

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

**AUDIT REPORT**

**Denning, Downey & Associates, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

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PONDERA COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2013

**BOARD OF COUNTY COMMISSIONERS**

Joseph Christiaens  
Sandra J. Broesder  
Janice Hoppes

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Mary Ann Ries  
Jeanne Moon  
Kody L. Farkell  
Audrey Brown  
Josephine Stone  
Thomas A Kuka

County Attorney  
Treasurer  
Clerk and Recorder  
Justice of the Peace  
School Superintendent  
Sheriff/Coroner

## **Management Discussion and Analysis (MD&A)**

### **Fiscal Year 2012-2013**

Our discussion and analysis of Pondera County's financial performance provides an overview of Fiscal Year 2012-2013 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should review the principal financial statements found in the annual report to augment their understanding of the County's financial performance.

### **FINANCIAL HIGHLIGHTS**

- We maintained a basic status quo budget with an emphasis on maintaining and increasing cash reserves to insure fiscal stability. Wages were increased by a \$.42 per hour and health insurance contribution remained at 100% of employee deductible.
- Pondera County's interest revenue for the fiscal year totaled \$12,722. While this amount is only 5% lower than last fiscal year, it certainly has not recovered from the 2008 economic recession which hit the nation. Our interest received in FY2008-09 totaled \$77,580 and the decrease in interest revenue continues to have a significant impact on all budget areas.
- Pondera County participated fiscally in Sweet Grass Development, the Pondera Regional Port Authority, the Northern Transit Inter-Local, and the Brady County Water and Sewer District through a CDBG grant.
- Stabilized fuel cost combined with improved warranty agreements provided constancy in the Road Department as well as Public Safety. There were some minor building and equipment updates in both departments.
- Election costs continue to be significant due to necessary staff and judge training, programming, and maintenance contracts for the Auto Mark machines.
- Most funds remained generally the same as the previous year.

### **USING THIS ANNUAL FINANCIAL REPORT**

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. Pondera County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

#### **Statement of Net Position and the Statement of Activities**

The Statement of Net Position and the Statement of Activities convey details about the County as a whole and about its activities. These statements included all assets and liabilities of the County using the full accrual basis of accounting. All of the current year's revenues and expenses are recognized regardless of when cash is received or paid.

A compliance analysis is provided.

These two statements report the County's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the County's financial position. Over time, fluctuations in the County's net position is an indicator of whether its financial position is improving or deteriorating. Other factors to consider are changes in the property tax base and the condition of infrastructure within the County.

Pondera County uses Fund Accounting to guarantee and demonstrate compliance with finance-related legal requirements. A "fund" is a grouping of related accounts that is used to maintain control and accountability over resources that have been designated for specific activities or objectives. Pondera County Funds are divided into two categories: Governmental Funds and Fiduciary Funds.

**Governmental Funds:** Most of the County's fundamental services are reported in governmental funds, which details the flow of money into and out of the funds and the balances left at year-end available for future expenditures. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to government operations and essential services it provides. Governmental fund information helps to determine whether there are adequate financial resources available to finance future county services. The variance between governmental activities (reported in the Statement of NetPosition and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**Fiduciary Funds:** 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 to support the Pondera County's inherent functions. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary funds and notes to the financial statements can be found in the Annual Report.

### **Condensed Financial Statements**

Government-wide STATEMENT OF NET POSITION:

	<b><u>FY 2012-13</u></b>	<b><u>Post Audit</u></b>
	<b><u>Governmental</u></b>	<b><u>FY 2011-12</u></b>
	<b><u>Activities</u></b>	<b><u>Governmental</u></b>
		<b><u>Activities</u></b>
Current and other assets	4,616,663	4,264,627
Capital assets	6,000,431	6,023,273
Total assets	10,617,094	10,287,900
Long-term debt outstanding	2,436,691	2,048,103
Other liabilities	170,380	170,843
Total liabilities	2,607,071	2,218,946
Net position:		
Invested in capital assets net of related debt	3,923,741	4,280,580
Restricted	3,449,613	2,980,905
Unrestricted	636,669	807,469
Total net position	8,010,023	8,068,954

Government-wide STATEMENT OF ACTIVITIES

	<b><u>FY 2012-13</u></b> <b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Post Audit</u></b> <b><u>FY 2011-12</u></b> <b><u>Governmental</u></b> <b><u>Activities</u></b>
<b><u>Program Revenues</u></b>		
Charges for Services	578,273	574,996
Operating Grants and Contributions	178,258	290,636
Capital Grants and Contributions	43,923	134,783
Total Program Revenues	800,454	1,000,415
<b><u>General Revenues</u></b>		
Property Taxes	3,041,818	2,806,991
Video Poker Apportionment	2,250	2,300
Miscellaneous	46,202	22,388
Interest/Investment Earnings	12,722	13,411
PILT	196,745	193,722
MT Oil and Gas Production Tax	198,094	217,684
State Entitlement	449,393	492,946
Grants & Entitlements not restricted to specific progra	58,733	59,839
Intergovernmental Agreement	14,963	14,963
Reimbursements	540,532	463,640
Royalties	8,727	7,642
Special Items		
Gain (Loss) on disposal of capital assets		
Transfers – net		
Total General Revenues	4,543,179	4,295,526
<b>Total Revenues</b>	<b>5,343,633</b>	<b>5,295,941</b>

Government-wide STATEMENT OF ACTIVITIES

	<b><u>FY 2012-13</u></b> <b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Post Audit</u></b> <b><u>FY 2011-12</u></b> <b><u>Governmental</u></b> <b><u>Activities</u></b>
<b><u>Program Expenses by Function</u></b>		
General Government	1,509,247	1,364,179
Public Safety	953,611	923,707
Public Works	1,476,143	1,395,236
Public Health	963,723	803,202
Social & Economic Services	128,510	113,378
Culture & Recreation	158,069	158,539
Housing & Community Development	0	107,686
Debt Service Interest	22,001	67,435
Miscellaneous	156,990	162,545
Unallocated Depreciation		
Total Expenses	5,368,294	5,095,907
Excess (deficiency) before special items & transfers	-24,661	200,034
<b>Changes in net position</b>	<b>-24,661</b>	<b>200,034</b>

The largest portion of the County's net position is in capital assets less any outstanding, related debt used to acquire those assets. The capital assets are used to provide services to citizens. Resources, other than the asset itself, are used to retire any debt attributed to the asset. Sources for debt retirement can be from general and/or program revenues.

## GOVERNMENTAL ACTIVITIES

The cost of all governmental activities this year was \$5,368,294 compared to \$5,095,907 for fiscal year 2011-12 as found in the Statement of Activities.

The amount that our taxpayers ultimately financed for these activities through county taxes was \$3,041,818, up by \$209,827 from \$2,806,991 in fiscal year 2011-12. Some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with operating grants. Other revenues were derived from investment earnings, entitlement reimbursements, loans and other miscellaneous charges. Cash carryovers from the prior fiscal year (reserves) were utilized as well.

The County's programs net costs are presented below:

### Net Program Expenses by Function:

<u>Governmental Activities</u>	<u>FY 2012-13</u> <u>Net Expense</u>	<u>Post Audit</u> <u>FY 2011-12</u> <u>Net Expense</u>
General Government	1,509,247	1,364,179
Public Safety	953,611	923,707
Public Works	1,476,143	1,395,236
Public Health	963,723	803,202
Social & Economic Services	128,510	113,378
Culture & Recreation	158,539	158,539
Housing & Community Development	0	107,686
Debt Service Interest	22,001	67,435
Miscellaneous	156,990	162,545
Total Net Expenses	5,368,294	5,095,907

### Fund Balance Analysis (Major Funds)

	<u>General</u>	<u>Road</u>	<u>County</u> <u>Hospital</u>
Fund Balance – Current Year	1,039,809	654,227	108,390
Fund Balance – Prior Year	872,575	571,668	104,907*
Change in unassigned fund balance	167,234	82,669	13,759
% change in fund balance	16.08%	12.63%	3.21%

	<u>Public</u> <u>Safety</u>	<u>Noxious</u> <u>Weed Grant</u>	<u>DES (EP)</u> <u>Grant</u>
Fund Balance – Current Year	632,216	1,988	32,767
Fund Balance – Prior Year	520,636	1,121	28,437
Change in fund balance	154,455	0	13.21
% change in fund balance	17.65%	0.00%	0.04%

The increase in the fund balance in the General Fund is due to an increased allocation of mills levied, \$30,239 increase in oil and gas production revenue (\$10,000); increase in reimbursements, rental income, and Clerk and Recorder and Clerk of Court charge for services.

The increase in the Road Fund is a result of increased tax revenue, increased oil and gas production, and increased miscellaneous revenue.

\*The increase in the County Hospital Fund is a result of the facility requesting less for operating expenses in FY13 than in FY12 but enough funds were levied to cover a request equal to the prior year.

The increase in the Public Safety Fund is a result of additional allocated mills and oil and gas production as well as a decrease in spending and maintaining the reserve level.

The increase in the EP (DES) Grant is due to receipt of grant funding which added to the fund balance carried forward and spending at prior levels.

**Revenue Budget to Actual Variances:**

<u>General Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
	1,268,904	1,308,282	39,378	3.10%

There was a variance between the final budget amount and actual amount of revenue received in the General Fund of (\$39,378) for a (3.10%) variance. Investment and royalty earning were budgeted to be approximately the same as the amounts received in FY 2011-12.

<u>Road Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
	605,248	613,934	8,686	1.43%

There was a variance between the final budget amount and actual amount of revenue received in the Road Fund of \$8,686 for and 1.43% variance.

County Hospital and

<u>Nursing</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
<u>Home Fund:</u>	567,301	649,718	82,407	14.53%

There was a variation between the final budget amount and actual amount of revenue received in the County Hospital and Nursing Home Fund of \$82,407 for a 14.53% variance. The county under-budgeted the loan payment amount.

Public Safety

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	806,470	842,697	36,227	4.49%



County under-budgeted property taxes, local option tax and oil and gas production tax.

Noxious Weed

Grant Fund:	Budgeted	Actual	Variation	% Variance
	9,786	9,287	-499	-5.09%

County over-budgeted for grant award amount.

DES Grants

Fund:	Budgeted	Actual	Variation	% Variance
	34,207	37,702	3,495	10.22%

County under-budgeted the grant award amount.

## **CAPITAL ASSETS AND LONG-TERM DEBT**

Capital assets are those assets which are used in the performance of the County's functions. In addition, debt is considered a liability of the governmental activities. Both are reflected in the following charts noting that additional information can be obtained in the Notes to the Financial Statements.

### **Long Term Debt**

During the fiscal year, the County increased its long term debt by \$388,588.

### **Capital Assets**

The purchase of new assets, sale of assets, depreciation and other factors resulted in the current value of Pondera County net capital assets as of June 30, 2013 of \$6,000,431

Capital asset purchases were kept at status quo with new purchases of vehicles and/or equipment being offset, as much as possible, with trade-in or sale of fixed assets.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The 2014 Taxable Valuation increased slightly in Pondera County from \$13,502,028 to \$13,912,163. The value of a county-wide mill increases from \$13,380 to \$13,912. The FY14 budget did not allow for the reservation of any floated mills; all were levied.

The Conrad Community/Senior Center reconstruction was completed in FY12. While the bulk of the remodel funding has been from grants, there are ongoing maintenance expenses now that the building is occupied. These costs are being offset in part with rental income and will need to be evaluated for future budgets.

The cost of fuel will need to be monitored for impacts on future budgets, especially in the areas of Road, Bridge, and Public Safety.

We budgeted for several vehicles and repairs to the Courthouse roof. In addition, our antiquated telephone desk sets and wiring upgrades were included in our budget for 2013-14.

Our taxpayers have been very generous over the years in passing additional mill levies for our libraries, Rural Fire District and Pondera Regional Port Authority. The impact of those voted levies will be in the 2014 tax year.

While aiming for a 33% reserve in all funds, reserve amounts range from 10.3% (Retirement) to 33.0% (Weed Fund). Our goal remains to achieve the 33% reserve in all funds.

#### REQUESTS FOR INFORMATION

This financial report provides a general over view of Pondera County's finances for anyone interested in this government's finances. Question concerning any of the information provided in this report or requests for additional information should be addressed to:

Pondera County Clerk & Recorder's Office  
20 4<sup>th</sup> Ave SW, Ste 202  
Conrad, MT 59425-2340

Or e-mail to: [clerkrec@3rivers.net](mailto:clerkrec@3rivers.net)

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Pondera County  
Conrad, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Pondera Medical Center, which is the discretely presented component unit of Pondera County, Montana. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and opinion, insofar as it relates to the amount included for the audited discretely presented component unit of the County, is based on the report of the other auditors.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pondera Medical Center, a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Pondera Medical Center, is based solely on the report of the other auditors. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 8, 58 through 64, and 65 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of the Pondera County, Montana'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pondera County, Montana's internal control over financial reporting and compliance.

*Dennig, Downey and Associates, CPA's, P.C.*

June 30, 2014

**Pondera County, Montana**  
**Statement of Net Position**  
**June 30, 2013**

		<u><b>Governmental</b></u> <u><b>Activities</b></u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	4,261,937
Taxes and assessments receivable, net		213,735
Accounts receivable - net		3,473
Notes and loans receivable		-
Inventories		137,518
Total current assets	\$	<u>4,616,663</u>
Noncurrent assets		
Capital assets - land	\$	248,609
Capital assets - depreciable, net		5,751,822
Total noncurrent assets	\$	<u>6,000,431</u>
Total assets	\$	<u><u>10,617,094</u></u>
<b>LIABILITIES</b>		
Current liabilities		
Warrants payable	\$	512
Accrued payables		61,802
Accrued payroll		-
Due to other governments		417
Current portion of long-term capital liabilities		279,849
Current portion of compensated absences payable		138,261
Deferred grant revenue		107,649
Total current liabilities	\$	<u>588,490</u>
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	125,526
Noncurrent portion of long-term capital liabilities		1,796,841
Noncurrent portion of compensated absences		96,214
Total noncurrent liabilities	\$	<u>2,018,581</u>
Total liabilities	\$	<u><u>2,607,071</u></u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	\$	3,923,741
Restricted for capital projects		525,523
Restricted for debt service		134,060
Restricted for special projects		2,786,259
Restricted for other purposes		3,771
Unrestricted		636,669
Total net position	\$	<u>8,010,023</u>
Total liabilities and net position	\$	<u><u>10,617,094</u></u>

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2013**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
						Governmental Activities
<b>Functions/Programs</b>						
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 1,509,247	\$ 206,765	\$ 1,482	\$ 175	\$	(1,300,825)
Public safety	953,611	184,286	60,011	-	-	(709,314)
Public works	1,476,143	114,219	9,287	-	-	(1,352,637)
Public health	963,723	59,356	112,024	-	-	(792,343)
Social and economic services	128,510	13,647	-	43,748	-	(71,115)
Culture and recreation	158,069	-	(4,546)	-	-	(162,615)
Debt service - interest	22,001	-	-	-	-	(22,001)
Miscellaneous	156,990	-	-	-	-	(156,990)
Total Primary Government	\$ 5,368,294	\$ 578,273	\$ 178,258	\$ 43,923	\$	(4,567,840)
General Revenues:						
Property taxes for general purposes					\$	3,014,818
Video poker apportionment						2,250
Miscellaneous						46,202
Interest/investment earnings						12,722
PILT						196,745
Montana oil and gas production tax						198,094
State entitlement						449,393
Grants and entitlements not restricted to specific programs						58,733
Intergovernmental Agreement						14,963
Reimbursements						540,532
Royalties						8,727
Total general revenues, special items and transfers					\$	4,543,179
Change in net position					\$	(24,661)
Net position - beginning					\$	8,068,954
Restatements						(34,270)
Net position - beginning - restated					\$	8,034,684
Net position - end					\$	8,010,023

See accompanying Notes to the Financial Statements

Pondera County, Montana  
Balance Sheet  
Governmental Funds  
June 30, 2013

	General	Road	County Hospital and Nursing Home	Public Safety	Noxious Weed Grant	DES Grants	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
Current assets:								
Cash and investments	\$ 1,054,522	\$ 573,251	\$ 108,390	\$ 648,999	\$ 50,709	\$ 88,713	\$ 1,737,353	\$ 4,261,937
Taxes and assessments receivable, net	64,509	30,876	10,276	26,092	-	-	81,982	213,735
Accounts receivable - net	-	-	-	-	-	-	3,473	3,473
Inventories	-	89,713	-	-	-	-	47,805	137,518
Total current assets	\$ 1,119,031	\$ 693,840	\$ 118,666	\$ 675,091	\$ 50,709	\$ 88,713	\$ 1,870,613	\$ 4,616,663
Noncurrent assets:								
Advances to other funds	\$ 10,439	-	-	-	-	-	-	\$ 10,439
Total noncurrent assets	\$ 10,439	-	-	-	-	-	-	\$ 10,439
Total assets	\$ 1,129,470	\$ 693,840	\$ 118,666	\$ 675,091	\$ 50,709	\$ 88,713	\$ 1,870,613	\$ 4,627,102
<b>LIABILITIES</b>								
Current liabilities:								
Warrants payable	\$ 125	\$ -	\$ -	\$ -	-	-	387	\$ 512
Accrued payables	24,610	8,737	-	16,783	-	-	11,672	61,802
Due to other governments	417	-	-	-	-	-	-	417
Deferred revenue	64,509	30,876	10,276	26,092	-	-	81,982	213,735
Deferred grant revenue	-	-	-	-	48,721	55,946	2,982	107,649
Total current liabilities	\$ 89,661	\$ 39,613	\$ 10,276	\$ 42,875	\$ 48,721	\$ 55,946	\$ 97,023	\$ 384,115
Noncurrent liabilities:								
Advances payable	\$ -	\$ -	\$ -	\$ -	-	-	10,439	\$ 10,439
Total noncurrent liabilities	\$ -	\$ -	\$ -	\$ -	-	-	10,439	\$ 10,439
Total liabilities	\$ 89,661	\$ 39,613	\$ 10,276	\$ 42,875	\$ 48,721	\$ 55,946	\$ 107,462	\$ 394,554
<b>FUND BALANCES</b>								
Nonspendable	\$ -	\$ 89,713	\$ -	\$ -	-	-	47,805	\$ 137,518
Restricted	-	564,514	108,390	632,216	1,988	32,767	1,199,276	2,539,151
Assigned	-	-	-	-	-	-	525,412	525,412
Unassigned fund balance	1,039,809	-	-	-	-	-	(9,342)	1,030,467
Total fund balance	\$ 1,039,809	\$ 654,227	\$ 108,390	\$ 632,216	\$ 1,988	\$ 32,767	\$ 1,763,151	\$ 4,232,548
Total liabilities and fund balance	\$ 1,129,470	\$ 693,840	\$ 118,666	\$ 675,091	\$ 50,709	\$ 88,713	\$ 1,870,613	\$ 4,627,102

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**June 30, 2013**

<b>Total fund balances - governmental funds</b>	<b>\$ 4,232,548</b>
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,000,431
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	213,735
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,436,691)
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<b>Total net position - governmental activities</b>	<b>\$ <u>8,010,023</u></b>
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See accompanying Notes to the Financial Statements



**Pondera County, Montana**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2013**

	General	Road	County Hospital and Nursing Home	Public Safety	Noxious Weed Grant	DES Grants	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>								
Taxes and assessments	\$ 776,244	\$ 397,537	\$ 98,726	\$ 644,462	\$ -	\$ -	\$ 1,132,316	\$ 3,049,285
Intergovernmental	448,363	210,703	17,658	89,501	9,287	37,702	491,974	1,305,188
Charges for services	185,134	-	-	107,368	-	-	40,912	333,414
Fines and forfeitures	55,288	-	-	-	-	-	8,769	64,057
Miscellaneous	29,428	5,694	533,334	1,366	-	-	35,284	605,106
Investment earnings	10,570	-	-	-	-	-	2,582	13,152
Total revenues	\$ 1,505,027	\$ 613,934	\$ 649,718	\$ 842,697	\$ 9,287	\$ 37,702	\$ 1,711,837	\$ 5,370,202
<b>EXPENDITURES</b>								
General government	\$ 1,047,663	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 351,039	\$ 1,398,702
Public safety	45,638	-	-	749,630	-	33,372	33,973	862,613
Public works	-	571,725	-	-	8,420	-	461,523	1,041,668
Public health	123,118	-	547,560	-	-	-	105,955	776,633
Social and economic services	13,447	-	-	-	-	-	115,063	128,510
Culture and recreation	934	-	-	-	-	-	157,135	158,069
Debt service - principal	15,372	848,035	47,615	-	-	-	173,775	1,084,797
Debt service - interest	2,140	-	1,205	-	-	-	18,656	22,001
Miscellaneous	-	-	-	-	-	-	160,740	160,740
Capital outlay	-	570,759	50,000	-	-	-	124,916	745,675
Total expenditures	\$ 1,248,312	\$ 1,990,519	\$ 646,380	\$ 749,630	\$ 8,420	\$ 33,372	\$ 1,702,775	\$ 6,379,408
Excess (deficiency) of revenues over expenditures	\$ 256,715	\$ (1,376,585)	\$ 3,338	\$ 93,067	\$ 867	\$ 4,330	\$ 9,062	\$ (1,009,206)
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds of general long term debt	\$ -	\$ 1,418,794	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,418,794
Proceeds from the sale of general capital asset disposition	-	3,100	-	-	-	-	650	3,750
Transfers in	1,572	54,000	145	-	-	-	213,308	269,025
Transfers out	(91,500)	(17,000)	-	(44,450)	-	-	(116,075)	(269,025)
Total other financing sources (uses)	\$ (89,928)	\$ 1,458,894	\$ 145	\$ (44,450)	\$ -	\$ -	\$ 97,883	\$ 1,422,544
Net Change in Fund Balance	\$ 166,787	\$ 82,309	\$ 3,483	\$ 48,617	\$ 867	\$ 4,330	\$ 106,945	\$ 413,338
Fund balances - beginning	\$ 872,575	\$ 571,668	\$ 104,907	\$ 582,806	\$ 1,121	\$ 28,437	\$ 1,691,966	\$ 3,853,480
Restatements	447	250	-	793	-	-	(35,760)	(34,270)
Fund balances - beginning, restated	\$ 873,022	\$ 571,918	\$ 104,907	\$ 583,599	\$ 1,121	\$ 28,437	\$ 1,656,206	\$ 3,819,210
Fund balance - ending	\$ 1,039,809	\$ 654,227	\$ 108,390	\$ 632,216	\$ 1,988	\$ 32,767	\$ 1,763,151	\$ 4,232,548

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2013**

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

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>413,338</b>
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- Capital assets purchased		745,675
- Depreciation expense		(768,517)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue)		(26,569)
--	--	----------

The change in compensated absences is shown as an expense in the Statement of Activities

11,136

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets:

- Long-term debt principal payments		1,084,797
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Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets:

- Proceeds from the sale of long-term debt		(1,418,794)
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Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability		(65,727)
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<b>Change in net position - Statement of Activities</b>	<b>\$</b>	<b><u>(24,661)</u></b>
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See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2013**

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 9,468,325	\$ 310,545
Taxes receivable	-	446,769
Protested taxes sent to the state	-	(9,111)
Investments, at fair value:		
Investments	-	317
Total investments	\$ -	\$ 317
Total assets	\$ 9,468,325	\$ 748,520
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 222,069
Accounts payable	-	195,740
Due to others	-	330,711
Total liabilities	\$ -	\$ 748,520
<b>NET POSITION</b>		
Assets held in trust	\$ 9,468,325	

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2013**

		<b>Investment Trust Funds</b>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$	<u>16,302,119</u>
Total contributions	\$	<u>16,302,119</u>
Investment earnings:		
Interest and change in fair value of investments	\$	<u>29,370</u>
Net investment earnings	\$	<u>29,370</u>
Total additions	\$	<u>16,331,489</u>
<b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	<u>14,692,974</u>
Total deductions	\$	<u>14,692,974</u>
Change in net position	\$	<u>1,638,515</u>
Net Position - Beginning of the year	\$	7,829,810
Net Position - End of the year	\$	<u><u>9,468,325</u></u>

See accompanying Notes to the Financial Statements

**Pondera Medical Center**  
**A Component Unit of Pondera County, Montana**  
**Balance Sheet**  
**December 31 2012**

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$	714,464
Certificates of Deposit		180,135
Restricted cash - by donors		73,074
Receivables:		
Patient and resident, net of estimated uncollectibles of approximately \$718,000 in 2012		1,165,565
Estimated third-party payor settlements		285,403
Other		325,522
Supplies		135,653
Prepaid expenses		67,765
Total current assets	\$	<u>2,947,581</u>
Beneficial Interest in Perpetual Trust	\$	<u>447,590</u>

**Capital Assets**

Land	\$	48,854
Depreciable capital assets, net of accumulated depreciation		2,969,106
Construction in progress		109,412
Capital assets, net of accumulated depreciation	\$	<u>3,127,372</u>

**Other Assets**

Deferred financing costs, net of accumulated amortization of \$71,246	\$	6,836
Worker's Compensation deposit		97,069
Other assets		39,752
Total other assets	\$	<u>143,657</u>
Total assets	\$	<u><u>6,666,200</u></u>

**Liabilities and Net Position**

**Current Liabilities**

Note payable	\$	89,367
Current maturities of long-term debt and capital leases payable		466,239
Accounts payable - Trade		989,421
Accrued expenses		
Salaries and Wages		173,433
Compensated absences		277,960
Payroll taxes and other		96,435
Interest		7,070
Other		57,614
Total current liabilities	\$	<u>2,157,539</u>
Long-Term Debt and Capital Leases Payable, Less Current Maturities		615,083
Compensated absences		101,145
Total liabilities	\$	<u>2,873,767</u>

**Net Position**

Invested in Capital Assets, Net of Related Debt	\$	2,052,886
Restricted:		
Expendable for capital assets		67,088
Nonexpendable permanent endowment		447,590
Unrestricted		1,224,869
Total Net Position	\$	<u>3,792,433</u>
Total Liabilities and Net Position	\$	<u><u>6,666,200</u></u>

See accompanying Notes to the Financial Statements

**Pondera Medical Center**  
**A Component Unit of Pondera County, Montana**  
**Statement of Revenues, Expenses and**  
**Changes in Net Position**  
**For the Year Ended December 31, 2012**

**Operating Revenue**

Net patient and resident service revenue	
(Net of provision for bad debts of \$379,508)	\$ 11,763,235
Other revenue	97,525
Electronic health record incentive	838,658
Total Operating Revenue	<u>\$ 12,699,418</u>

**Expenses**

Professional care of patients and residents	\$ 7,908,052
General and administrative	3,101,793
Property and household	714,863
Depreciation and amortization	643,016
Dietary	564,632
Total expenses	<u>\$ 12,932,356</u>

Operating Loss	<u>\$ (232,938)</u>
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**Non-Operating Revenue (Expense)**

Bond payment funds from County	\$ 145,469
Other funds from County	128,348
Intergovernmental transfer	225,929
Interest income	28,089
Gain (loss) on perpetual trust	10,989
Grants	13,685
Interest expense	<u>(63,989)</u>
Total non-operating revenue	<u>\$ 488,520</u>

**Revenues in Excess of (Less Than) Expenses Before Capital**

Grants and Restricted Contributions	\$ 255,582
Capital Grants and Restricted Contributions	<u>99,601</u>
<b>Increase in Net Position</b>	<b>355,183</b>

Net Position, Beginning of Year	<u>\$ 3,437,250</u>
Net Position, End of Year	<u><u>\$ 3,792,433</u></u>

See accompanying Notes to the Financial Statements

**Pondera Medical Center**  
**A Component Unit of Pondera County**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2012**

**Operating Activities**

Cash received from and on behalf of patients and residents	\$ 11,564,907
Payments to employees for services	(8,152,904)
Payments to suppliers and contractors for goods and services	(4,145,688)
Cash received for electronic health records incentive	774,292
Other receipts and payments, net	82,327
Net Cash from Operating Activities	<u>\$ 122,934</u>

**Non-Capital Financing Activities**

Levied funds from County	\$ 128,348
Intergovernmental transfer received	225,929
Short-term borrowings on non-capital financing	406,341
Short-term payments on non-capital financing	(316,974)
Interest paid on non-capital financing	(8,973)
Non-capital grants received	13,685
Net Cash from Non-Capital Financing Activities	<u>\$ 448,356</u>

**Capital and Capital Related Financing Activities**

Bond payment funds from County	\$ 133,567
Restricted contributions	99,601
Purchases of capital assets	(282,885)
Principal paid on capital debt and leases	(472,926)
Interest paid on capital debt and leases	\$ (55,016)
Net Cash Used for Capital and Capital Related Financing Activities	<u>\$ (577,659)</u>

**Investing Activities**

Maturities of certificates of deposit	\$ 179,777
Purchases of certificates of deposit	(180,135)
Interest income	28,089
Net Cash from Investing Activities	<u>\$ 27,731</u>
Net Change in Cash and Cash Equivalents	<u>\$ 21,362</u>

Cash and Cash Equivalents at Beginning of Year	\$ 766,176
Cash and Cash Equivalents at End of Year	<u>\$ 787,538</u>

**Noncash Capital Financing Activities**

Capital lease and debt incurred for purchase of equipment	<u>\$ 306,767</u>
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**Reconciliation of Cash and Cash Equivalents to the Balance Sheet**

Cash and cash equivalents in current assets	\$ 714,464
Restricted cash	73,074
Cash and Cash Equivalents at End of Year	<u>\$ 787,538</u>

**Reconciliation of Operating Loss to Net Cash from Operating Activities**

Operating loss	\$ (232,938)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation and amortization	643,016
Provision for bad debts	379,508
Changes in assets and liabilities	
Receivables	(542,706)
Supplies	26,494
Prepaid expenses	2,490
Other assets	55,999
Accounts payable	(304,557)
Accrued expenses	95,628
Net Cash from Operating Activities	<u>\$ 122,934</u>

See accompanying Notes to the Financial Statements

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The County complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates the pre-November 30, 1989 FASB, APB and ARB pronouncements that the GASB considers to be applicable to state and local governments. This standard is effective for fiscal year ending June 30, 2013.

**Financial Reporting Entity**

In determining the financial reporting entity, the County complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, and includes all component units of which the County appointed a voting majority of the component units' board; the County is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the County complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the County.

*Primary Government*

The County is a political subdivision of the State of Montana governed by an elected three-member Board of County Commissioners. The County is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

*Discretely Presented Component Units*

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The County has the following discretely presented component units: Pondera Medical Center.

Separate financial statements can be obtained by contacting Pondera Medical Center, 805 Sunset Boulevard, Conrad, Montana, 59425.

Pondera Medical Center

The Pondera Medical Center is a 15-bed critical access hospital with 8 swing beds and a 59-bed nursing facility located in Conrad, Montana. The Medical Center is controlled by County. The board of Trustees of the Medical Center is appointed by the County Commissioners and one of the appointees is a county commissioner. The Medical Center has a December 31, 2012, year end. See pages 44 through 57 for detailed footnotes related to Pondera Medical Center.



PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

***Government-wide Financial Statements:***

*Basis of Presentation*

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function. The County does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

On the government-wide Statement of Net Position and the Statement of Activities, the governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The County generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net position are available.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

**Fund Financial Statements:**

*Basis of Presentation*

Fund financial statements of the reporting County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

**Modified Accrual**

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The County defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Major Funds:

The County reports the following major governmental funds:

*General Fund* – This is the County’s primary operating fund and it accounts for all financial resources of the County except those required to be accounted for in other funds.

*Road Fund* – A special revenue fund that accounts for the activities of the County’s road maintenance and construction operations.

*County Hospital and Nursing Home Fund* – A special revenue fund used for revenues received and expended for public health.

*Public Safety Fund* – A special revenue fund used for revenues received and expended for public safety purposes.

*Noxious Weed Fund* – A special revenue fund that accounts for control of noxious weeds in the county.

*DES Grants Fund* – A special revenue fund that accounts for emergency preparedness.

***Fiduciary Funds***

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

*Investment Trust Funds* – To report the external portion of investment pools reported by the sponsoring government.

*Agency Funds* – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the County as an agent for individuals, private organizations, other local governmental entities and the County’s claims and payroll clearing funds

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2013, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 1,300
Cash in banks:	
Demand deposits	584,635
Savings deposits	222,514
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	2,338
U.S. Government Securities	630,000
Repurchase agreements	12,600,020
Total	\$ <u>14,040,807</u>

**Repurchase Agreements**

An agreement in which a governmental entity (buyer-lender) transfers cash to a broker dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

**Credit Risk**

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be place in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

The government has no investment policy that would further limit its investment choices.

Short Term Investment Pool (STIP) Credit Quality ratings by the NRSRO as of June 30, 2013:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 907,892,295	A1	44
Corporate Commercial Paper	150,768,775	A1	105
Corporate Variable-Rate	663,143,336	A3	41
Certificates of Deposit Fixed Rate	50,000,000	A1	222
Certificates of Deposit Variable-Rate	435,974,196	A2	35
Other Asset Backed	17,987,295	BBB-	NA
U.S. Government Agency Fixed	25,000,000	A1	3
U.S. Government Agency Variable -Rate	182,700,345	A1	17
Money Market Funds (Unrated)	168,232,935	NR	1
Money Market Funds (Rated)	15,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>29,561,449</u>	NR	4
Total Investments	<u>\$ 2,646,260,626</u>	A2	<u>43</u>
Securities Lending Collateral Investment Pool	<u>\$ 7,182,928</u>	NR	*

\*“As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for U.S. dollar collateral.”

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

Audited financial statements for the State of Montana's Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2013 the government's bank balance was exposed to custodial credit risk as follows:

	June 30, 2013
	<u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 548,700
- Collateral held by the pledging bank's trust department in the County's name.	<u>270,168</u>
Total deposits and investments	<u>\$ 818,868</u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for County deposits at June 30, 2013, equaled or exceeded the amount required by State statutes.

**Concentration of Credit Risk**

The government places no limit on the amount the entity may invest in any one issuer. The government's concentration of credit risk percentages follow for each investment issued that is not issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments:

	<u>% of credit risk</u>
Repurchase agreements	<u>90 %</u>

**Interest Rate Risk**

The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of individual investments as of June 30, 2013 alone with their related interest rates and maturity dates.

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<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
Federal home loan MTG corp	1.10%	5/22/2017	\$ 177,914
Federal home loan bank	1.00%	6/27/2018	\$ 442,453

**Cash and Investment Pool**

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments".

**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 law. The County's pools are managed by the County Treasurer. The external portion of the County's investment pools are accounted for as investment trust funds.

The Entity has one pooled investment trust fund invested in STIP (State Short-term Investment Pool), money market deposits, U.S. government securities, and repurchase agreements. The pooled funds are carried at fair value.

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

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2013 to support the value of the shares in the pool.

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

**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 pooled investments.

**Condensed statements of investments pools**

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2013.

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**Statement of Net Position**

Net position held in trust for all pool participants:

Equity of internal pool participants	\$ 3,756,817
Equity of external pool participants	9,468,325
Total equity	<u>\$ 13,225,142</u>

**Condensed Statement of Changes in Net Position**

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 29,370	\$ 11,654
Contributions to trust	16,302,119	5,571,943
Distributions paid	<u>(14,692,974)</u>	<u>(5,829,840)</u>
Net change in net position	\$ 1,638,515	\$ (246,243)
Net position at beginning of year	<u>7,829,810</u>	<u>4,003,060</u>
Net position at end of year	<u>\$ 9,468,325</u>	<u>\$ 3,756,817</u>

**NOTE 3. RECEIVABLES**

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the Entity. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

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 (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

**NOTE 4. INVENTORIES**

Inventories are valued using the First In First Out (FIFO) method).



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The cost of inventories are recorded as an expenditure when purchased and an adjustment is made to inventory at year-end for any amounts which are not consumed.

**NOTE 5. CAPITAL ASSETS**

The County's assets are capitalized at historical cost or estimated historical cost. County policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	10 – 40 years
Improvements	10 – 20 years
Equipment	5 – 10 years
Infrastructure	20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2012-13 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 228,609	\$ -	\$ -	\$ 228,609
Pondera Medical Center	20,000	-	-	20,000
Total capital assets not being depreciated	<u>\$ 248,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248,609</u>
Other capital assets:				
Buildings	\$ 4,224,440	\$ -	\$ -	\$ 4,224,440
Improvements other than buildings	3,101,661	-	-	3,101,661
Machine & Equipment	4,888,273	695,675	(693,540)	4,890,408
Infrastructure	144,327	-	-	144,327
Pondera Medical Center *	6,159,659	50,000	-	6,209,659
Total other capital assets at historical cost	<u>\$ 18,518,360</u>	<u>\$ 745,675</u>	<u>\$ (693,540)</u>	<u>\$ 18,570,495</u>
Less: accumulated depreciation	<u>\$ (12,743,696)</u>	<u>\$ (768,517)</u>	<u>\$ 693,540</u>	<u>\$ (12,818,673)</u>
Total	<u>\$ 6,023,273</u>	<u>\$ (22,842)</u>	<u>\$ -</u>	<u>\$ 6,000,431</u>

\*The separate audit of the Pondera Medical Center also includes the net book value of buildings as \$1,631,895. The County is also reporting a net book value of the buildings of \$410,408.

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Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 55,954
Public safety	90,998
Public works	434,475
Public health	<u>187,090</u>
Total governmental activities depreciation expense	<u>\$ 768,517</u>

**NOTE 6. LONG TERM DEBT OBLIGATIONS**

In the governmental-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2013, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
General obligation bonds	\$ 560,000	\$ -	\$ (135,000)	\$ 425,000	\$ 135,000
Compensated absences	245,611	-	(11,136)	234,475	138,261
Intercap loans	334,658	-	(101,762)	232,896	64,784
Capital leases	848,035	1,418,794	(848,035)	1,418,794	80,065
Other post-employment benefits*	59,799	65,727	-	125,526	-
Total	<u>\$ 2,048,103</u>	<u>\$ 1,484,521</u>	<u>\$ (1,095,933)</u>	<u>\$ 2,436,691</u>	<u>\$ 418,110</u>

\*See Note 7

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

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, 2013 were as follows:

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<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2013</u>
Tax-Supported Hospital and Nursing Home Revenue Refunding Bonds, Series 2004	4/15/04	1.7-3.85%	11 yrs	8/1/15	\$ <u>1,415,000</u>	Varies	\$ <u>425,000</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 135,000	\$ 13,352
2015	140,000	8,366
2016	150,000	2,888
Total	\$ <u>425,000</u>	\$ <u>24,606</u>

**Intercap Loans**

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16<sup>th</sup> of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Intercap loans outstanding as of June 30, 2013 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2013</u>
Heat-Ventilation-AC System Replace Draw 1	5/28/04	1.25-4.85%	10 yrs	8/15/14	101,656	17,043
Heat-Ventilation-AC System Replace Draw 2	6/25/04	1.25-4.85%	9 yrs	8/15/14	56,483	9,208
Heat-Ventilation-AC System Replace Draw 3	7/16/04	1.25-4.85%	9 yrs	8/15/14	45,702	7,537
Heat-Ventilation-AC System Replace Draw 4	9/3/04	1.25-4.85%	9 yrs	8/15/14	96,526	16,016
Heat-Ventilation-AC System Replace Draw 5	10/15/04	1.25-4.85%	9 yrs	8/15/14	15,487	2,510
Heat-Ventilation-AC System Replace Draw 6	10/29/04	1.25-4.85%	9 yrs	8/15/14	50,159	8,790
Heat-Ventilation-AC System Replace Draw 7	12/10/04	1.25-4.85%	9 yrs	8/16/14	68,987	12,090
Building for Senior Center	7/3/08	1.25-4.25%	10 yrs	8/15/18	89,550	53,342
Building for Senior Center – remodel	8/12/11	1.25-1.95%	15 yrs	8/15/26	<u>113,841</u>	<u>106,360</u>
Total					\$ <u>971,487</u>	\$ <u>232,896</u>

PONDERA COUNTY, MONTANA  
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Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 64,784	2,911
2015	40,676	2,101
2016	16,930	1,593
2017	17,490	1,381
2018	18,067	1,163
2019	12,451	937
2020	7,820	781
2021	7,975	683
2022	8,130	584
2023	8,289	482
2024	8,452	379
2025	8,616	273
2026	8,784	165
2027	4,432	55
Total	\$ <u>232,896</u>	\$ <u>13,489</u>

**Capital Leases**

The County has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2013 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2013</u>
New 8 Caterpillar Motor Graders	11/26/13	3.10%	5 yrs	12/3/17	<u>1,418,794</u>	<u>1,418,794</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 80,065	\$ 45,404
2015	82,633	42,839
2016	85,274	40,195
2017	88,003	37,466
2018	1,082,819	34,650
Total	\$ <u>1,418,794</u>	\$ <u>200,554</u>

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**Compensated Absences**

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the County's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from County service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave.

**Advance Refunding of Long-Term Debt**

In prior years, the County defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements.

**NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN**

*Plan Description.* The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

*Funding Policy.* The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

*Funding Status and funding Progress.* The funded status of the plan as of June 30, 2013, was as follows:

Actuarial Accrued Liability (AAL)	\$	573,104
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	573,104
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	1,339,810
UAAL as a percentage of covered payroll		43%

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*Annual OPEB Cost and Net OPEB Obligation.* The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

Annual Required Contribution (ARC)	\$ 65,727
Interest on net OPEB obligation	\$ -
Adjustment to ARC	\$ -
Annual OPEB cost (expense)	\$ 65,727
Contributions made	\$ -
Increase in net OPEB obligation	\$ 65,727
Net OPEB obligation - beginning of year	\$ 59,799
Net OPEB obligation - end of year	\$ 125,526

*Actuarial Methods and Assumptions.* The following actuarial methods and assumptions were used:

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	2.66%
Average salary increase (Consumer Price Index)	2.80%

Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2010	3.90%
2011	5.20%
2012	5.50%
2013	6.10%
2014	6.60%
2015	6.70%
2016	7.00%
2017	6.80%
2018	6.80%
2019 and after	6.60%

PONDERA COUNTY, MONTANA  
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**NOTE 8. INTERFUND RECEIVABLES AND PAYABLES**

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2013:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Residual equity transfer – to close fund	General – Major Governmental	District Court – Nonmajor Governmental	\$ 471
Residual equity transfer – to close fund	General – Major Governmental	District Court – Nonmajor Governmental	471
Residual equity transfer – to close fund	General – Major Governmental	District Court – Nonmajor Governmental	324
Residual equity transfer – to close fund	General – Major Governmental	District Court – Nonmajor Governmental	305
Residual equity transfer – to close fund	General – Major Governmental	District Court – Nonmajor Governmental	1
Budgetary	Road – Major Governmental	PILT – Major Governmental(combined with General Fund)	54,000
Residual equity transfer – to close fund	County Hospital & Nursing Home – Major Governmental	County Hospital – Nonmajor Governmental	134
Residual equity transfer – to close fund	County Hospital & Nursing Home – Major Governmental	County Hospital – Nonmajor Governmental	11
Residual equity transfer – to close fund	Health Insurance – Employer Contribution – Nonmajor Governmental	Permissive Medical Levy – Nonmajor Governmental	17,927
Residual equity transfer – to close fund	Health Insurance – Employer Contribution – Nonmajor Governmental	Permissive Medical Levy – Nonmajor Governmental	19,032
Residual equity transfer – to close fund	Health Insurance – Employer Contribution – Nonmajor Governmental	Permissive Medical Levy – Nonmajor Governmental	27,675
Residual equity transfer – to close fund	Junk Vehicle – Nonmajor Governmental	Junk Vehicle Capital Outlay – Nonmajor Governmental	1,191
Budgetary	Northern Transit Interlocal – Nonmajor Governmental	PILT – Major Governmental(combined with General Fund)	37,500
Residual equity transfer – to close fund	State Allocated Federal Mineral Royalties – Nonmajor Governmental	CDBG – Growth Plan – Nonmajor Governmental	3,533
Budgetary	Public Safety Capital Improvement – Major Governmental	Public Safety – Major Governmental	44,450
Budgetary	Ambulance Capital Improvement – Nonmajor Governmental	Ambulance – Nonmajor Governmental	21,000

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Budgetary	Road/Bridge Equipment Purchase – Nonmajor Governmental	Road – Major Governmental	17,000
Budgetary	Road/Bridge Equipment Purchase – Nonmajor Governmental	Bridge – Nonmajor Governmental	<u>24,000</u>
			<u>\$ 269,025</u>

**NOTE 9. STATE-WIDE RETIREMENT PLANS**

All full-time Entity employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS) and Sheriffs Retirement System (SRS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2013 for the defined benefit plans, were:

	<u>PERS**</u>	<u>SRS</u>
Employer	7.07%	10.115%
Employee	6.90%*	9.425%
State	0.10%	-

\* For PERS members hired after 7/1/2011 that rate is 7.9%

\*\* For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account.

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. Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

The Entity's contributions for the years ended June 30, 2011, 2012, and 2013, as listed below, were equal to the required contributions for each year.



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	<u>PERS</u>	<u>SRS</u>
2011	\$ 91,468	\$ 53,267
2012	\$ 91,153	\$ 48,370
2013	\$ 98,201	\$ 47,892

**NOTE 10. LOCAL RETIREMENT PLANS**

**Deferred Compensation Plan**

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all Entity 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.

**NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

For committed fund balance the government's highest level of decision-making authority is and the formal action that is required to be taken to establish, modify or rescind a fund balance commitment is required to be set at a board meeting.

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Nonspendable Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	\$ 89,713	Inventory
Other governmental funds	<u>47,805</u>	Inventory
	<u>\$ 137,518</u>	

PONDERA COUNTY, MONTANA  
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**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 564,514	Public works
County Hospital and nursing home	108,390	Public health
Public safety	632,216	Public safety
Noxious Weed	1,988	Public works
DES Grants	32,767	Public safety
All other aggregate:		
	218,960	General government
	128,810	Public Safety
	426,694	Public works
	62,154	Public health
	63,875	Social and economic services
	19,381	Culture and recreation
	125,187	Debt Service
	154,215	Miscellaneous
Total	<u>\$ 2,539,151</u>	

**Committed Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of the Commitment</u>
Other Governmental funds	<u>\$ 525,412</u>	Future capital projects

**NOTE 12. DEFICIT FUND BALANCES**

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
Predatory Animal	\$ 371	Expenditures exceeded revenues	Future collections
District Court	387	Expenditures exceeded revenues	Future collections
Homeland Security Grant	2,163	Expenditures exceeded revenues	Future collections
Buckle Up Montana	5,396	Expenditures exceeded revenues	Future collections
Breast and Cervical Screening	320	Expenditures exceeded revenues	Future collections
Homeland Security Narrowband	705	Expenditures exceeded revenues	Future collections
Total	<u>\$9,342</u>		

PONDERA COUNTY, MONTANA  
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**NOTE 13. RESTATEMENTS**

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ 447	Prior year correction
Road	250	Prior year correction
Weed	30	Prior year correction
County Fair	14	Prior year correction
Airport	112	Prior year correction
District Court	12	Prior year correction
Emergency Snow Removal	5,680	Accrual correction
Extension Services	4	Prior year correction
Public Safety	793	Prior year correction
Drug Forfeiture	411	Prior year correction
Homeland Security Grant	(2,163)	Prior year correction
Buckle Up Montana	12	Prior year correction
NAPA Grant	232	Prior year correction
ARRA – HUB and SPOKE	(16,604)	Accrual correction
DEQ Grant		
Pondera County – Cemetary	<u>(23,500)</u>	Closure of permanent fund
Dist. Permanent Fund		
	<u>\$ (34,270)</u>	

**NOTE 14. JOINT VENTURES**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

**Law Enforcement Services**

The County participated in a law enforcement service agreement with the Town of Valier for the fiscal year ended June 30, 2013. County was paid \$12,250 for providing law enforcement for the fiscal year ended June 30, 2013.

The County participated in a law enforcement service agreement for dispatch services and operation of an emergency telephone system with the City of Conrad for the fiscal year ended June 30, 2013. County was paid \$12,250 for providing law enforcement for the fiscal year ended June 30, 2013.

PONDERA COUNTY, MONTANA  
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**NOTE 15. SERVICES PROVIDED TO OTHER GOVERNMENTS**

Pondera 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 serves as 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.

**NOTE 16. RISK MANAGEMENT**

The County faces 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the County has no coverage for potential losses from environmental damages.

Insurance Pools:

County has joined with other Montana counties to form a self-insurance pool offering workers' compensation coverage. This pool, named the Montana Association of Counties Workers' Compensation Trust, has entered into an agreement with a private management firm to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The Counties do not exercise specific control over the budgeting and financing of the Trust's activities.

Separate audited financial statements are available from the Montana Association of Counties Workers' Compensation Trust.

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The County has joined with 28 other Montana Counties to form a self-insurance pool offering liability and general insurance coverage. This pool, named the Montana Association of Counties Joint Powers Insurance Authority Trust, provides for property, liability, public officials errors and omissions, and crime coverage in the amount of \$50,000 each. The Trust also provides for additional coverage for the above areas through excess insurance lines for varying amounts. The Trust has entered into an agreement with a private insurance agency to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The counties do not exercise control over the budgeting and financing of the Trust's activities.

Separate audited financial statements are available from the Montana Association of Counties Joint Powers Insurance Trust.

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**Note 1 - Principal Activity and Significant Accounting Policies**

**Organization**

Pondera Medical Center (Medical Center) is a licensed 25-bed (acute or swing bed) critical access hospital (20 beds in use) and a 59-bed nursing facility located in Conrad, Montana. The purpose of the Medical Center is to maintain and operate a hospital, nursing home, and clinic, furnish medical and surgical care to the sick, infirmed, or injured.

As of April 1, 2012, the Medical Center absorbed the Pondera Eye Clinic as a department of the facility. Prior to April 2, 2012, the Pondera Eye Clinic was a wholly owned entity that was consolidated into the Medical Center's annual financial statements.

The Medical Center is governed by a Board of Directors, which has all the powers necessary to provide for the acquisition, betterment, operation, maintenance, and administration of the Medical Center. The members of the Board are appointed by the County Commissioners of Pondera County and one of the appointees is a member of the Pondera County Commissioners. Because of the Board appointments and because Pondera County has an obligation to assist the Medical Center in paying certain debt if the Medical Center cannot meet its obligation, the Medical Center is considered a component unit of Pondera County (County). On September 27, 2012, the corporate by-laws were amended to no longer require appointments by the County Commissioners.

**Proprietary Fund Accounting**

The Medical Center uses proprietary fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

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**Patient and Resident Receivables**

Patient and resident receivables are uncollateralized patient, resident and third-party payor obligations. The Medical Center does not charge interest on past due accounts. The Medical Center sends patient and resident receivables to a collection agency after all collection efforts have been exhausted.

Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

**Supplies**

Supplies are stated at lower of cost (first-in, first-out) or market.

**Beneficial Interest in Perpetual Trust**

The Medical Center has been named as an irrevocable beneficiary of a perpetual trust held and administered by an independent trustee. The perpetual trust provides for the distribution of the net income of the trusts to the Medical Center; however, the Medical Center will never receive the assets of the trusts. The beneficial interest in perpetual trust is recorded in the balance sheets at the fair value of the underlying trust assets. Trust distributions and changes in fair value are recognized in the statement of revenues, expenses, and changes in net position.

**Capital Assets**

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital leased assets are being depreciated under the straight-line method using the shorter of the lease term or estimated useful life of the asset. All capital assets other than land and capital leased assets are depreciated using the straight-line method of depreciation. The estimated useful lives of capital assets are as follows:

Land improvements	5 - 25 years
Buildings and improvements	9 - 50 years
Equipment	5 - 20 years

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**Impairment of Long-Lived Assets**

The Medical Center considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended December 31, 2012 and 2011.

**Deferred Financing Costs**

Deferred financing costs are amortized over the period the obligation is outstanding using the bonds outstanding method.

**Grants and Contributions**

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**Income Taxes**

The Medical Center is organized as a Montana nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Medical Center is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS.

The Medical Center believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Medical Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Restricted Resources**

When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it's the Medical Center's policy to use restricted resources before unrestricted resources.



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**Net Position**

Net position is presented in the following components:

Invested in Capital Assets, Net of Related Debt – Invested in capital assets consists of capital assets, net of accumulated depreciation, deferred financing costs, net of accumulated amortization and are reduced by the current balances of any outstanding balances used to finance the purchases or construction of those assets.

Restricted, Expendable for Capital Assets – Restricted, expendable for capital assets consist of noncapital amounts that must be used for a specific purpose as specified by creditors, grantors, or contributors external to the Medical Center. In this case, the net position restrictions are for capital asset acquisitions.

Restricted, Nonexpendable Endowment – Restricted, nonexpendable endowment consists of the Medical Center's beneficial interest in a perpetual trust.

Unrestricted – Unrestricted net position is the remaining net position that does not meet the definition of "invested in capital assets" or "restricted".

**Operating Revenues and Expenses**

The Medical Center's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**Net Patient and Resident Service Revenue**

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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**Charity Care**

The Medical Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue.

**Advertising Costs**

The Medical Center expenses advertising costs as they are incurred. The Medical Center incurred approximately \$38,000 and \$43,000 for advertising costs for the years ended December 31, 2012 and 2011.

**Risk Management**

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Compensated Absences**

The Medical Center's employees earn vacation, wellness, holidays, and earned illness bank (EIB) leave at varying rates depending on years of service. Upon termination or leaving employment, the employees will be paid the total number of hours accrued, excluding EIB hours, up to a maximum. The estimated amount of hour's payable as termination payments is reported as an accrued liability in both 2012 and 2011.

**Intergovernmental Transfer**

Intergovernmental transfer (IGT) revenue represents funds received from the State of Montana's IGT program, which includes supplemental payments in addition to the Medicaid reimbursement rate.

**Electronic Health Record (EHR) Incentive Payments**

The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

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During the years ended December 31, 2012 and 2011, the Medical Center recorded \$692,708 and \$-0-, respectively, related to the Medicare program, and \$145,950 and \$243,250, respectively, related to the Medicaid program, in other operating revenue for meaningful use incentives. The Medical Center demonstrated meaningful use and attested to the compliance requirements for the Medicare and Medicaid programs during 2012 and 2011.

Amounts recognized represent management's best estimates for payments ultimately expected to be received from Medicare and Medicaid based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

**Reclassifications**

Certain reclassifications have been made in the 2011 financial statements to make them conform to the 2012 presentation. The reclassification has no effect on excess or revenues over expenses or changes in net position.

**Subsequent Events**

The Medical Center has evaluated subsequent events through September 16, 2013, the date which the financial statements were available to be issued.

**Note 2 - Charity Care**

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone for services provided under the Medical Center's charity care policy were \$85,632 and \$63,521 during the years ended December 31, 2012 and 2011, respectively. Total direct and indirect costs related to these foregone charges were approximately \$76,000 and \$56,000 at December 31, 2012 and 2011, based on average ratios of cost to gross charges.

**Note 3 - Restricted Net Position**

The Medical Center has received support from donors that have limited the use of the donated assets for capital improvements. The composition of these restricted expendable assets at December 31, 2012 and 2011 is set forth in the following table. These assets are stated at fair value.

	<b>2012</b>	<b>2011</b>
Medical Equipment	\$ 66,088	\$ 69,022
Capital improvements	1,000	3,058
Solarium	-	9,178
	<u>\$ 67,088</u>	<u>\$ 81,258</u>

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In 2012 and 2011, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of \$115,382 and \$54,034, respectively.

**Note 4 - Net Patient and Resident Service Revenue**

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – The Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Medical Center and are subject to audits thereof by the Medicare intermediary.

The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2010. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medical Center.

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Other inpatient services, outpatient services, and outpatient capital costs related to Medicaid program beneficiaries are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and settlements thereof by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through December 31, 2010.

Blue Cross – Services rendered to Blue Cross subscribers are reimbursed under a prospectively determined methodology.

Nursing Home – The Medical Center is reimbursed for resident services at prospective per diem rates which are determined on an inflation-adjusted basis subject to certain limitations as prescribed by the Montana Department of Health and Human Services regulations. Under the Medicare program, payment for resident services is made on a prospectively determined per diem rate, which varies based on a case-mix adjusted patient classification system.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 22%, respectively, of the Medical Center's net patient service revenue for the year ended December 31, 2012 and approximately 26% and 28%, respectively, for the year ended December 31, 2011. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient and resident service revenue and contractual adjustments for the years ended December 2012 and 2011 is as follows:

	2012	2011
Total patient and resident service revenue	\$ <u>13,578,578</u>	\$ <u>13,657,428</u>
Contractual adjustments		
Medicare	\$ (456,979)	\$ (918,492)
Medicaid	(139,428)	(134,769)
Blue Cross	(146,318)	(115,775)
Other	<u>(693,110)</u>	<u>(601,762)</u>
Total contractual adjustments	\$ <u>(1,435,835)</u>	\$ <u>(1,770,798)</u>
Provision for bad debts	\$ <u>(379,508)</u>	\$ <u>(438,875)</u>
Net patient and resident service revenue	\$ <u><u>11,763,235</u></u>	\$ <u><u>11,447,755</u></u>

**Note 5 - Cash and Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center has a general investment policy to minimize custodial risk. At December 31, 2012 and 2011, the Medical Center had bank balances as follows:

	2012	2011
Insured (FDIC)	\$ 262,138	\$ 282,898
Uninsured or uncollateralized	<u>13,578,578</u>	<u>13,657,428</u>
Total bank balances	\$ <u><u>855,472</u></u>	\$ <u><u>785,727</u></u>
Carrying Value		
Cash and cash equivalents in current assets	\$ 714,464	\$ 677,382
Restricted cash in current assets	<u>73,074</u>	<u>88,794</u>
Total carrying value	\$ <u><u>787,538</u></u>	\$ <u><u>766,176</u></u>

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**Note 6 - Other Receivables**

	2012	2011
State of Montana bed tax receivable	\$ 162,247	\$ 169,531
Bond payment funds from County	83,286	71,384
Electronic health record incentive	64,366	-
Miscellaneous	15,623	425
	<u>\$ 325,522</u>	<u>\$ 241,340</u>

The Montana State Legislature passed an act imposing a utilization fee on hospital facilities for inpatient bed days, and authorized the Department of Revenue to collect the deposit fees in a state special revenue account for funding increases in Medicaid payments to Montana hospitals (Montana State Bed Tax). The state special revenue account received an appropriation from a federal special revenue fund to match the state special revenue collected through the utilization fee. The receivable balance as of December 31, 2012 and 2011 represents the Medicaid payment estimated to be received from the state special revenue account.

Bond payment funds consist of principal and interest payments made by Pondera County on behalf of the Medical Center for notes payable on a HVAC system. Pondera County also makes an annual bond payment with a principal payment on August 1 and interest payments on February 1 and August 1 through August 2015.

**Note 7 - Net Capital Assets**

A summary of property and equipment at December 31, 2012 and 2011 follows:

	Balance July 1, 2011	Additions	Retirements	Deletions	Balance June 30, 2012
Land	\$ 48,854	\$ -	\$ -	\$ -	\$ 48,854
Land improvements	167,880	-	-	-	167,880
Building and improvements	7,127,767	55,365	-	-	7,183,132
Equipment	4,462,070	445,632	-	350,569	5,258,271
Construction in progress	371,326	88,655	-	(350,569)	109,412
Total at historical cost	<u>\$ 12,177,897</u>	<u>\$ 589,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,767,549</u>
Less accumulated depreciation:					
Land improvements	\$ 144,557	\$ 3,518	\$ -	\$ -	\$ 148,075
Building and improvements	5,332,551	218,686	-	-	5,551,237
Equipment	3,524,913	415,952	-	-	3,940,865
Total accumulated depreciation	<u>\$ 9,002,021</u>	<u>\$ 638,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,640,177</u>
Capital assets, net	<u>\$ 3,175,876</u>	<u>\$ (48,504)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,127,372</u>

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	Balance July 1, 2011	Additions	Retirements	Deletions	Balance June 30, 2012
Land	\$ 48,854	\$ -	\$ -	\$ -	\$ 48,854
Land improvements	167,880	-	-	-	167,880
Building and improvements	7,070,058	56,194	-	1,515	7,127,767
Equipment	4,128,274	426,903	(93,107)	-	4,462,070
Construction in progress	<u>1,515</u>	<u>371,326</u>	<u>-</u>	<u>(1,515)</u>	<u>371,326</u>
Total at historical cost	<u>\$ 11,416,581</u>	<u>\$ 854,423</u>	<u>\$ (93,107)</u>	<u>\$ -</u>	<u>\$ 12,177,897</u>
Less accumulated depreciation:					
Land improvements	\$ 139,640	\$ 4,917	\$ -	\$ -	\$ 144,557
Building and improvements	5,102,579	229,972	-	-	5,332,551
Equipment	<u>3,343,674</u>	<u>274,162</u>	<u>(92,923)</u>	<u>-</u>	<u>3,524,913</u>
Total accumulated depreciation	<u>\$ 8,585,893</u>	<u>\$ 509,051</u>	<u>\$ (92,923)</u>	<u>\$ -</u>	<u>\$ 9,002,021</u>
Capital assets, net	<u>\$ 2,830,688</u>	<u>\$ 345,372</u>	<u>\$ -(184)</u>	<u>\$ -</u>	<u>\$ 3,175,876</u>

Construction in progress at December 31, 2012, represents remodeling of the entryway bridge, electronic medical records, lobby remodel and sidewalk. The estimated costs to complete these projects are approximately \$125,000.

**Note 8 - Leases**

The Medical Center leases the facility space and certain equipment under non-cancellable short-term lease agreements. Total lease expense in December 31, 2012 and 2011 for all operating leases was \$27,115 and \$30,046. There are no future operating lease payments for the year ending December 31, 2012.

The Medical Center leases certain equipment under non-cancellable lease agreements. The capitalized leased assets consist of:

	2012	2011
Equipment	\$ 840,027	\$ 789,027
Less Accumulated Depreciation	<u>(548,822)</u>	<u>(385,554)</u>
	<u>\$ 291,205</u>	<u>\$ 403,473</u>

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Future minimum capital lease payments as of December 31, 2012 are:

Years Ending December 31,	<u>Amount</u>
2013	\$ 139,004
2014	62,870
2015	60,619
2016	20,203
2017	<u>4,040</u>
Total Minimum Lease Payments	\$ 286,736
Less Interest	<u>(16,068)</u>
Present value of net minimum lease payments – Note 10	<u>\$ 270,668</u>

**Note 9 - Note Payable**

The Medical Center has entered into a 10.375% note with an unrelated third party for \$98,000. The note matures on November 11, 2013 and is unsecured.

**Note 10 - Long-Term Debt**

Long-term debt consists of the following:

	<u>2012</u>	<u>2011</u>
Revenue Refunding Bonds, Series 2004, interest rates from 2.3% to 3.85%, due in semi-annual installments, to August 2015, secured by property and equipment	\$ 425,000	\$ 560,000
Capitalized lease obligations, interest at 1.39% - 11.36%	270,668	401,115
6.15% note payable, due in monthly installments of \$110,653, including interest, through April 2015, secured by equipment	182,390	-
Note payable, at a variable interest rate, (3.25% at December 31, 2009), due in varying semi-annual installments to August 2014, secured by equipment	97,153	144,125
3.5% note payable, due in monthly installments of \$2,640, including interest, through June 2015, secured by land and building	75,726	103,747
3% Note payable, due in monthly installments of \$763, including interest, through June 2016, secured by equipment	<u>30,385</u>	<u>38,494</u>
	\$ 1,081,322	\$ 1,247,481
Less Current Maturities	<u>(466,239)</u>	<u>(369,311)</u>
	<u>\$ 615,083</u>	<u>\$ 878,170</u>



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Long-term debt maturities are as follow:

Year Ending December 31,	Principal	Interest	Total
2013	\$ 466,239	\$ 35,368	\$ 501,607
2014	354,318	26,379	380,697
2015	232,620	9,343	241,963
2016	24,394	758	25,152
2017	3,751	35	3,786
	<u>\$ 1,081,322</u>	<u>\$ 71,883</u>	<u>\$ 1,153,205</u>

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Amounts Due Within One Year
Bonds, Notes and Leases Payable					
Revenue Bonds	\$ 560,000	\$ -	\$ 135,000	\$ 425,000	\$ 135,000
Notes Payable	286,366	255,767	156,479	385,654	200,114
Capital lease obligations – see note 8	401,115	51,000	181,447	270,668	131,125
	<u>\$ 1,247,481</u>	<u>\$ 306,767</u>	<u>\$ 472,923</u>	<u>\$ 1,081,322</u>	<u>\$ 466,239</u>

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Amounts Due Within One Year
Bonds, Notes and Leases Payable					
Revenue Bonds	\$ 690,000	\$ -	\$ 130,000	\$ 560,000	\$ 135,000
Notes Payable	318,701	42,500	74,835	286,366	83,652
Capital lease obligations – see note 8	344,292	249,718	192,895	401,115	150,659
Total Non-Current Liabilities	<u>\$ 1,352,993</u>	<u>\$ 292,218</u>	<u>\$ 397,730</u>	<u>\$ 1,244,81</u>	<u>\$ 369,311</u>

**Note 11 - Concentration of Credit Risk**

The Medical Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2012 and 2011 was as follows:

	2012	2011
Medicare	33%	30%
Commercial insurance	21%	28%
Medicaid	6%	5%
Other third-party payors and patients	40%	37%
	<u>100%</u>	<u>100%</u>

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**Note 12 - Employee Benefit Plan**

The Medical Center has a 403(b) savings plan covering all employees. The plan provides that an employee is eligible to participate in the plan upon the date of hire. The Medical Center may contribute, at the discretion of the Board of Directors, a matching contribution. There were no matching contributions made to the plan for the years ended December 31, 2012 and 2011.

**Note 13 - Commitments and Contingencies Malpractice Insurance**

The Medical Center has insurance coverage to provide protection for professional liability losses on a claims - made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured without the purchase of prior incident or tail coverage.

**County Lease**

Under the terms of a lease agreement with Pondera County (County), the Medical Center agrees lease the hospital and nursing home facilities from the County on an annual basis for \$10 per year, with the lease renewing automatically if the conditions of the lease have been satisfactorily met, with additional lease payments described below. At the end of the lease or upon lease termination all of the Medical Center's property and equipment, inventory and accounts receivable will become property of the County.

During 1994, Pondera County taxpayers approved a bond issue to remodel the Medical Center and rebuild the nursing home. Series 1995 Bonds in the amount of \$1,850,000 were issued to pay for the construction costs. The Series 1995 bonds were refunded in 2004 with \$1,415,000 Series 2004 revenue refunding bonds. As part of the lease agreement described above, the Medical Center has agreed to pay the County an additional lease payment, on or before July 1, each year equal to the bond principal and interest payment for the following year.

The assets purchased with County funds are recorded as assets of the Medical Center. The Medical Center has also recorded the related bonds as long-term debt and the corresponding principal and interest payments as reductions of principal and interest expense.

**Litigations, Claims, and Disputes**

The Medical Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of the Medical Center.

PONDERA MEDICAL CENTER  
A Component Unit of Pondera County, Montana  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2012

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the Medical Center is in substantial compliance with current laws and regulations.

**Note 14 - New Accounting Pronouncements Newly Implemented Standards**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting*. Statement 62 was effective for the Medical Center's December 31, 2012 financial statements; however, the adoption of this statement did not have a material impact on the financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. That Statement amends Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 63 was effective for financial statements for the Medical Center's December 31, 2012 financial statements, however, the adoption of this statement did not have a material impact.

**Standards Not Yet Implemented**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. That Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The Medical Center has elected to not implement this statement early; however, the adoption of this statement is not expected to have a material impact on the financial statements.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2013

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 766,877	\$ 766,877	\$ 776,244	\$ 9,367
Licenses and permits	50	50	-	(50)
Intergovernmental	270,316	270,316	251,618	(18,698)
Charges for services	152,227	154,102	185,134	31,032
Fines and forfeitures	35,006	35,006	55,288	20,282
Miscellaneous	31,253	31,253	29,428	(1,825)
Investment earnings	11,300	11,300	10,570	(730)
Amounts available for appropriation	\$ 1,267,029	\$ 1,268,904	\$ 1,308,282	\$ 39,378
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 1,144,595	\$ 1,144,595	\$ 1,047,663	\$ 96,932
Public safety	67,209	67,209	45,638	21,571
Public works	-	-	-	-
Public health	112,991	148,866	123,118	25,748
Social and economic services	48,200	48,200	13,447	34,753
Culture and recreation	1,800	1,800	934	866
Housing and community development	14,963	14,963	-	14,963
Debt service - principal	23,265	23,265	15,372	7,893
Debt service - interest	3,194	3,194	2,140	1,054
Capital outlay	500	500	-	500
Total charges to appropriations	\$ 1,416,717	\$ 1,452,592	\$ 1,248,312	\$ 204,280
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -
Proceeds from the sale of general capital asset disposition	-	-	-	-
Transfers in	135,998	135,998	1,572	(134,426)
Transfers out	(103,963)	(103,963)	-	103,963
Total other financing sources (uses)	\$ 32,035	\$ 32,035	\$ 1,572	\$ (30,463)
Net change in fund balance			\$ 61,542	
Fund balance - beginning of the year			\$ 654,791	
Restatements			447	
Fund balance - beginning of the year - restated			\$ 655,238	
<b>Fund balance - end of the year</b>			<b>\$ 716,780</b>	

Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2013

	Road			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 391,084	\$ 391,084	\$ 397,537	\$ 6,453
Licenses and permits	-	-	-	-
Intergovernmental	210,064	210,064	210,703	639
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	4,100	4,100	5,694	1,594
Investment earnings	-	-	-	-
Amounts available for appropriation	\$ 605,248	\$ 605,248	\$ 613,934	\$ 8,686
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	748,890	748,890	571,725	177,165
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	51,148	51,148	848,035	(796,887)
Debt service - interest	36,131	36,131	-	36,131
Capital outlay	-	-	570,759	(570,759)
Total charges to appropriations	\$ 836,169	\$ 836,169	\$ 1,990,519	\$ (1,154,350)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ 1,418,794	\$ 1,418,794
Proceeds from the sale of general capital asset disposition	-	-	3,100	3,100
Transfers in	54,000	54,000	54,000	-
Transfers out	(17,000)	(17,000)	(17,000)	-
Total other financing sources (uses)	\$ 37,000	\$ 37,000	\$ 1,458,894	\$ 1,421,894
Net change in fund balance			\$ 82,309	
Fund balance - beginning of the year			\$ 571,668	
Restatements			250	
Fund balance - beginning of the year - restated			\$ 571,918	
<b>Fund balance - end of the year</b>			<b>\$ 654,227</b>	

Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2013

	County Hospital and Nursing Home				
	BUDGETED AMOUNTS		ACTUAL AMOUNTS		VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	(BUDGETARY BASIS) See Note A		
<b>RESOURCES (INFLOWS):</b>					
Taxes and assessments	\$ 97,590	\$ 97,590	\$ 98,726	\$ 1,136	
Licenses and permits	-	-	-	-	
Intergovernmental	21,349	21,349	17,658	(3,691)	
Charges for services	-	-	-	-	
Fines and forfeitures	-	-	-	-	
Miscellaneous	448,372	448,372	533,334	84,962	
Investment earnings	-	-	-	-	
Amounts available for appropriation	\$ 567,311	\$ 567,311	\$ 649,718	\$ 82,407	
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>					
General government	\$ -	\$ -	\$ -	\$ -	
Public safety	-	-	-	-	
Public works	-	-	-	-	
Public health	463,372	463,372	547,560	(84,188)	
Social and economic services	-	-	-	-	
Culture and recreation	-	-	-	-	
Housing and community development	-	-	-	-	
Debt service - principal	71,913	71,913	47,615	24,298	
Debt service - interest	1,816	1,816	1,205	611	
Capital outlay	50,000	50,000	50,000	-	
Total charges to appropriations	\$ 587,101	\$ 587,101	\$ 646,380	\$ (59,279)	
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -	
Proceeds from the sale of general capital asset disposition	-	-	-	-	
Transfers in	-	-	145	145	
Transfers out	-	-	-	-	
Total other financing sources (uses)	\$ -	\$ -	\$ 145	\$ 145	
Net change in fund balance			\$ 3,483		
Fund balance - beginning of the year			\$ 104,907		
Restatements			-		
Fund balance - beginning of the year - restated			\$ 104,907		
<b>Fund balance - end of the year</b>			<b>\$ 108,390</b>		

Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2013

	Public Safety			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 617,922	\$ 617,922	\$ 644,462	\$ 26,540
Licenses and permits	-	-	-	-
Intergovernmental	96,586	96,586	89,501	(7,085)
Charges for services	90,162	90,162	107,368	17,206
Fines and forfeitures	-	-	-	-
Miscellaneous	1,800	1,800	1,366	(434)
Investment earnings	-	-	-	-
Amounts available for appropriation	\$ 806,470	\$ 806,470	\$ 842,697	\$ 36,227
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	999,739	999,739	749,630	250,109
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	-	-	-	-
Total charges to appropriations	\$ 999,739	\$ 999,739	\$ 749,630	\$ 250,109
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -
Proceeds from the sale of general capital asset disposition	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(40,000)	(40,000)	(44,450)	(4,450)
Total other financing sources (uses)	\$ (40,000)	\$ (40,000)	\$ (44,450)	\$ (4,450)
Net change in fund balance			\$ 48,617	
Fund balance - beginning of the year			\$ 582,806	
Restatements			793	
Fund balance - beginning of the year - restated			\$ 583,599	
<b>Fund balance - end of the year</b>			<u>\$ 632,216</u>	



Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2013

	Noxious Weed Grant			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ -	\$ -	\$ -	-
Licenses and permits	-	-	-	-
Intergovernmental	9,786	9,786	9,287	(499)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Investment earnings	-	-	-	-
Amounts available for appropriation	\$ 9,786	\$ 9,786	\$ 9,287	\$ (499)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	-
Public safety	-	-	-	-
Public works	60,063	60,063	8,420	51,643
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	-	-	-	-
Total charges to appropriations	\$ 60,063	\$ 60,063	\$ 8,420	\$ 51,643
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ -	-
Proceeds from the sale of general capital asset disposition	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ -	\$ -	\$ -	-
Net change in fund balance			867	
Fund balance - beginning of the year			\$ 1,121	
Restatements			-	
Fund balance - beginning of the year - restated			\$ 1,121	
<b>Fund balance - end of the year</b>			<b>\$ 1,988</b>	

Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2013

	DES Grants			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ -	\$ -	\$ -	-
Licenses and permits	-	-	-	-
Intergovernmental	34,207	34,207	37,702	3,495
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 34,207</u>	<u>\$ 34,207</u>	<u>\$ 37,702</u>	<u>\$ 3,495</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	-
Public safety	118,590	118,590	33,372	85,218
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	-	-	-	-
Total charges to appropriations	<u>\$ 118,590</u>	<u>\$ 118,590</u>	<u>\$ 33,372</u>	<u>\$ 85,218</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ -	-
Proceeds from the sale of general capital asset disposition	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance			<u>4,330</u>	
Fund balance - beginning of the year			28,437	
Restatements			-	
Fund balance - beginning of the year - restated			<u>28,437</u>	
<b>Fund balance - end of the year</b>			<u><u>32,767</u></u>	

**Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures**

### Note B

The County Hospital and Nursing Home fund exceeded budgetary authority as its expenditures exceeded the budgeted amounts with no budget amendment.

**Pondera County, Montana**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 135,782	\$ 135,782	0%	\$ 1,297,712	10%
July 1, 2012	\$ -	\$ 573,104	\$ 573,104	0%	\$ 1,339,810	43%

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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

Board of County Commissioners  
Pondera County  
Conrad, Montana

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Pondera County's basic financial statements and have issued our report thereon dated June 30, 2014. Our report includes a reference to other auditors who audited the financial statements of the Pondera Medical Center, the discretely presented component unit, as described in our report on Pondera County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pondera County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pondera County, Montana's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies listed as item 13-1.

### **13-1 Justice Court – Internal Controls (repeat of prior years finding 12-1)**

#### **Condition:**

As of June 30, 2013 the Justice Court:

1. Currently requires only one signature for check disbursements;
2. Allows the same person who is authorized for check disbursements to prepare and maintain the bank reconciliations; and
3. Does not make deposits of collections in a timely manner.

#### **Criteria:**

Good internal controls require that there be a segregation of duties between the handling of assets and the accounting for the assets.

#### **Effect:**

Internal controls are significantly weakened due to the single signature and the same person handling bank reconciliations. Currently, the same person who accounts for the assets through full court and bank reconciliations is the sole signer on the checking account and the deposits that once were timely have changes to include several deposits in a single day.

#### **Cause:**

There is not enough employees available within the department to segregate duties.

#### **Recommendation:**

We recommend the following:

1. The checking account is changed to require two signatures.
2. The bank reconciliation is reviewed by another employee other than the preparer.
3. Justice court makes deposits in a timely manner.

#### **Auditee Response:**

All recommendations as noted above have been implemented during fiscal year 2014.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pondera 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described below as item 13-2.

### 13-2 **Exceeding Budget Authority**

**Condition:**

During fiscal year 2013 the County entered into a lease purchase agreement for eight motor graders in the amount of \$1,154,350. Generally accepted accounting principals require that this be shown as expenditure in the fund which made the purchase, in this case the Road fund. The County did not amend the budget by fiscal year end for the lease-purchase agreement.

During fiscal year 2013 the County received \$59,279 in IGT funds in excess of what was expected. The nature of these funds shows as a revenue and an expenditure in the County Hospital and Nursing Home fund. The County did not amend the budget by fiscal year end for the excess expenditures of IGT funds.

**Criteria:**

MCA 7-6-4005. Expenditures are limited to appropriations:

- (1) Local government officials may not make a disbursement or expenditure or incur and obligation in excess of the total appropriations for a fund.

**Effect:**

The County exceeded its budget authority by the following amounts in the following funds:

- Road fund - \$1,154,350
- County Hospital and Nursing Home - \$59,279

**Cause:**

Budget amendments were not properly approved for the excess expenditures in the Road and County Nursing home funds.

**Recommendation:**

We recommend that the County amend the budget through official resolutions when infrequent excess expenditures such as the lease purchase and excess IGT funds occurs.

**Auditee Response:**

The County will amend the budgets properly in the future.

### **Pondera County's Response to Findings**

Pondera County's response to the findings identified in our audit is described above. Pondera County's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Denning, Downey and Associates, CPA's, P.C.*

June 30, 2014

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Pondera County  
Conrad, Montana

The prior audit report contained four recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Justice Court – Internal Controls	Repeated
Potential Uncollected Accounts Receivable – Port Authority	Not repeated
Budgeted Cash Reserves	Implemented
Deposits of Public Funds	Not repeated

*Denning, Downey and Associates, CPA's, P.C.*

June 30, 2014