u> |
| | <u>\$ 1,321,470</u> | <u>\$ 286,003</u> | <u>\$ 1,607,473</u> |

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

E. Long-Term Debt

During year ended June 30, 2012, the following changes in liabilities were reported in long-term debt:

| Governmental Activities: | <u>Balance</u> 01-Jul-11 | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> 30-Jun-12 | <u>Due within</u> <u>one year</u> |
|---------------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------------------|
| General Obligation Bonds | \$ 44,710,209 | \$ - | \$ 1,885,557 | \$ 42,824,652 | \$ 1,990,848 |
| Special Assessment Bonds | 8,828,000 | - | 602,000 | 8,226,000 | 300,000 |
| Compensated Absences | 1,881,942 | 109,168 | 5,650 | 1,985,460 | 198,546 |
| Intercap Loans | 4,780,563 | 300,000 | 1,359,582 | 3,720,981 | 700,767 |
| Notes Payable | 1,300,000 | - | 1,300,000 | - | - |
| Capital Leases | <u>1,273,261</u> | <u>-</u> | <u>115,371</u> | <u>1,157,890</u> | <u>118,585</u> |
| Total | \$ <u>62,773,975</u> | \$ <u>409,168</u> | \$ <u>5,268,160</u> | \$ <u>57,914,983</u> | \$ <u>3,308,746</u> |

| Business-Type Activities | <u>Balance</u> 01-Jul-11 | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> 30-Jun-12 | <u>Due within</u> <u>one year</u> |
|---------------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------|--------------------------------------|
| Revenue Bonds | \$ 1,903,500 | \$ - | \$ 598,000 | \$ 1,305,500 | \$ 368,000 |
| Compensated Absences | 277,895 | 9,370 | 5,497 | 281,768 | 28,177 |
| Closure/post closure care costs | 1,516,701 | 211,499 | - | 1,728,200 | - |
| Capital Leases | <u>282,944</u> | <u>-</u> | <u>282,944</u> | <u>-</u> | <u>-</u> |
| Total | \$ <u>3,981,040</u> | \$ <u>220,869</u> | \$ <u>886,441</u> | \$ <u>3,315,468</u> | \$ <u>396,177</u> |

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, 2012 were as follows:

| <u>Purpose</u> | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Term of years</u> | <u>Final maturity</u> | <u>Bonds issued</u> | <u>Outstanding 6/30/12</u> | <u>Annual serial payment</u> |
|-------------------------|-------------------|----------------------|----------------------|-----------------------|----------------------|----------------------------|------------------------------|
| Pogreba Mobile Home | 11/25/2002 | 4.8 | 10 | 08/01/2012 | 30,000 | 3,752 | Varies |
| Open Space | 04/01/2003 | 2.0-4.75 | 20 | 07/01/2023 | 4,000,000 | 2,610,000 | Varies |
| Pogreba Field | 07/07/2005 | 2.00 | 10 | 02/28/2016 | 8,500 | 3,400 | 850 |
| Open Space | 06/28/2005 | 3.625-4.25 | 20 | 02/01/2026 | 5,000,000 | 4,010,000 | Varies |
| Open Space | 12/15/2008 | 4.3 | 18 | 07/01/2026 | 4,000,000 | 3,600,000 | Varies |
| Pogreba Animal Fence | 07/29/2008 | 3.625 | 10 | 02/28/2018 | 12,500 | 7,500 | 1,250 |
| Detention Center | 02/01/2009 | 3.5-4.6 | 18 | 02/01/2027 | 32,000,000 | 29,545,000 | Varies |
| Hope House | 07/01/2010 | 2.0-4.0 | 20 | 07/01/2030 | 1,000,000 | 930,000 | Varies |
| Open Space | 04/12/2011 | 3.0-3.25 | 10 | 07/01/2021 | 2,300,000 | 2,115,000 | Varies |
| Total G.O. Bonds | | | | | \$ 48,351,000 | \$ 42,824,652 | |

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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:

| <u>Purpose</u> | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Term of years</u> | <u>Final maturity</u> | <u>Bonds issued</u> | <u>Outstanding 30-Jun-12</u> | <u>Annual serial payment</u> |
|----------------------------|-------------------|----------------------|----------------------|-----------------------|---------------------|------------------------------|------------------------------|
| Landfill Cell 3 | 2007 | 3.75 | 5 | 2013 | \$ 2,242,000 | \$ 243,000 | Varies |
| Landfill Land | 2010 | 1.95 | 10 | 2020 | \$ 1,250,000 | \$ 1,062,500 | Varies |
| Total Revenue Bonds | | | | | <u>\$ 3,492,000</u> | <u>\$ 1,305,500</u> | |

Revenue bond 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, 2012.

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.

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

| <u>Purpose</u> | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Term of years</u> | <u>Final maturity</u> | <u>Bonds issued</u> | <u>Outstanding 6/30/12</u> | <u>Annual serial payment</u> |
|---------------------------------------|-------------------|----------------------|----------------------|-----------------------|----------------------|----------------------------|------------------------------|
| #370 | 1998 | 4.4-6.0 | 20 | 2018 | \$ 198,500 | \$ 20,000 | Varies |
| #371 | 1999 | 3.0-7.2 | 20 | 2020 | 63,000 | 20,000 | Varies |
| #372 | 1999 | 3.0-6.1 | 15 | 2014 | 200,000 | - | Varies |
| #376 | 2001 | 3.6-5.5 | 20 | 2021 | 540,000 | 115,000 | Varies |
| #378 | 2001 | 3.6-5.5 | 20 | 2021 | 1,188,000 | 540,000 | Varies |
| #382 | 2002 | 3.0-6.5 | 15 | 2017 | 199,000 | 80,000 | Varies |
| #383 | 2002 | 2.2-5.5 | 20 | 2022 | 200,200 | 75,000 | Varies |
| #384 | 2003 | 2.0-5.0 | 15 | 2018 | 160,000 | 40,000 | Varies |
| #386 | 2003 | 1.75-4.9 | 15 | 2018 | 300,000 | 130,000 | Varies |
| #387 | 2005 | 2.1-5.0 | 15 | 2020 | 180,000 | 105,000 | Varies |
| #388 | 2005 | 2.1-5.0 | 15 | 2020 | 160,000 | 80,000 | Varies |
| #391 | 2006 | 2.0-5.25 | 20 | 2026 | 395,000 | 265,000 | Varies |
| #392 | 2006 | 3.0-7.0 | 20 | 2026 | 60,000 | 26,000 | Varies |
| #393 | 2007 | 4.2-5.5 | 20 | 2028 | 900,000 | 685,000 | Varies |
| #395 | 2010 | 2.0-6.0 | 20 | 2030 | 1,765,000 | 1,645,000 | Varies |
| #396 | 2010 | 2.5-6.0 | 20 | 2030 | 4,715,000 | 4,400,000 | Varies |
| Total Special Assessment Bonds | | | | | <u>\$ 11,223,700</u> | <u>\$ 8,226,000</u> | |

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Loans/Contracted Debt:

Loans and Contracted Debt outstanding as of June 30, 2012 were as follows:

| <u>Purpose</u> | <u>Original Amount</u> | <u>Date of Issue</u> | <u>Interest Rate</u> | <u>Outstanding 06/30/2012</u> | <u>Date of Last Payment</u> |
|-----------------------------------|------------------------|----------------------|----------------------|-------------------------------|-----------------------------|
| Guenther Building Purchase (1) | \$ 999,000 | 2004 | Varies | \$ 221,308 | 2014 |
| Capital Improvement Libraries (1) | 999,000 | 2005 | Varies | 393,426 | 2016 |
| Re-Entry Facility (1) | 800,000 | 2006 | Varies | 359,575 | 2016 |
| Fair Grounds Improvement (1) | 500,000 | 2007 | Varies | 226,023 | 2016 |
| Courthouse Annex (1) | 999,000 | 2007 | Varies | 605,081 | 2018 |
| 9-1-1 Center (1) | 1,000,000 | 2009 | Varies | 729,178 | 2019 |
| Road & Bridge Shop Complex (1) | 1,300,000 | 2008 | Varies | 905,807 | 2019 |
| Search & Rescue Building (1) | 300,000 | 2012 | 2.75 | 280,583 | 2026 |
| Total | <u>\$ 6,897,000</u> | | | <u>\$ 3,720,981</u> | |

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 | \$ 281,768 |
| General Governmental Activities | 1,964,091 |
| Internal Service Funds | <u>21,369</u> |
| | <u>\$ 2,267,228</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 capital 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, 2012, include the following:

| | |
|--------------------------------|-------------------|
| Equipment | \$ 1,273,260 |
| Less: Accumulated depreciation | <u>(370,399)</u> |
| Total | <u>\$ 902,861</u> |

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

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012 were as follows:

| For Fiscal Year Ended | G. O. Principal | G. O. Interest | Revenue Bond Principal | Revenue Bonds Interest |
|--------------------------|----------------------|----------------------|---------------------------|------------------------------|
| 2013 | \$ 1,990,848 | \$ 1,696,265 | \$ 368,000 | \$ 28,444 |
| 2014 | 2,077,100 | 1,624,121 | 125,000 | 23,437 |
| 2015 | 2,172,100 | 1,553,246 | 125,000 | 20,312 |
| 2016 | 2,267,100 | 1,482,171 | 125,000 | 20,625 |
| 2017 | 2,371,250 | 1,402,058 | 125,000 | 19,688 |
| 2018-2022 | 13,321,250 | 5,685,786 | 437,500 | 41,563 |
| 2023-2027 | 13,555,000 | 2,966,558 | - | - |
| 2028-2032 | 5,070,000 | 366,038 | - | - |
| Total | <u>\$ 42,824,648</u> | <u>\$ 16,776,243</u> | <u>\$ 1,305,500</u> | <u>\$ 154,069</u> |

| For Fiscal Year Ended | Special Bonds Principal | Special Bonds Interest | Contract Debt Principal | Contract Debt Interest |
|--------------------------|----------------------------|---------------------------|----------------------------|---------------------------|
| 2013 | \$ 300,000 | \$ 429,648 | \$ 700,767 | \$ 97,536 |
| 2014 | 340,000 | 420,396 | 728,140 | 86,510 |
| 2015 | 403,000 | 407,683 | 642,810 | 74,153 |
| 2016 | 459,000 | 391,112 | 551,797 | 57,980 |
| 2017 | 489,000 | 371,545 | 393,180 | 39,243 |
| 2018-2022 | 2,455,000 | 1,482,135 | 613,116 | 49,709 |
| 2023-2027 | 2,350,000 | 844,913 | 91,171 | 6,350 |
| 2028-2032 | 1,430,000 | 174,900 | - | - |
| Total | <u>\$ 8,226,000</u> | <u>\$ 4,522,332</u> | <u>\$ 3,720,981</u> | <u>\$ 411,481</u> |

| For Fiscal Year Ended | Capital Lease Principal | Capital Lease Interest | Grand Total |
|--------------------------|----------------------------|---------------------------|----------------------|
| 2013 | \$ 118,585 | \$ 32,246 | \$ 5,762,339 |
| 2014 | 121,886 | 28,944 | 5,575,534 |
| 2015 | 125,280 | 25,550 | 5,549,134 |
| 2016 | 792,139 | 22,062 | 6,168,986 |
| 2017 | - | - | 5,210,964 |
| 2018-2022 | - | - | 24,086,059 |
| 2023-2027 | - | - | 19,813,992 |
| 2028-2032 | - | - | 7,040,938 |
| Total | <u>1,157,890</u> | <u>\$ 108,802</u> | <u>\$ 79,207,946</u> |

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

F. 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, 2012 were:

| | <u>PERS</u> | <u>SRS</u> | <u>TRS</u> |
|----------|-------------|------------|------------|
| Employer | 7.070% | 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, 2012, 2011 and 2010 as listed below were equal to the required contributions for each year.'

| | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|----------|-------------|-------------|-------------|
| PERS | | | |
| County | 948,599 | 957,167 | 979,411 |
| Employee | 925,790 | 934,148 | 966,958 |
| State | 13,417 | 13,417 | 13,853 |
| SRS | | | |
| County | 371,813 | 636,784 | 484,691 |
| Employee | 391,446 | 582,015 | 450,332 |
| TRS | | | |
| County | 4,589 | 4,742 | 4,742 |
| Employee | 4,794 | 4,538 | 4,538 |
| State | 64 | 64 | 1,581 |

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

G. 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.

H. Restricted Cash/Investments

The following restricted cash and investments were held by the County as of June 30, 2012. These amounts are reported within the cash and investment account on fund financial statements.

| <u>Description</u> | <u>Amount</u> |
|--------------------------|---------------------|
| Gallatin County Landfill | \$ 2,338,767 |
| Total | <u>\$ 2,338,767</u> |

Restricted cash of \$44,011 in other governmental funds exists for cash reserved for security deposits and capital restrictions.

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 \$1,728,200 liability for landfill closure and post closure as of June 30, 2012, which represents the cumulative amount reported to date based on the use of 47.28% 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 \$1,926,800. These amounts are based on what it should cost to perform all closure and post closure in 2012. 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, 2012 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.

**GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 purchase of re-insurance, 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 contracted with Traveler's Insurance company for workers' compensation coverage. The county budgets and pays the required premium on a quarterly basis.

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, 2012, were estimated by the plan administrator. Claims payable as of year end are:

| | <u>2010</u> | | <u>2011</u> | | <u>2012</u> |
|--------------------------|--------------------|----|--------------------|----|--------------------|
| Beginning claims payable | \$ 304,411 | \$ | 617,888 | \$ | 286,757 |
| Claims incurred | 4,718,738 | | 3,964,831 | | 4,113,875 |
| Claims paid | <u>(4,405,261)</u> | | <u>(4,295,962)</u> | | <u>(4,130,241)</u> |
| Ending claims payable | \$ <u>617,888</u> | \$ | <u>286,757</u> | \$ | <u>270,391</u> |

L. Commitments

Primary Government

At June 30, 2012, Gallatin County had approximate contractual commitments of the following:

| <u>Department</u> | <u>Amount</u> | <u>Project</u> |
|---------------------|---------------------|------------------------|
| Commission | \$ 42,375 | External Audit |
| Facilities | 33,776 | Guenther Generator |
| Grants | 11,328 | Pogreba Airport Paving |
| Grants | 8,500 | Churchill Sidewalk |
| Landfill | 132,777 | Leachate Pond |
| WY Compost Facility | 22,648 | Stormwater Management |
| Search & Rescue | 29,071 | Mobile Command Vehicle |
| Detention Center | 58,014 | DC Contract Retainage |
| Road & Bridge | 1,121,880 | Graders |
| | <u>\$ 1,460,368</u> | |

Future appropriations will fund these commitments as work is performed.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 2012.

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 2012 there are 34 retirees and/or survivors enrolled for the employer's sponsored health insurance plan.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 | \$ | 199,235 |
| Interest on net OPEB obligation | | 35,293 |
| Adjustment to annual required contribution | | <u>(33,071)</u> |
| Annual OPEB cost (expense) | | 201,457 |
| Contributions made | | <u>(71,618)</u> |
| Increase in net OPEB obligation | | 129,839 |
| Net OPEB obligation - beginning of year | | <u>830,429</u> |
| Net OPEB obligation - end of year | \$ | <u><u>960,268</u></u> |

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, 2012, 2011, 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 |
| 2011 | \$ 190,842 | 35.6% | \$ 830,429 |
| 2012 | \$ 201,457 | 35.6% | \$ 960,268 |

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$1,606,557, 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 \$17,049,722 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 9.4%.

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 2015 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.

GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 percent payroll growth assumption.
4. Healthcare cost trend rate (HCCTR) was based on projections from historical rates of the County. A rate of 10.0% initially in 2012 reduced by 1% each year until an ultimate rate of 6.0% after 4 years and after.
5. Health insurance premiums for 2012 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. 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.

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, 2012

| | <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 | 6,091,512 | 6,091,512 | 6,124,954 | 33,442 |
| General Business Licenses | 500 | 500 | 1,075 | 575 |
| Federal Grants | 446,053 | 446,053 | 113,621 | (332,432) |
| Federal Payments in Lieu of Tx | - | - | 477 | 477 |
| State Grants | 55,000 | 55,000 | 82,133 | 27,133 |
| State Shared Revenue | 784,000 | 784,000 | 827,804 | 43,804 |
| Local Grants | - | 5,526 | 10,526 | 5,000 |
| Charges for Services | 1,649,086 | 1,649,086 | 1,952,401 | 303,315 |
| Fines & Forfeitures | 467,200 | 467,200 | 379,534 | (87,666) |
| Miscellaneous | 74,000 | 74,000 | 81,723 | 7,723 |
| Investment Earnings | 140,000 | 140,000 | 112,117 | (27,883) |
| Total revenues | <u>9,707,351</u> | <u>9,712,877</u> | <u>9,686,365</u> | <u>(26,512)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government-Personnel | 6,479,178 | 6,479,225 | 6,342,598 | 136,627 |
| General Government-Operations | 1,397,299 | 1,420,599 | 1,231,228 | 189,371 |
| Public Safety-Personnel | 550,547 | 555,591 | 515,726 | 39,865 |
| Public Safety-Operations | 509,808 | 510,290 | 496,363 | 13,927 |
| Public Works-Personnel | 487,827 | 487,827 | 482,158 | 5,669 |
| Public Works-Operations | 1,047,652 | 1,047,652 | 228,444 | 819,208 |
| Social & Econ Serv-Personnel | 71,059 | 71,059 | 72,040 | (981) |
| Social & Econ Serv-Operations | 327,050 | 327,050 | 321,368 | 5,682 |
| Cons Nat'l Rec-Debt Principal | - | - | 201 | (201) |
| Total current: | <u>10,870,420</u> | <u>10,899,293</u> | <u>9,690,127</u> | <u>1,209,166</u> |
| Debt service: | | | | |
| Principal Retirement | 127,362 | 127,362 | 129,095 | (1,733) |
| Interest | 28,704 | 28,704 | (11,352) | 40,056 |
| Total debt service: | <u>156,066</u> | <u>156,066</u> | <u>117,743</u> | <u>38,323</u> |
| Capital outlay: | | | | |
| General Government-Capital Exp | 65,361 | 75,361 | 20,701 | 54,660 |
| Public Works-Capital Expend | 456,377 | 456,377 | 34,342 | 422,035 |
| Social & Econ Serv-Capital Exp | 2,500 | 2,500 | - | 2,500 |
| Total capital outlay: | <u>524,238</u> | <u>534,238</u> | <u>55,043</u> | <u>479,195</u> |
| Total expenditures | <u>11,550,724</u> | <u>11,589,597</u> | <u>9,862,912</u> | <u>1,726,685</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,843,373)</u> | <u>(1,876,720)</u> | <u>(176,548)</u> | <u>1,700,173</u> |
| SPECIAL ITEMS | | | | |
| Transfers In | 260,000 | 293,300 | 551,355 | 258,055 |
| General Government. | (75) | (75) | (40) | 35 |
| Transfers Out | (20,448) | (20,448) | (27,072) | (6,624) |
| Total other financing sources and uses and special items | <u>239,477</u> | <u>272,777</u> | <u>524,243</u> | <u>251,466</u> |
| Net change in fund balances | (1,603,896) | (1,603,943) | 347,696 | 1,951,639 |
| Fund balances -- beginning | <u>3,289,147</u> | <u>3,289,147</u> | <u>3,289,147</u> | <u>-</u> |
| Fund balances -- ending | <u>\$ 1,685,251</u> | <u>\$ 1,685,204</u> | <u>\$ 3,636,843</u> | <u>\$ 1,951,639</u> |

See accompanying notes to the financial statements.

Gallatin County, State of Montana
2300 PUBLIC SAFETY FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

| | <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 | 11,265,666 | 11,265,666 | 11,368,029 | 102,363 |
| Other licenses | 15,000 | 15,000 | 32,215 | 17,215 |
| Federal Grants | 96,000 | 98,000 | 70,504 | (27,496) |
| State Grants | 30,000 | 30,000 | 20,045 | (9,955) |
| State Shared Revenue | 459,500 | 459,500 | 527,333 | 67,833 |
| Charges for Services | 739,628 | 739,628 | 935,185 | 195,557 |
| Fines & Forfeitures | 8,000 | 8,000 | 14,839 | 6,839 |
| Miscellaneous | 15,500 | 415,500 | 501,280 | 85,780 |
| Investment Earnings | 13,500 | 13,500 | 7,475 | (6,025) |
| Contributions/Donations | - | - | 3,180 | 3,180 |
| Total revenues | <u>12,642,794</u> | <u>13,044,794</u> | <u>13,480,085</u> | <u>435,291</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public Safety-Personnel | 8,579,447 | 8,576,447 | 8,297,886 | 278,561 |
| Public Safety-Operations | 3,246,463 | 3,262,742 | 3,091,991 | 170,751 |
| Total current: | <u>11,825,910</u> | <u>11,839,189</u> | <u>11,389,877</u> | <u>449,312</u> |
| Debt service: | | | | |
| Principal Retirement | 100,000 | 100,000 | 97,011 | 2,989 |
| Interest | 7,000 | 7,000 | 32,423 | (25,423) |
| Total debt service: | <u>107,000</u> | <u>107,000</u> | <u>129,434</u> | <u>(22,434)</u> |
| Capital outlay: | | | | |
| Public Safety-Capital Expend | 336,466 | 207,687 | 101,934 | 105,753 |
| Public Safety-Debt Serv Princi | | 400,000 | 400,000 | - |
| Total capital outlay: | <u>336,466</u> | <u>607,687</u> | <u>501,934</u> | <u>105,753</u> |
| Total expenditures | <u>12,269,376</u> | <u>12,553,876</u> | <u>12,021,245</u> | <u>532,631</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>373,418</u> | <u>490,918</u> | <u>1,458,840</u> | <u>967,922</u> |
| OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS | | | | |
| Local Option Taxes | 22,137 | 22,137 | 15,000 | (7,137) |
| Miscellaneous | - | 15,000 | 11,250 | (3,750) |
| Transfers In | - | - | 14,698 | 14,698 |
| Transfers Out | (419,241) | (551,741) | (617,649) | (65,908) |
| Total other financing sources and uses and special items | <u>(397,104)</u> | <u>(514,604)</u> | <u>(576,701)</u> | <u>(62,097)</u> |
| Net change in fund balances | (23,686) | (23,686) | 882,139 | 905,825 |
| Fund balances -- beginning | <u>803,864</u> | <u>803,864</u> | <u>803,864</u> | <u>-</u> |
| Fund balances -- ending | <u>\$ 780,178</u> | <u>\$ 780,178</u> | <u>\$ 1,686,003</u> | <u>\$ 905,825</u> |

See accompanying notes to the financial statements.

Gallatin County, State of Montana
2500 RID MAINTENANCE
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|-----------------------------------------------------------|-------------------------|--------------------|-----------------------|---------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | 1,038,027 | 1,038,027 | 991,457 | (46,570) |
| Property Taxes | - | - | 42,648 | 42,648 |
| Investment Earnings | | | | |
| Total revenues | <u>1,038,027</u> | <u>1,038,027</u> | <u>1,034,105</u> | <u>(3,922)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public Works-Operations | 5,607,888 | 5,596,196 | 1,301,693 | 4,294,503 |
| Total current: | <u>5,607,888</u> | <u>5,596,196</u> | <u>1,301,693</u> | <u>4,294,503</u> |
| Capital outlay: | | | | |
| Total capital outlay: | - | - | - | - |
| Total expenditures | <u>5,607,888</u> | <u>5,596,196</u> | <u>1,301,693</u> | <u>4,294,503</u> |
| | | | | |
| Excess (deficiency) of revenues over (under) expenditures | <u>(4,569,861)</u> | <u>(4,558,169)</u> | <u>(267,588)</u> | <u>4,290,581</u> |
| | | | | |
| Total other financing sources and uses and special items | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | | |
| Net change in fund balances | (4,569,861) | (4,558,169) | (267,588) | 4,290,581 |
| | | | | |
| Fund balances -- beginning | <u>4,563,210</u> | <u>4,563,210</u> | <u>4,563,210</u> | <u>-</u> |
| | | | | |
| Fund balances -- ending | <u>(\$ 6,651)</u> | <u>\$ 5,041</u> | <u>\$ 4,295,622</u> | <u>\$ 4,290,581</u> |

See accompanying notes to the financial statements.

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) | Unfunded AAL (UAAL) | Funded 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% |
| June 30, 2011 | \$ - | \$ 1,477,499 | \$ 1,477,499 | 0.00% | \$ 16,393,964 | 9.01% |
| June 30, 2012 | \$ - | \$ 1,606,557 | \$ 1,606,557 | 0.00% | \$ 17,049,722 | 9.40% |

This schedule is based on the actuarial values as of July 1, 2008, and January 1, 2011. 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, 2012

| Federal Grantor/Pass-Through | Federal CFDA Number | Prime Award Number | Pass-Through Grantor's Number | Program or Award Amount | Beginning Balance July 1, 2011 | Federal Revenue | Federal Expenditures | Ending Balance June 30, 2012 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------|-------------------------------------|----------------------------|--------------------------------------|----------------------|-------------------------|------------------------------------|
| U.S. Department of Agriculture | | | | | | | | |
| <i>Passed through the State Department of Public Health and Human Services</i> | | | | | | | | |
| Special Supplemental Food Program (WIC) (10/01/10-09/30/11) | 10.557 | | 11-07-5-21-009-0 | \$ 205,006.00 | \$ - | \$ 57,808.00 | \$ 57,808.00 | \$ - |
| Special Supplemental Food Program (WIC) (Original grant 09/01/11 - 06/30/12 amended to 09/30/12) Award also increased from \$145,000 to \$232,049 | 10.557 | | 12-07-5-21-009-0 | \$ 232,049.00 | \$ - | \$ 148,953.00 | \$ 148,953.00 | \$ - |
| Special Supplemental Food Program (WIC BFPC) (10/01/10-09/30/11) | 10.557 | | 11-07-5-21-039-0 | \$ 15,897.00 | \$ - | \$ 2,734.00 | \$ 2,734.00 | \$ - |
| Special Supplemental Food Program (WIC BFPC) (Original grant 09/01/11 - 06/30/12 amended to 09/30/12) Award also increased from \$10,500 to \$14,000 | 10.557 | | 12-07-5-21-039-0 | \$ 14,000.00 | \$ - | \$ 10,500.00 | \$ 10,500.00 | \$ - |
| <i>Total Passed through the State Department of Pulic Health and Human Services:</i> | | | | \$ 466,952.00 | \$ - | \$ 219,995.00 | \$ 219,995.00 | \$ - |
| <i>Passed through the State Department of Agriculture</i> | | | | | | | | |
| Noxious Weed Trust Fund Project-Mule Creek Cooperative | 10.664 | 10-DG-11010000-007 | MDA 2011-713 | \$ 14,338.00 | \$ - | \$ 4,638.00 | \$ 4,638.00 | \$ - |
| Noxious Weed Trust Fund Project-Hebgen Basin Weed Management | 10.664 | 10-DG-11010000-007 | MDA 2011-711 | \$ 20,549.00 | \$ - | \$ 20,325.90 | \$ 20,325.90 | \$ - |
| | | | | \$ 34,887.00 | \$ - | \$ 24,963.90 | \$ 24,963.90 | \$ - |
| <i>Direct:</i> | | | | | | | | |
| Gallatin County Comprehensive Travel Map USDA -Cooperative Agreement | 10.665 | 11-CA-11011100-030 | DIRECT | \$ 15,000.00 | \$ - | \$ 9,510.81 | \$ 9,510.81 | \$ - |
| Hyalite Road Plowing Project -Cooperative Agreement - Amendment 2 | 10.665 | 10-CS-11011100-002 | DIRECT | \$ 10,000.00 | \$ - | \$ 10,000.00 | \$ 10,000.00 | \$ - |
| | | | | \$ 25,000.00 | \$ - | \$ 19,510.81 | \$ 19,510.81 | \$ - |
| Total U.S. Department of Agriculture | | | | \$ 526,839.00 | \$ - | \$ 264,469.71 | \$ 264,469.71 | \$ - |
| U.S. Department of Commerce | | | | | | | | |
| <i>Direct:</i> | | | | | | | | |
| Economic Development Administration -Comprehensive Economic Development Strategy | 11.302 | 05-86-05197 | DIRECT | \$ 50,000.00 | \$ - | \$ 16,607.00 | \$ 16,607.00 | \$ - |
| Total U.S. Department of Commerce | | | | \$ 50,000.00 | \$ - | \$ 16,607.00 | \$ 16,607.00 | \$ - |
| U.S. Department of Energy | | | | | | | | |
| <i>Direct</i> | | | | | | | | |
| ARRA EECBG - Energy Efficiency & Conservation Block Grant | 81.128 | DE-RW0000148 | DIRECT | \$ 198,700.00 | \$ - | \$ 39,802.31 | \$ 39,802.31 | \$ - |
| Total U.S. Department of Energy | | | | \$ 198,700.00 | \$ - | \$ 39,802.31 | \$ 39,802.31 | \$ - |
| U.S. Environmental Protection Agency | | | | | | | | |
| <i>Direct:</i> | | | | | | | | |
| EPA Urban Waters Small Grant | 66.440 | EPA0W-10-12-01 | DIRECT | \$ 60,000.00 | \$ - | \$ 1,166.14 | \$ 1,166.14 | \$ - |
| | | | | \$ 60,000.00 | \$ - | \$ 1,166.14 | \$ 1,166.14 | \$ - |
| <i>Passed through the Montana Department of Environmental Quality:</i> | | | | | | | | |
| Gallatin Ground Water Project (319) | 66.460 | C9-99833611 | 211078 | \$ 70,000.00 | \$ - | \$ 8,293.86 | \$ 8,293.86 | \$ - |
| Radon Grant 12/15/11 - 06/30/12 | 66.605 | BG-99861310 | 212039 | \$ 5,000.00 | \$ - | \$ 5,000.00 | \$ 5,000.00 | \$ - |
| | | | | \$ 75,000.00 | \$ - | \$ 13,293.86 | \$ 13,293.86 | \$ - |
| Total Environmental Protection Agency | | | | \$ 135,000.00 | \$ - | \$ 14,460.00 | \$ 14,460.00 | \$ - |
| U.S. Department of Health and Human Services | | | | | | | | |
| <i>Passed through the State Department of Public Health and Human Services:</i> | | | | | | | | |
| Immunization Action Plan 01/01/11-12/31/11 - Supplemental Funds of \$5,864 | 93.268 | | 11-07-4-31-016-0 | \$ 37,258.00 | \$ - | \$ 21,561.00 | \$ 21,561.00 | \$ - |
| Immunization Action Plan 01/01/12 - 06/30/12 | 93.268 | | 12-07-4-31-016-0 | \$ 15,697.00 | \$ - | \$ 15,697.00 | \$ 15,697.00 | \$ - |
| Crisis Intervention Team Development and Training CIT | 93.912 | | 12-331-740746-0 | \$ 15,000.00 | \$ - | \$ 3,368.51 | \$ 3,368.51 | \$ - |
| TB Vaccination Program 01/01/11-12/31/11 | 93.116;93.991 | | 11-07-4-11-041-0 | \$ 4,000.00 | \$ - | \$ 483.58 | \$ 483.58 | \$ - |
| TB Vaccination Program 01/01/12 - 12/31/12 - No set award. See Note #5 | 93.116 | | | \$ 1,558.33 | \$ - | \$ 1,558.33 | \$ 1,558.33 | \$ - |

GALLATIN COUNTY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2012

| Federal Grantor/Pass-Through | Federal CFDA Number | Prime Award Number | Pass-Through Grantor's Number | Program or Award Amount | Beginning Balance July 1, 2011 | Federal Revenue | Federal Expenditures | Ending Balance June 30, 2012 |
|---------------------------------------------------------------------------------------------------------------------|---------------------|-----------------------|-------------------------------|-------------------------|--------------------------------|----------------------|----------------------|------------------------------|
| CHA/CHIP Community Health Assessment & Community Health Improvement Plan (06/01/11 - 09-30-11) MLC | 93.991 | | 11-07-1-01-014-0 | \$ 15,000.00 | \$ - | \$ 15,000.00 | \$ 15,000.00 | \$ - |
| Pregnant & Parenting Teens (PPT) 8/15/11-9/30/12(Original grant \$83,931, modified \$57,833) | 93.500 | | 1102PROS0179 | \$ 140,764.00 | \$ - | \$ 105,545.31 | \$ 105,545.31 | \$ - |
| Public Health Emergency Preparedness (PHEP) 09/01/10 - 08/31/11 <i>Deliverable Based</i> | 93.069 | | 11-07-6-11-021-0 | \$ 108,196.00 | \$ - | \$ 18,032.00 | \$ 18,032.00 | \$ - |
| Public Health Emergency Preparedness (PHEP) 09/01/11 - 06/30/12 <i>Deliverable Based</i> | 93.069 | 2U90TP816832-11 | 12-07-6-11-021-0 | \$ 81,146.00 | \$ - | \$ 81,146.00 | \$ 81,146.00 | \$ - |
| Maternal, Infant & Early Childhood Home Visiting Infrastructure Development (MIECHV ID) Project 04/01/12 - 09/30/12 | 93.505 | 6 D89MC23152-01-01 | 12-07-5-31-028-0 | \$ 99,029.20 | \$ - | \$ 28,281.26 | \$ 28,281.26 | \$ - |
| Montana Cancer Control Programs 07/01/11 - 06/30/12 | 93.283 | | 12-07-3-01-007-0 | \$ 140,080.00 | \$ - | \$ 105,080.00 | \$ 105,080.00 | \$ - |
| NAPA Grant- 07/01/11 - 06/30/12 <i>Deliverable Based</i> | 93.283 | | 12-07-3-01-096-0 | \$ 15,000.00 | \$ - | \$ 15,000.00 | \$ 15,000.00 | \$ - |
| Maternal & Child Health Services Block Grant - MCH 07/01/11 - 06/30/12 | 93.994 | | 12-07-5-01-016-0 | \$ 110,414.00 | \$ - | \$ 110,414.00 | \$ 110,414.00 | \$ - |
| Title II STD/HIV Grant & Case Mgmt Amend #1 - 04/01/10-07/31/11 - Supplemental Funds | 93.917 | | 10-07-4-51-104-0 | \$ 10,750.00 | \$ - | \$ 500.00 | \$ 500.00 | \$ - |
| <i>Total Passed through the State Department of Public Health and Human Services:</i> | | | | \$ 793,892.53 | \$ - | \$ 521,666.99 | \$ 521,666.99 | \$ - |
| <i>Passed through MT DPHHS to Yellowstone City/County Health Dept/Riverstone Health to Gallatin County</i> | | | | | | | | |
| HIV Case Management & Support Services Delivery 07/01/11-03/31/12 | 93.917 | 11-07-4-51-108-0 | BOH2010-001 | \$ 4,500.00 | \$ - | \$ 2,479.99 | \$ 2,479.99 | \$ - |
| Ryan White C Outpatient STD/HIV Early Intervention Services 07/01/11 - 06/30/12 | 93.918 | 6 H76HA00145-17-01 | BOH2012-020 | \$ 10,000.00 | \$ - | \$ 3,224.97 | \$ 3,224.97 | \$ - |
| <i>Total Passed through Yellowstone City/County Health Dept/Riverstone Health:</i> | | | | \$ 14,500.00 | \$ - | \$ 5,704.96 | \$ 5,704.96 | \$ - |
| <i>Passed through the National Association of County and City Health Officials</i> | | | | | | | | |
| Medical Reserve Corps Units | 93.008 | 5MRCSG101005-02 | MRC#12 549 | \$ 5,000.00 | \$ - | \$ 5,000.00 | \$ 5,000.00 | \$ - |
| <i>Total Passed through the National Association of County and City Health Officials:</i> | | | | \$ 5,000.00 | \$ - | \$ 5,000.00 | \$ 5,000.00 | \$ - |
| <i>Passed through the Montana Board of Crime Control</i> | | | | | | | | |
| MBCC - 911 Mental Health Reporting Improvements - (equipment only - see note #4) | 93.243 | | 2012-019 | \$ 14,300.00 | \$ - | \$ 14,300.00 | \$ 14,300.00 | \$ - |
| <i>Total Passed through the Montana Board of Crime Control:</i> | | | | \$ 14,300.00 | \$ - | \$ 14,300.00 | \$ 14,300.00 | \$ - |
| Total U.S. Department of Public Health and Human Services | | | | \$ 827,692.53 | \$ - | \$ 546,671.95 | \$ 546,671.95 | \$ - |
| U.S. Department of Homeland Security | | | | | | | | |
| <i>Passed through the Montana Disaster & Emergency Services</i> | | | | | | | | |
| Homeland Security Grant Program (Equipment for Command Vehicle) | 97.067 | DHS-10-GPD-067-000-01 | 2010-SS-T0-0089 | \$ 157,865.00 | \$ - | \$ 66,932.24 | \$ 66,932.24 | \$ - |
| Homeland Security Grant Program (GPS Synchronized Transmitters & Support Equipment) | 97.067 | DHS-10-GPD-067-000-01 | 2010-SS-T0-0089 | \$ 252,525.00 | \$ - | \$ 252,525.00 | \$ 252,525.00 | \$ - |
| Emergency Management Performance Grant | 97.042 | EMW-2011-EP-00035 | 1EMGLLTN | \$ 49,000.00 | \$ - | \$ 44,561.52 | \$ 44,561.52 | \$ - |
| <i>Passed through the Montana Disaster & Emergency Services:</i> | | | | \$ 459,390.00 | \$ - | \$ 364,018.76 | \$ 364,018.76 | \$ - |
| Total U.S. Department of Homeland Security | | | | \$ 459,390.00 | \$ - | \$ 364,018.76 | \$ 364,018.76 | \$ - |
| U.S. Department of Justice | | | | | | | | |
| <i>Direct:</i> | | | | | | | | |
| LLEBG Bulletproof Vest Program | 16.607 | 2010 Fund | DIRECT | \$ 2,100.00 | \$ - | \$ 1,021.00 | \$ 1,021.00 | \$ - |
| LLEBG Bulletproof Vest Program | 16.607 | 2011 Fund | DIRECT | \$ 3,962.00 | \$ - | \$ 3,940.00 | \$ 3,940.00 | \$ - |
| Gallatin County Treatment Court Program BJA FY 10 Congressionally Selected - Women's Transition | 16.753 | 2010-DD-BX-0523 | DIRECT | \$ 185,000.00 | \$ - | \$ 52,638.58 | \$ 52,638.58 | \$ - |
| COPS I HIRING Grant | 16.710 | 2010UMWX0185 | DIRECT | \$ 420,656.00 | \$ - | \$ 123,434.82 | \$ 123,434.82 | \$ - |
| COPS II HIRING Grant | 16.710 | 2011-UM-WX-0107 | DIRECT | \$ 213,473.00 | \$ - | \$ 39,888.10 | \$ 39,888.10 | \$ - |
| JAG Byrne Memorial Justice Assistance Grant -Interoperable Communications & Terrorism Prevention | 16.738 | 2011-DJ-BX-2594 | DIRECT | \$ 12,402.00 | \$ - | \$ 5,844.61 | \$ 5,844.61 | \$ - |
| <i>Total Direct:</i> | | | | \$ 837,593.00 | \$ - | \$ 226,767.11 | \$ 226,767.11 | \$ - |

GALLATIN COUNTY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2012

| Federal Grantor/Pass-Through | Federal CFDA Number | Prime Award Number | Pass-Through Grantor's Number | Program or Award Amount | Beginning Balance July 1, 2011 | Federal Revenue | Federal Expenditures | Ending Balance June 30, 2012 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|--------------------|-------------------------------|-------------------------|--------------------------------|----------------------|----------------------|------------------------------|
| <i>Passed through the State Department of Justice - Montana Board of Crime Control:</i> | | | | | | | | |
| ARRA-JAG Byrne Memorial Justice Assistance Grant - Missouri River Drug Task Force (2009 JAG Recovery Funds) | 16.803 | 2009-SU-B9-0052 | 09-GR01-91059 | \$ 107,740.96 | \$ - | \$ 107,740.96 | \$ 107,740.96 | \$ - |
| JAG Byrne Memorial Justice Assistance Grant - Missouri River Drug Task Force Original (2010 JAG funds) FY11 award was extended to 06/12 and carried over \$125,939 | 16.738 | 2010-DJ-BX-0348 | 10-G01-90869 | \$ 329,141.38 | \$ - | \$ 125,939.01 | \$ 125,939.01 | \$ - |
| Victim Witness Program | 16.588 | 2011-WF-AX-0044 | 11-W03-90936 | \$ 32,586.00 | \$ - | \$ 32,586.00 | \$ 32,586.00 | \$ - |
| Operation Freedom from Fear (Original Award \$43,083 - Rec'd addl \$439.00 for a total of \$43,522.00) | 16.588 | 2011-WF-AX-0044 | 11-W02-90935 | \$ 43,522.00 | \$ - | \$ 43,522.00 | \$ 43,522.00 | \$ - |
| ARRA-Misdemeanor Probation - Domestic Violence | 16.588 | 2009-EF-S6-0039 | 09-WR01-90546 | \$ 64,700.00 | \$ - | \$ 10,246.24 | \$ 10,246.24 | \$ - |
| <i>Total Passed through the State Department of Justice - Montana Board of Crime Control:</i> | | | | \$ 577,690.34 | \$ - | \$ 320,034.21 | \$ 320,034.21 | \$ - |
| <i>Passed through the City of Bozeman</i> | | | | | | | | |
| Gallatin Project Consortium:Rural Project to End Violence Against Women | 16.589 | 2011-WR-AX-0014 | GC#2012-135 | \$ 117,578.00 | \$ - | \$ 23,833.00 | \$ 23,833.00 | \$ - |
| <i>Total Passed through the City of Bozeman:</i> | | | | \$ 117,578.00 | \$ - | \$ 23,833.00 | \$ 23,833.00 | \$ - |
| <i>Passed through the Office of Court Administrator:</i> | | | | | | | | |
| GPS Monitoring and Active Alcohol Monitoring Note #5 | 16.541 | | 2011-268 | \$ 394.00 | \$ - | \$ 394.00 | \$ 394.00 | \$ - |
| <i>Total Passed through the Office of Court Administrator:</i> | | | | \$ 394.00 | \$ - | \$ 394.00 | \$ 394.00 | \$ - |
| <i>Passed through the Montana Peace Officer's Association</i> | | | | | | | | |
| Mental Health Initiative -MT Offender Notification Tracking System (MONTS) - BJA FY 09 Congressionally Selected | 16.753 | 2009-DJ-BX-0211 | 2011-193 | \$ 52,902.00 | \$ - | \$ 34,961.00 | \$ 34,961.00 | \$ - |
| VIRGIL II - Continuation of MHI | 16.753 | 2011-DD-BX-0021 | 2013-023 | \$ 84,440.00 | \$ - | \$ 15,775.76 | \$ 15,775.76 | \$ - |
| <i>Total Passed through the Montana Peace Officer's Association:</i> | | | | \$ 137,342.00 | \$ - | \$ 50,736.76 | \$ 50,736.76 | \$ - |
| Total U.S. Department of Justice | | | | \$ 1,670,597.34 | \$ - | \$ 621,765.08 | \$ 621,765.08 | \$ - |
| U.S. Department of Transportation | | | | | | | | |
| <i>Passed through the State Department of Transportation:</i> | | | | | | | | |
| State and Community Highway Safety - DUI Task Force Grant | 20.600 | | 2010-02-20-12 | \$ 12,995.00 | \$ - | \$ 4,983.00 | \$ 4,983.00 | \$ - |
| Montana Department of Transportation - STEP Overtime Grant | 20.600;20.601 | | 2011-02-06-16 | \$ 18,000.00 | \$ - | \$ 8,214.00 | \$ 8,214.00 | \$ - |
| Montana Department of Transportation - STEP Overtime Grant | 20.600;20.601 | | 106081 | \$ 18,000.00 | \$ - | \$ 13,965.75 | \$ 13,965.75 | \$ - |
| Community Transportation Enhancement Prgm CTEP Churchill Sidewalk Project | 20.205 | | UPN 7746 | \$ 104,806.00 | \$ - | \$ 8,098.82 | \$ 8,098.82 | \$ - |
| Montana Department of Transportation (Equipment Only) Note 4** | 20.205 | | UPN 6770 | \$ 199,872.00 | \$ - | \$ 199,872.00 | \$ 199,872.00 | \$ - |
| <i>Total Passed through the State Department of Transportation:</i> | | | | \$ 353,673.00 | \$ - | \$ 235,133.57 | \$ 235,133.57 | \$ - |
| <i>Direct - Federal Aviation Administration</i> | | | | | | | | |
| FAA - Pogreba Airport Improvements | 20.106 | 3-30-0077-007-2011 | DIRECT | \$ 266,351.00 | \$ - | \$ 224,220.00 | \$ 224,220.00 | \$ - |
| <i>Total Direct - Federal Aviation Administration</i> | | | | \$ 266,351.00 | \$ - | \$ 224,220.00 | \$ 224,220.00 | \$ - |
| Total U.S. Department of Transportation | | | | \$ 620,024.00 | \$ - | \$ 459,353.57 | \$ 459,353.57 | \$ - |

Total Federal Assistance

\$ 4,488,242.87 \$ - \$ 2,327,148.38 \$ 2,327,148.38 \$ -

Note 1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Gallatin County under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Gallatin County, it is not intended to and does not present the financial position, changes in net assets or cash flows of Gallatin County.

**GALLATIN COUNTY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2012**

Note 2. Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are presented on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Governments*.

Note 3. Subrecipients:

Of the federal expenditures presented in the schedule, Gallatin County provided federal awards to subrecipients as follows:

| <u>Program Name:</u> | <u>CFDA #:</u> | <u>Subrecipient:</u> | <u>Amt Provided to Subrecipient:</u> |
|-----------------------------------------------------------------------|----------------|----------------------------------------------|--------------------------------------|
| DOJ Byrne Formula Missouri River Drug Task Force | 16.738 | City of Bozeman | \$52,084.00 |
| DOJ Byrne Formula Missouri River Drug Task Force | 16.738 | Broadwater Co Sheriff | \$7,809.97 |
| DOJ Byrne Formula Missouri River Drug Task Force | 16.738 | City of Helena | \$28,357.00 |
| DOJ Byrne Formula Missouri River Drug Task Force | 16.738 | Lewis & Clark County | \$38,810.10 |
| DOJ Byrne Formula Missouri River Drug Task Force | 16.738 | Park County Sheriff | <u>\$24,827.00</u> |
| | | | \$151,888.07 |
| DPHHS - Pregnant and Parenting Teens | 93.500 | THRIVE | \$41,071.31 |
| U.S. Dept of Transportation - State & Community Highway Safety DUI TF | 20.600 | City of Bozeman | \$4,121.78 |
| U.S. Dept of Transportation - State & Community Highway Safety DUI TF | 20.600 | Montana Highway Patrol | <u>\$469.19</u> |
| | | | \$4,590.97 |
| Comprehensive Economic Development Strategy | 11.302 | Northern Rocky Mountain Economic Development | \$14,622.95 |

Note 4. Equipment Received/Non-Cash Awards:

MDT/Montana Air Congestion Initiative program - 20.205 UPN 6770-CM STWD The State of Montana, Montana Department of Transportation purchased 1 Mechanical Sweeper and a Combination Sander/De-Icer for Gallatin County. Gallatin County paid \$30,980 which is 13.42% of the total amount.

MBCC - 911 Mental Health Report Improvements - 93.243 Montana Board of Crime Control, through this grant, facilitated improvements to the 911 dispatch ILEADS reporting software to record mental health related incidents by purchasing equipment on Gallatin County's behalf

Note 5. These grants are paid only as funds are available. The award amount reported is the amount Gallatin County earned and received in FY 12.

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, 2012, which collectively comprise the County’s basic financial statements and have issued our report thereon dated December 21, 2012. 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

Management of the County is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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*.

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.

We have noted certain matters that we reported to management of the County in a separate letter dated December 21, 2012.

Anderson Zur Muehlen & Co., P.C.

Bozeman, Montana
December 21, 2012

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, 2012. 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.

In our opinion, the 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, 2012.

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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the County's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the County's compliance but not to provide an opinion on the effectiveness of the County's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the County's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

We have noted certain matters that we reported to management of the County in a separate letter dated December 21, 2012.

Anderson Zur Muehlen & Co., P.C.

Bozeman, Montana
December 21, 2012

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

| | |
|-------------------------------------------------------------------------------------------------------------------|---------------|
| Internal control over major programs: | |
| Material weakness identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | No |

GALLATIN COUNTY, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Identification of major programs:

- 10.557 Special Supplemental Food Program (WIC)
- 10.557 Special Supplemental Food Program (WIC Breastfeeding Peer Counselor)
- 97.067 Homeland Security Grant Program (Equipment and Command Vehicle)
- 97.067 Homeland Security Grant Program (GPS Synchronized Transmitters & Support Equipment)
- 16.738 JAG Byrne Memorial Justice Assistance Grant – Interoperable Communications & Terrorism Prevention
- 16.738 Byrne Memorial Justice Assistant Grant – Missouri River Drug Task Force
- 16.803 AARA Byrne Memorial Justice Assistant Grant – Missouri River Drug Task Force
- 20.205 Community Transportation Enhancement Program – CTEP Churchill Sidewalk Project
- 20.205 Montana Department of Transportation – Equipment
- 20.106 FAA Progreba Airport Improvements

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, 2012

Prior Year Audit Findings:

2011-01 Sub-recipient Monitoring over Federal Awards – Community Development Block Grant – Rae Water and Sewer – CFDA No. 14.228

Status – Implemented.

2011-02 Program Income, Grants Administration, and Monitoring – Neighborhood Stabilization Program – CFDA No. 14.228

Status – Implemented

2011-03 Sub-recipient Monitoring over Federal Awards – Missouri River Drug Task Force Grant – CFDA No. 16.738

Status – Implemented.

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 |

- Financial Statement (Audited) - Fiscal Year Ended June 30, 2012
- General Obligation Debt Outstanding as of :

| | |
|------------------------|----------------------|
| 6/30/12 – \$42,824,648 | |
| 6/30/11 – 44,710,209 | 6/30/10 – 46,510,586 |
| 6/30/09 – 46,405,950 | 6/30/08 – 11,026,800 |

3. Market and Taxable Valuations:

| Fiscal Year | Total County Market Valuation | Total County Taxable Valuation ¹ | County Open Space Taxable Valuation |
|-------------|-------------------------------|---------------------------------------------|-------------------------------------|
| 2012/13 | \$8,722,835,096 | \$239,468,735 | \$235,497,392 |
| 2011/12 | 8,272,189,432 | 235,791,352 | 231,290,476 |
| 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 |

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

4. Estimated Population:

| Year | Gallatin County |
|-------------------|-----------------|
| 2011 | 90,551 |
| 2010 | 89,513 |
| 2009 ¹ | 90,434 |
| 2008 ¹ | 89,824 |
| 2007 ¹ | 87,359 |
| 2006 ¹ | 84,489 |

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

- Debt Capacity Remaining as of June 30, 2012 \$164,750,262.
- 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 ----- | | | | |
|-------------------------------------------|-------------------------|---------------|---------------|---------------|---------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| 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 | 79.78 | 85.19 | 89.94 | 88.69 | 87.40 |
| County Road Fund | 19.09 | 19.17 | 19.25 | 19.34 | 20.20 |
| County Library Levy | 6.38 | 6.06 | 6.14 | 6.14 | 6.14 |
| County-wide School Levy | 100.26 | 94.02 | 95.74 | 95.61 | 96.47 |
| Bozeman High School District Levies | 71.40 | 69.05 | 75.34 | 73.48 | 71.81 |
| Bozeman Elementary School District Levies | 141.13 | 130.49 | 121.55 | 123.38 | 131.45 |
| Open Space Bond Levy | 4.63 | 5.81 | 6.14 | 5.99 | 4.89 |
| Total | 468.67 | 455.79 | 460.10 | 458.63 | 464.36 |
| City of Bozeman | 171.16 | 171.16 | 166.75 | 164.75 | 164.75 |

8. Tax Collections – General Fund

| Fiscal Year | Total Tax Levy ² | Current Property Tax Collections | Total Property Tax Collections ¹ |
|-------------|-----------------------------|----------------------------------|---------------------------------------------|
| 2011/2012 | 4,476,939 | 4,292,953 | 4,576,441 |
| 2010/11 | 3,713,761 | 3,376,563 | 3,686,272 |
| 2009/10 | 3,140,315 | 2,851,686 ³ | 3,141,990 |
| 2008/09 | 2,370,867 | 2,123,721 ³ | 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 |

¹ Total Property Tax Collections includes delinquencies.

² Total Tax Levy represents the tax levy for the general fund only (amount actually billed)

³ 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 | 2011/12 Taxable Value |
|-----------------------------------|--------------------------|-----------------------|
| 1. Northwestern Energy | Electric Utility | \$14,936,160 |
| 2. Qwest Corporation | Telecommunications | 1,999,312 |
| 3. Bresnan Communications | Voice/Data/Video | 1,672,258 |
| 4. Montana Rail Link | Railroad | 1,366,836 |
| 5. PPL Montana | Utility Distribution | 1,190,485 |
| 6. Holcim, Inc. (formerly Holnam) | Cement Manufacturer | 1,150,360 |
| 7. Verizon Wireless | Telecommunications | 1,148,112 |
| 8. Luzenac America, Inc. | Talc Processing Facility | 919,555 |
| 9. Black Bull Run | Development | 770,958 |
| 10. Zoot Properties LLC | Technology | 589,266 |

10. Revolving Fund

| Fiscal Year End (June 30) | Revolving Fund Cash Balance | Principal Amount of Bonds | Percentage |
|------------------------------|--------------------------------|------------------------------|------------|
| 2012 | \$1,071,284 | \$8,226,000 | 13.0% |
| 2011 | 1,087,871 | 8,828,000 | 12.3 |
| 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 |

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, 2006 through 2012.

| Tax Year | Assessment Billing | Current Tax Collections in Year Assessed | Percent of Assessments Collected |
|----------|-----------------------|---------------------------------------------|-------------------------------------|
| 2011/12 | \$944,586 | \$826,695 | 87.5% |
| 2010/11 | 1,024,304 | 863,568 | 84.3 |
| 2009/10 | 526,259 | 489,624 | 93.0 |
| 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 |

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 July 01, 2007 through June 30, 2012.

| | Audited 2007/08 | Audited 2008/09 | Audited 2009/10 | Audited 2010/11 | Audited 2011/12 |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Beginning Balance – July 1 | \$ 686,430 | \$ 762,158 | \$ 766,111 | \$ 854,654 | \$ 1,087,871 |
| Property Taxes | \$ 5,363 | \$ 472 | \$ 41 | \$ 2 | \$ 34 |
| Investment Earnings | 28,611 | 19,573 | 12,248 | 14,624 | 9,545 |
| Transfer In ¹ | 45,003 | 0 | 88,250 | 233,119 | 0 |
| Transfer (Out) ² | 3,249 | 16,092 | 11,996 | 14,528 | 14,246 |
| Receipts Over Disbursements | \$ 75,728 | \$ 3,953 | \$ 88,543 | \$ 233,217 | (\$ 4,667) |
| Ending Balance – June 30 | \$ 762,158 | \$ 766,111 | \$ 854,654 | \$ 1,087,871 | \$ 1,083,204 |
| Assets: | | | | | |
| Cash/Investments | \$ 762,158 | \$ 766,111 | \$ 854,654 | \$ 1,087,871 | \$ 1,071,284 |
| Receivables | 597 | 114 | 79 | 77 | 14,581 |
| Total Assets | \$ 762,755 | \$ 766,225 | \$ 854,733 | \$ 1,087,948 | \$ 1,085,866 |
| Total Liabilities | \$ 597 | \$ 114 | \$ 79 | \$ 77 | \$ 30 |
| Fund Balance (Restricted) | \$ 180,000 | \$ 164,500 | \$ 234,050 | \$ 441,400 | \$ 436,733 |
| Fund Balance (Committed) | 582,158 | 601,611 | 620,604 | 646,471 | 649,103 |
| Total Fund Balance | \$ 762,158 | \$ 766,111 | \$ 854,654 | \$ 1,087,871 | \$ 1,085,836 |
| Total Liabilities/Fund Balances | \$ 762,755 | \$ 766,225 | \$ 854,733 | \$ 1,087,948 | \$ 1,085,866 |