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To the Board of County Commissioners
Yellowstone County, Montana

We have audited the basic financial statements of Yellowstone County (the County) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 20, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 23, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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 grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note 1 to the financial statements. We noted no transactions entered into by the County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Recently Issued Accounting Standards

The following accounting standards issued as of June 30, 2006, may affect the future financial reporting by the County

GASB 43 *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*	This statement establishes uniform financial reporting standards for other postemployment benefit plans other than pension plans. This statement is effective for the County in fiscal years beginning after December 15, 2006.
GASB 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions*	This statement improves the relevance and usefulness of financial reporting by requiring systematic, accrual basis measurement and recognition of other postemployment benefits expense over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with other postemployment employee benefits and whether and to what extent progress is being made in funding the plan. This statement is effective for the County in fiscal years beginning after December 15, 2007.
GASB 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*	This Statement establishes criteria that governments will use to ascertain whether the proceeds received from the exchange of an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments—generally, a single lump sum should be reported as revenue or as a liability. This statement is effective for the County in fiscal years beginning after December 15, 2006.

Recently Issued Auditing Standards

Through December 30, 2006, the Auditing Standards Board has issued 101 pronouncements since its creation in 1974. That is a little over three per year. In the last year, it has issued eleven new audit pronouncements.

Two of these pronouncements will be effective for the County's fiscal year 2007 audit. The first of these new standards, Statement on Auditing Standards No. 103, "Audit Documentation", enhances the level of documentation that auditors are required to provide about work performed and evidence obtained during an audit. Given this fact, we may be asking you for certain documents or information that we have not asked for in prior audits.

The second of the new standards, Statement on Auditing Standards No. 112, "Communicating Internal Control Related Matters Identified in an Audit", requires us to modify some of the standard language that is included in the management letter. Under this new requirement, internal control related issues that we relate to you via the management letter will be defined as either a control deficiency, significant deficiency or a material weakness in internal control. A significant deficiency in internal control is generally more serious than a control deficiency and adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness in internal control is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. As you can see, there is less judgment the auditor can exert to distinguish the different levels. The threshold has been significantly lowered.

If we identify a significant deficiency or material weakness in internal control the new standard requires that we communicate these issues in writing to the audit committee or board of directors.

The remaining pronouncements will dramatically change the audit process and the responsibilities of both the auditor and auditee. They become effective for the County for fiscal year 2008.

The conduct of the audit and the information tested will be more directed toward internal controls and will require more documentation of such controls. The time in the field may increase and the types of information we request and test will change.

We are evaluating these standards and their impact on our audit process through an intensive training program over the next twelve months. As we learn more about their impact on the audit process, we will share it with the County.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most significant accounting estimates recorded as of June 30, 2006, was for incurred but unpaid claims in the insurance fund, possible future litigation claims, and depreciation expense (useful lives) in the government-wide financial statements. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the County's financial reporting process.

Uncorrected Misstatements

We accumulated two uncorrected misstatements which were discussed with management and were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Therefore, the adjustments to correct these misstatements were not made to the financial statements. These uncorrected misstatements are summarized in the accompanying schedule.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered In Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

We would like to thank everyone involved for their cooperation and to commend the County's Accounting Department for their hard work and conscientious efforts in producing the accounting records and procedures.

This information is intended solely for the use of the Board of County Commissioners and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

Anderson ZurMuehlen & Co., P.C.

Billings, Montana
November 20, 2006

ANDERSON ZURMUEHLEN & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

Yellowstone County
Uncorrected Misstatements for 6/30/06

	STATEMENT OF NET ASSETS		STATEMENT OF ACTIVITIES	
	DR	CR	DR	CR
Revenue CC Fees			11,985	
Cash		11,985		
Explanation: Reconcile Checking Account.				
Wage Expense			1,904	
Accrued Wages		1,904		
Explanation: Adjust accrued wages.				
	-	13,889	13,889	-
Income (Expense)				(13,889)
Equity				-
CUMULATIVE MISSTATEMENT ERRORS:				(13,889)

CONCLUSION: Individual adjustments passed and the aggregate of adjustments passed have been evaluated and determined to be qualitatively immaterial. The aggregate of misstatements leaves an adequate allowance for possible undetected misstatements.