

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2011

**AUDIT REPORT**

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

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2011

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PONDERA COUNTY, MONTANA

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PONDERA COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2011

**BOARD OF COUNTY COMMISSIONERS**

Cynthia A. Johnson  
Sandra J. Broesder  
Joseph Christiaens

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Mary Ann Ries  
Janice Hoppes  
Jeanne Moon  
Kara Thompson  
Josephine Stone  
Audrey Brown  
Thomas A. Kuka  
William J. May

County Attorney  
Clerk and Recorder  
Treasurer  
Clerk of Court  
Superintendent of Schools  
Justice of the Peace  
Sheriff/Coroner  
Public Administrator

**Pondera County, Montana**  
**Management Discussion and Analysis (MD&A)**  
**Fiscal Year 2010-11**

Our discussion and analysis of Pondera County's financial performance provides an overview of Fiscal Year 2010-2011 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**

- Pondera County's interest revenue, for the third year in a row, has decreased 41.91% compared to the prior fiscal year. This reduction coupled with the prior two year's reduction of 48.26% and 40.75% continues to have a significant impact on all budget areas.
- The eight maintainers (motor graders) leased in FY 08, persist in being problematic with repair issues however, the extended warranty agreement does assist with the mitigation of those costs. The maintainers are financed and payments appropriated in the budget although consideration of replacement timing is being undertaken.
- The road and bridge departments purchased an excavator (\$49,500), three pickups (\$84,000) along with hitches and tool boxes (\$5,782), replacement culverts (\$29,986), a steel roller (\$5,000), a radios repeater (\$5,680) and shop and bit system repairs (\$ 17,600).
- While acres remained the same, the amount of the Pondera County PILT Payment increased by \$ 8,205 due primarily to the increased value per acre of Federal Land within Pondera County which qualifies for PILT reimbursement (107,919 acres). This increase in PILT funds positively impacted the Road Department and the Community/Senior Center updates.
- Forest Reserve payments decreased by \$27,965 from the prior fiscal year. Since Pondera County's allocated payment still exceeded \$100,000 by \$14,261, 15% of the total payment had to be designated to either Title II or Title III program. Pondera County chose to designate to Title II early in the fiscal year. Title II funds are not forwarded to the county and remain with the Federal government. Titles II designated funds do not negatively impact the county budget in that they are not included in prior year federal payments nor do they impact current year PILT payments. The actual value of the Federal Reserve payment to Pondera County was \$97,122.
- The County was adversely impacted by significant spring flooding, which contributed to culvert replacement and fill material costs. Flooding costs minus materials was \$45,813 and including materials \$56,143. Some assistance is expected from FEMA although the actual amount has not been determined.

- Emergency snow removal costs continue to be a financial burden due to harsh winter conditions; this fiscal year's costs exceeded \$146,500, an increase of 43% over last winter.
- 9 miles of road were re-built or re-graveled at a cost of \$48,858. This amount is about \$10,000 more than fiscal year 2010. Pondera County also purchased cold mix asphalt for \$28,720 which was less than last year.
- Fuel costs rose particularly for the price of diesel which impacts the Road and Bridge Departments especially. Fiscal year 2011 fuel costs were \$57,378 higher than the prior year.
- Oil and Gas Revenues for Pondera County are a bit of positive news, having increased 41.82% over the prior fiscal year. The value of that increase is \$71,307.54.
- While the Tobacco Use Prevention grants decreased somewhat, the Public Health Budget remains more than normal due to grant program revenue and expenditures in areas of Breast and Cervical Health and Safe Kids Safe Communities.
- The Community Service Program, in cooperation with the City of Conrad, continues to be funded at \$15,000. A Contract Supervisor manages the program.
- The County owned airport received hangar income for this fiscal year as well as ground area lease payments and farm income. The management contract for the Valier airport structure is currently vacant but the land, not under the actual airstrip and considered farmable, has a current cash basis lease.
- Pondera County completed the Pondera Center Building for use as a Community/Senior Center as well as housing the County Health Department and the Area Agency on Aging in early fiscal year 2012. Revenue for the project came from the Montana HB645 (\$147,656) an Energy Efficiency Community Block Grant (\$200,000) and a CDBG grant (\$450,000). The County financed the remainder of the project with an INTERCAP loan (\$150,000). The building is currently occupied and the generating some rental income for the future.
- The Pondera Regional Port Authority was approved to use local PILT money for Economic Development. The local PILT, \$14,962, is established as a loan at the time of the Budget adoption. The Port Authority must utilize the loan to facilitate businesses within the county. When the annual report is produced to Pondera County, proving the use of funds is appropriate; the loan is forgiven and treated as a grant (transfer). 2011 is the fifth successful year in this Economic Development partnership for county businesses.

- Pondera County continues to make an annual contribution (\$2,500) to the Four County Marias Fair for maintenance and upkeep of the fair complex in Toole County. The county continues to contribute \$2,000 annually to the state mandated regional economic development corporation. Pondera County continues to be a part of an interlocal agreement with the Northern Transit for public transportation which currently requires an annual contribution of \$5,000.
- The Sheriff's department replaced one public safety vehicle.
- Local Option tax revenue for FY 2011 increased 2.8 % or \$5,091.31 from the prior fiscal year.
- With an increase of less than .07% (\$44.84), Federal Mineral Royalties remained stable.
- Election costs continue to be significant due to necessary staff and judge training, programming, and maintenance contracts for the Auto Mark machines.

### **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 Assets and the Statement of Activities**

The Statement of Net Assets 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 assets and changes in them. Net assets are 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 assets are 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 Net Assets 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 ASSETS:**

	<b><u>FY 2010-11</u></b>	<b>Post Audit</b>
	<b><u>Governmental</u></b>	<b><u>FY 2009-10</u></b>
	<b><u>Activities</u></b>	<b><u>Governmental</u></b>
		<b><u>Activities</u></b>
Current and other assets	\$3,942,476	\$4,177,694
Capital assets	<u>5,771,173</u>	<u>5,469,342</u>
Total assets	<u>\$9,713,649</u>	<u>\$9,647,036</u>
Long-term debt outstanding	\$2,170,427	\$2,456,456
Other liabilities	<u>153,366</u>	<u>256,043</u>
Total liabilities	<u>\$2,323,793</u>	<u>\$2,712,499</u>
Net assets:		
Invested in capital assets net of related debt	\$3,864,736	\$3,295,863
Restricted	2,246,726	2,971,035
Unrestricted	<u>1,278,394</u>	<u>667,639</u>
Total net assets	<u>\$7,389,856</u>	<u>\$6,934,537</u>

#### **Government-wide STATEMENT OF ACTIVITIES**

	<b><u>FY2010-11</u></b>	<b>Post Audit</b>
	<b><u>Governmental</u></b>	<b><u>FY2009-10</u></b>
	<b><u>Activities</u></b>	<b><u>Governmental</u></b>
		<b><u>Activities</u></b>
<b><u>Program Revenues</u></b>		
Charges for Services	\$ 574,154	\$ 561,325
Operating Grants and Contributions	252,796	241,253
Capital Grants and Contributions	<u>939,070</u>	<u>519,817</u>
Total Program Revenues	<u>\$1,766,020</u>	<u>\$1,322,395</u>



## Government-wide STATEMENT OF ACTIVITIES (continued)

	<b><u>FY2010-11</u></b>	<b><u>Post Audit</u></b>
	<b><u>Governmental</u></b>	<b><u>Governmental</u></b>
	<b><u>Activities</u></b>	<b><u>Activities</u></b>
<b><u>General Revenues</u></b>		
Property Taxes	\$2,641,226	\$2,531,434
Video Poker Apportionment	2,400	2,325
Miscellaneous	36,491	25,929
Interest/Investment Earnings	29,239	48,209
PILT	151,224	143,019
MT Oil and Gas Production Tax	178,135	125,330
State Entitlement	400,261	388,128
Grants & Entitlements not restricted to specific programs	64,998	105,865
Intergovernmental Agreement	14,963	14,963
Reimbursements	227,409	99,044
Royalties	7,794	7,419
Total General Revenues	<u>\$3,754,140</u>	<u>\$3,491,665</u>
<b>Total Revenues</b>	<u><b>\$5,520,160</b></u>	<u><b>\$4,814,060</b></u>
<b><u>Program Expenses by Function</u></b>		
General Government	\$1,279,442	\$1,348,813
Public Safety	950,407	993,319
Public Works	1,283,613	1,571,409
Public Health	770,470	667,889
Social & Economic Services	118,273	121,738
Culture & Recreation	151,638	154,523
Housing & Community Development	238,344	35,612
Debt Service Interest	76,808	96,943
Miscellaneous	195,846	183,260
Total Expenses	<u>\$5,064,841</u>	<u>\$5,173,506</u>
Excess (deficiency) before special items & transfers	\$ 455,319	\$(359,446)
Restatements	-	14,000
<b>Changes in net assets</b>	<u><b>\$ 455,319</b></u>	<u><b>\$(345,466)</b></u>

The largest portion of the County's net assets 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 \$5,065,550, compared to \$5,173,506 for fiscal year 2009-10 as found in the Statement of Activities, a decrease of \$107,956 or approximately 2%. The decrease was due to the completion of grants that had been awarded in prior fiscal years. The amount that our taxpayers ultimately financed for these activities through county taxes was \$2,641,226, up by \$79,792 from \$2,561,434 in fiscal year 2009-10. 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:**

	<b><u>Post Audit</u></b>	
	<b><u>FY2010-11</u></b>	<b><u>FY2009-10</u></b>
<b><u>Governmental Activities</u></b>	<b><u>Net Expense</u></b>	<b><u>Net Expense</u></b>
General Government	\$1,279,442	\$1,348,813
Public Safety	950,407	993,319)
Public Works	1,283,613	1,571,409
Public Health	770,470	667,889
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Culture & Recreation	151,638	154,523
Housing & Community Development	238,344	35,612
Debt Service Interest	76,808	96,943
Miscellaneous	<u>195,846</u>	<u>183,260)</u>
Total Net Expenses	<b><u>\$5,064,841</u></b>	<b><u>\$5,173,506</u></b>

**Unreserved Fund Balance Analysis (Major Funds)**

	<b><u>General</u></b>	<b><u>Road</u></b>	<b><u>Public Safety</u></b>	<b><u>DES Grant</u></b>	<b><u>ARRA Energy Grant</u></b>
Unreserved Fund Balance – Current Year	657,401	498,480	520,636	26,770	0
Unreserved Fund Balance – Prior Year	526,189	508,286	473,115	26,770	0
Change in unreserved fund balance	131,212	-9,806	47,451	0	0
% change in unreserved fund balance	19.95%	-1.96%	9.12%	0%	0%

The increase in the unreserved fund balance in the General Fund is due to a deposit in revenue from PILT funding.

The decrease in the Road Fund is a result of transfer from the operating funds to the capital improvement fund.

The increase Public Safety Fund is a result of additional local option tax.

The neutral impact in the EP (DES) Grant and ARRA Energy Grant Fund is due to little change in the grant funding.

The increase in the Road/Bridge Equipment Purchase is due to transfers from the Road Fund and Bridge Fund, which is offset by the decrease in the Road Operating fund and the purchase of equipment being deferred to the 2010-11 fiscal year.

**Revenue Budget to Actual Variances:**

<u>General Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	1,208,639	1,284,767	76,128	6.30%

There was a variation between the final budget amount and actual amount of revenue received in the General Fund of \$76,128 for a 5.92% variance. The county under-budgeted the FY2011-12 PILT payment received in June of 2011. The Commissioners were not finished with the budget for FY2011-12 and had intended to set up a special revenue PILT fund for the general fund portion of the payment. The amount of \$151,224 (\$98,062 over budget) was deposited in the general fund to be transferred to a PILT fund once it was established in FY2011-12. No budget amendment was done in June of 2011. In addition, property taxes were under-budgeted (\$16,101), charges for services, always a variable, were under-budgeted by \$9,150 and interfund transfers by \$1,117. Offsetting the under-budget estimates were the over-budgeted amount of \$2,740 for fines and forfeitures, \$2997 for miscellaneous revenue and \$40,434 for investments and royalty earnings.

<u>Road Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	731,913	579,002	(152,002)	(20.77)%

There was a variation between the final budget amount and actual amount of revenue received in the Road Fund of \$(152,002) for a (26.25)% variance. The county budgeted for PILT to the Road Fund of \$143,000, however, the payment was not receipted to the Road Fund (see explanation regarding PILT above in General Fund) and over-budgeted in Forest Reserve Act funds by \$15,894.

**Public Safety**

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	801,130	817,845	16,715	2.07%

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

**DES Grants**

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	82,873	52,659	(30,214)	(36.46)%

County over-budgeted by 48,999 for grant award amount.

**ARRA Energy Grant**

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	200,000	183,104	(16,896)	(8.45)%

County budgeted for receipt of entire amount of grant funds by fiscal year end but final reimbursement of \$16,896 had not been received.

## **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 decreased its long term debt by \$286,029.

### **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, 2011 of \$5,771,173. In addition, the County continues with its construction in progress project at the community/senior center.

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

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

The 2011 Taxable Valuation increased slightly in Pondera County from \$13,361,116 to \$13,839,585. The value of a county-wide mill increases from \$13,361 to \$13,839. The FY12 budget did not allow for the reservation of any floated mills; all were levied.

The County-Wide Community Service Program, funded at \$15,000 will continue the City-County relationship forged to provide quality service.

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 the building is occupied. These costs are being offset in part with rental income, but 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.

The new road to access the Northern I15 interchange was completed late in the summer of 2010 and per agreement, the Right of Way will cost \$10,000. That payment is scheduled for early FY 2012.

Group Health Insurance costs decreased without changing providers due to a new three year commitment and participation in wellness programs.

The school districts in the County levied funds pursuant to levy elections held in May, 2011. All school levies in the County passed.

While aiming for a 33% reserve in all funds, reserve amounts range from 16.9% (weed) to 33.0% (bridge, airport, & extension). Our goal remains to achieve the 33% reserve in all funds.

***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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pondera County, Pondera County, Montana, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pondera County management. 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, which represent 100% of the assets, net assets, and revenues as of December 31, 2010, and for the year then ended of this discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pondera Medical Center, is based on the report of 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pondera County, Pondera County, Montana, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit included the building of the Pondera Medical Center. The County maintains that the building and its related improvements are the property of the County. The net book value of the County for the building is \$401,265. The audit of the Pondera Medical Center, Inc. (a non-profit component unit) was completed by other auditors. In their report, the Pondera Medical Center Building is also listed as an asset with a net book value reported by the non-profit of \$1,951,709.

As described in Note 1, the County has implemented the Fund Balance Reporting and Governmental Fund Type Definitions as required by the provisions of GASB Statement No. 54, as of June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012, on our consideration of the Pondera County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post-employment benefits other than pensions on pages 2 through 9, 53 through 55, and 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Pondera County, Pondera County, Montana. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Derrington, Downey and Associates, CPAs, P.C.*

March 30, 2012

**Pondera County, Montana**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Governmental Activities</b>	<b>Total</b>	<b>Pondera Regional Port Authority Component Unit</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 3,480,697	\$ 3,480,697	\$ 561,383
Taxes and assessments receivable, net	227,038	227,038	-
Accounts receivable - net	3,468	3,468	-
Notes and loans receivable	-	-	341,686
Due from other governments	88,137	88,137	-
Inventories	143,136	143,136	236,210
Total current assets	\$ 3,942,476	\$ 3,942,476	\$ 1,139,279
Noncurrent assets			
Capital assets - land	\$ 238,609	\$ 238,609	\$ 110,908
Capital assets - construction in progress	898,307	898,307	-
Capital assets - depreciable, net	4,634,257	4,634,257	-
Total noncurrent assets	\$ 5,771,173	\$ 5,771,173	\$ 110,908
Total assets	\$ 9,713,649	\$ 9,713,649	\$ 1,250,187
<b>LIABILITIES</b>			
Current liabilities			
Warrants payable	\$ 346	\$ 346	\$ -
Accounts payable	8,007	8,007	-
Accrued payroll	43,222	43,222	735
Due to other governments	10	10	-
Revenues collected in advance	273	273	-
Deferred revenue	101,508	101,508	-
Current portion of long-term capital liabilities	277,033	277,033	-
Current portion of compensated absences payable	141,647	141,647	-
Total current liabilities	\$ 572,046	\$ 572,046	\$ 735
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 39,866	\$ 39,866	\$ -
Noncurrent portion of long-term capital liabilities	1,629,404	1,629,404	-
Noncurrent portion of compensated absences	82,477	82,477	-
Total noncurrent liabilities	\$ 1,751,747	\$ 1,751,747	\$ -
Total liabilities	\$ 2,323,793	\$ 2,323,793	\$ 735
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 3,864,736	\$ 3,864,736	\$ 110,907
Restricted by donors for specific purposes	27,114	27,114	-
Restricted for capital projects	551,553	551,553	-
Restricted for debt service	97,809	97,809	-
Restricted for special projects	2,228,376	2,228,376	-
Unrestricted	620,268	620,268	1,138,545
Total net assets	\$ 7,389,856	\$ 7,389,856	\$ 1,249,452
Total liabilities and net assets	\$ 9,713,649	\$ 9,713,649	\$ 1,250,187

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		Pondera Regional Port Authority Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Total	
			Capital Grants and Contributions				
Primary government activities:							
General government	\$ 1,279,442	\$ 166,400	\$ 4,498	\$ 74,880	\$ (1,033,664)	\$ (1,033,664)	\$ -
Public safety	950,407	213,645	77,163	-	(659,599)	(659,599)	-
Public works	1,283,613	129,173	9,286	-	(1,145,154)	(1,145,154)	-
Public health	770,470	49,002	151,096	-	(570,372)	(570,372)	-
Social and economic services	118,273	15,934	-	681,086	578,747	578,747	-
Culture and recreation	151,638	-	4,546	-	(147,092)	(147,092)	-
Housing and community development	238,344	-	6,207	183,104	(49,033)	(49,033)	-
Debt service - interest	76,808	-	-	-	(76,808)	(76,808)	-
Miscellaneous	195,846	-	-	-	(195,846)	(195,846)	-
Total governmental activities	\$ 5,064,841	\$ 574,154	\$ 252,796	\$ 939,070	\$ (3,298,821)	\$ (3,298,821)	\$ -
Total primary government	\$ 5,064,841	\$ 574,154	\$ 252,796	\$ 939,070	\$ (3,298,821)	\$ (3,298,821)	\$ -
Component units:							
Pondera Regional Port Authority	\$ 64,474	\$ -	\$ 103,508	\$ -	\$ -	\$ -	\$ 39,034
Total component units	\$ 64,474	\$ -	\$ 103,508	\$ -	\$ -	\$ -	\$ 39,034
General Revenues:							
Property taxes for general purposes				\$	\$ 2,641,226	\$ 2,641,226	\$ 52,234
Video poker apportionment					2,400	2,400	-
Miscellaneous					36,491	36,491	30,187
Interest/investment earnings					29,239	29,239	37,230
PILT					151,224	151,224	-
Montana oil and gas production tax					178,135	178,135	-
State entitlement					400,261	400,261	-
Grants and entitlements not restricted to specific programs					64,998	64,998	-
Intergovernmental agreement					14,963	14,963	-
Reimbursements					227,409	227,409	-
Royalties					7,794	7,794	-
Total general revenues, special items and transfers				\$	\$ 3,754,140	\$ 3,754,140	\$ 119,651
Change in net assets				\$	\$ 455,319	\$ 455,319	\$ 158,685
Net assets - beginning				\$	\$ 6,934,537	\$ 6,934,537	\$ 848,550
Restatements					-	-	242,217
Net assets - beginning - restated				\$	\$ 6,934,537	\$ 6,934,537	\$ 1,090,767
Net assets - end				\$	\$ 7,389,856	\$ 7,389,856	\$ 1,249,452

See accompanying Notes to the Financial Statements



**Pondera County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	General Fund	Road	Public Safety	DES Grants	ARRA Energy Grant Community Center	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Current assets:							
Cash and investments	\$ 626,081	\$ 418,280	\$ 533,571	\$ 82,716	\$ -	\$ 1,820,049	\$ 3,480,697
Taxes and assessments receivable, net	65,918	31,806	30,016	-	-	99,298	227,038
Accounts receivable - net	-	-	-	-	-	3,468	3,468
Due from other funds	46,064	-	-	-	-	39,910	85,974
Due from other governments	-	-	-	-	48,226	39,911	88,137
Inventories	-	86,447	-	-	-	56,689	143,136
Total current assets	\$ 738,063	\$ 536,533	\$ 563,587	\$ 82,716	\$ 48,226	\$ 2,059,325	\$ 4,028,450
Noncurrent assets:							
Advances to other funds	\$ 2,163	-	-	-	-	-	\$ 2,163
Total noncurrent assets	\$ 2,163	-	-	-	-	-	\$ 2,163
Total assets	\$ 740,226	\$ 536,533	\$ 563,587	\$ 82,716	\$ 48,226	\$ 2,059,325	\$ 4,030,613
<b>LIABILITIES</b>							
Current liabilities:							
Warrants payable	\$ 83	\$ -	\$ -	\$ -	\$ -	263	\$ 346
Accounts payable	477	250	793	-	-	6,487	8,007
Accrued payroll	16,337	5,997	12,143	-	-	8,745	43,222
Due to other funds	-	-	-	-	48,226	37,748	85,974
Due to other governments	10	-	-	-	-	-	10
Revenues collected in advance	-	-	-	-	-	273	273
Deferred revenue	65,918	31,806	30,015	55,946	-	144,680	328,365
Total current liabilities	\$ 82,825	\$ 38,053	\$ 42,951	\$ 55,946	\$ 48,226	\$ 198,196	\$ 466,197
Noncurrent liabilities:							
Advances payable	\$ -	\$ -	\$ -	\$ -	\$ -	2,163	\$ 2,163
Total noncurrent liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	2,163	\$ 2,163
Total liabilities	\$ 82,825	\$ 38,053	\$ 42,951	\$ 55,946	\$ 48,226	\$ 200,359	\$ 468,360
<b>FUND BALANCES</b>							
Nonspendable	\$ -	\$ 86,447	\$ -	\$ -	\$ -	83,803	\$ 170,250
Restricted	-	412,033	520,636	26,770	-	1,775,711	2,735,150
Unassigned fund balance	657,401	-	-	-	-	(548)	656,853
Total fund balance	\$ 657,401	\$ 498,480	\$ 520,636	\$ 26,770	\$ -	\$ 1,858,966	\$ 3,562,253
Total liabilities and fund balance	\$ 740,226	\$ 536,533	\$ 563,587	\$ 82,716	\$ 48,226	\$ 2,059,325	\$ 4,030,613

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**June 30, 2011**

<b>Total fund balances - governmental funds</b>	\$ 3,562,253
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,771,173
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.	226,857
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,170,427)
<b>Total net assets - governmental activities</b>	<b>\$ <u>7,389,856</u></b>

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, 2011**

	General Fund	Road	Public Safety	DES Grants	ARRA Energy Grant Community Center	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes and assessments	\$ 664,113	\$ 370,532	\$ 625,957	\$ -	\$ -	\$ 1,081,836	\$ 2,742,438
Licenses and permits	40	-	-	-	-	-	40
Intergovernmental	386,616	199,804	85,704	52,659	183,104	1,298,987	2,206,874
Charges for services	157,341	-	103,568	-	-	56,015	316,924
Fines and forfeitures	32,520	-	-	-	-	2,845	35,365
Miscellaneous	21,889	8,666	2,616	-	-	253,980	287,151
Investment earnings	22,248	-	-	-	-	7,190	29,438
Total revenues	\$ 1,284,767	\$ 579,002	\$ 817,845	\$ 52,659	\$ 183,104	\$ 2,700,853	\$ 5,618,230
<b>EXPENDITURES</b>							
General government	\$ 965,756	\$ -	\$ -	\$ -	\$ -	\$ 297,968	\$ 1,263,724
Public safety	48,603	-	723,324	33,493	-	66,838	872,258
Public works	-	506,001	-	-	-	351,213	857,214
Public health	121,266	-	-	-	-	425,559	546,825
Social and economic services	8,288	-	-	-	-	109,985	118,273
Culture and recreation	1,421	-	-	-	-	150,217	151,638
Housing and community development	-	-	-	-	-	238,344	238,344
Debt service - principal	7,857	51,679	-	-	-	207,506	267,042
Debt service - interest	1,481	40,628	-	-	-	34,699	76,808
Miscellaneous	-	-	-	-	-	195,846	195,846
Capital outlay	-	-	-	19,166	183,104	862,459	1,064,729
Total expenditures	\$ 1,154,672	\$ 598,308	\$ 723,324	\$ 52,659	\$ 183,104	\$ 2,940,634	\$ 5,652,701
Excess (deficiency) of revenues over expenditures	\$ 130,095	\$ (19,306)	\$ 94,521	\$ -	\$ -	\$ (239,781)	\$ (34,471)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	\$ 1,117	\$ -	\$ -	\$ -	\$ -	\$ 163,001	\$ 164,118
Transfers out	-	(75,000)	(47,000)	-	-	(42,118)	(164,118)
Total other financing sources (uses)	\$ 1,117	\$ (75,000)	\$ (47,000)	\$ -	\$ -	\$ 120,883	\$ -
Net Change in Fund Balance	\$ 131,212	\$ (94,306)	\$ 47,521	\$ -	\$ -	\$ (118,898)	\$ (34,471)
Fund balances - beginning	\$ 526,189	\$ 592,786	\$ 478,115	\$ 26,770	\$ -	\$ 1,972,864	\$ 3,596,724
Restatements	-	-	(5,000)	-	-	5,000	-
Fund balances - beginning, restated	\$ 526,189	\$ 592,786	\$ 473,115	\$ 26,770	\$ -	\$ 1,977,864	\$ 3,596,724
Fund balance - ending	\$ 657,401	\$ 498,480	\$ 520,636	\$ 26,770	\$ -	\$ 1,858,966	\$ 3,562,253

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, 2011**

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

<b>Net change in fund balances - total governmental funds</b>	\$	(34,471)
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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		1,064,729
- Depreciation expense		(762,898)

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)		(98,070)
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The change in compensated absences is shown as an expense in the Statement of Activities

38,920

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		267,042
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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		(19,933)
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<b>Change in net assets - Statement of Activities</b>	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">455,319</div>
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See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 7,756,450	\$ 1,042,490
Taxes receivable	-	589,254
Protested taxes sent to the state	-	(9,111)
Total assets	\$ <u>7,756,450</u>	\$ <u>1,622,633</u>
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 302,475
Due to others	-	1,320,158
Total liabilities	\$ <u>-</u>	\$ <u>1,622,633</u>
<b>NET ASSETS</b>		
Assets held in trust	\$ <u>7,756,450</u>	

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2011**

	<u><b>Investment Trust Funds</b></u>
<b>ADDITIONS</b>	
Contributions:	
Contributions to Investment Trust Fund	\$ 5,591,888
Interest and change in fair value of investments	65,751
Total additions	\$ <u>5,657,639</u>
 <b>DEDUCTIONS</b>	
Distributions from investment trust fund	\$ <u>5,066,397</u>
Total deductions	\$ <u>5,066,397</u>
Change in net assets	\$ <u>591,242</u>
 Net Assets - Beginning of the year	 \$ 7,165,208
 Net Assets - End of the year	 \$ <u><u>7,756,450</u></u>

See accompanying Notes to the Financial Statements

**PONDERA MEDICAL CENTER  
A COMPONENT UNIT OF PONDERA COUNTY**

**CONRAD, MONTANA**

**CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2010**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 582,182
Certificates of Deposit	178,864
Receivables:	
Patient and Resident, Net of Estimated Uncollectibles of \$709,648 in 2010	1,274,128
Estimated Third-Party Payor Settlements	167,598
Other	76,756
Supplies	109,557
Prepaid Expenses	44,345
Total Current Assets	<u>2,433,430</u>

Assets Limited as to Use by Board for Capital Improvements  
and Equipment Purchases

758

Capital Assets, Net

2,830,688

**Other Assets**

Deferred Financing Costs, Net	17,691
Investment - Subscriber Savings Worker's Comp	182,217
Investment in Perpetual Trust	450,073
Other Assets	14,909
Total Other Assets	<u>664,890</u>

Total Assets

\$ 5,929,766

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	\$ 612,581
Accrued Expenses:	
Salaries and Wages	102,568
Payroll Taxes and Other	90,676
Current Portion of Leases Payable	132,781
Current Portion of Long-Term Debt	203,321
Total Current Liabilities	<u>1,141,927</u>

**Long-Term Liabilities**

Accrued Vacation	406,158
Leases Payable, Less Current Maturities	211,511
Long-Term Debt, Less Current Maturities	805,380
Total Long-Term Liabilities	<u>1,423,049</u>

Total Liabilities

2,564,976

**Net Assets**

Invested in Capital Assets, Net of Related Debt	1,460,986
Restricted:	
Expendable for Capital Acquisitions	758
Nonexpendable Permanent Endowment	450,073
Unrestricted	1,452,973
	<u>3,364,790</u>

Total Liabilities and Net Assets

\$ 5,929,766

See notes to financial statement.

**PONDERA MEDICAL CENTER  
A COMPONENT UNIT OF PONDERA COUNTY**

**CONRAD, MONTANA**

**CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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Operating Revenue	
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts of \$421,945)	\$ 11,038,642
Other Revenue	195,007
Total Operating Revenue	<u>11,231,649</u>
Expenses	
Professional Care of Patients and Residents	7,351,433
General and Administrative	2,588,226
Property and Household	776,880
Dietary	559,337
PMC Eye Clinic	167,457
Depreciation and Amortization	530,573
Total Expenses	<u>11,973,906</u>
Operating Loss	<u>(742,257)</u>
Non-Operating Revenue (Expense)	
Bond Payment Funds From County	355,263
Levied Funds From County	198,667
Gain on Perpetual Trust	10,755
Interest Income	39,519
Grants	13,122
Interest Expense	(32,795)
Gain on Sale of Equipment	250
Total Non-Operating Revenue	<u>584,781</u>
Excess of Expenses Over Revenue Before Capital Grants and Restricted Contributions	(157,476)
Restricted Contributions	<u>66,738</u>
Decrease in Net Assets	(90,738)
Net Assets, Beginning of Year	3,016,217
Prior Period Adjustment	439,311
Net Assets, Beginning of Year, Restated	<u>3,455,528</u>
Net Assets, End of Year	<u><u>\$ 3,364,790</u></u>

See notes to financial statement.



**PONDERA MEDICAL CENTER  
A COMPONENT UNIT OF PONDERA COUNTY**

**CONRAD, MONTANA**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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Operating Activities	
Receipts from and on Behalf of Patients and Residents	\$ 11,259,529
Payments to Employees	(7,874,930)
Payments to Suppliers and Contractors	(3,622,779)
Other Receipts and Payments, Net	195,007
Net Cash from Operating Activities	<u>(43,173)</u>
Non-Capital Financing Activities	
Levied Funds from County	198,667
Intergovernmental Transfer Received	57,116
Non-Capital Contributions Received	-
Borrowings on Non-Capital Financing	193,763
Principal Paid on Non-Capital Financing	(193,763)
Interest Paid on Non-Capital Financing	(1,295)
Non-Capital Grants Received	13,122
Net Cash from Non-Capital Financing Activities	<u>267,610</u>
Capital and Capital Related Financing Activities	
Bond Payment Funds from County	355,263
Restricted Contributions	66,738
Capital Grants and Contributions	-
Purchases of Capital Assets	(198,204)
Proceeds from Sale of Assets	250
Principal Paid on Capital Debt and Leases	(313,422)
Interest Paid on Capital Debt and Leases	(31,500)
Net Cash Used for Capital and Capital Related Financing Activities	<u>(120,875)</u>
Investing Activities	
Redemptions of Certificates of Deposit	176,860
Purchases of Certificates of Deposit	(178,864)
Interest Income	39,519
Net Cash from Investing Activities	<u>37,515</u>
Net Change in Cash and Cash Equivalents	141,077
Cash and Cash Equivalents at Beginning of Year	<u>441,863</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 582,940</u></u>

See notes to financial statement.

**PONDERA MEDICAL CENTER  
A COMPONENT UNIT OF PONDERA COUNTY**

**CONRAD, MONTANA**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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Reconciliation of Cash and Cash Equivalents to the Balance Sheets

Cash and Cash Equivalents in Current Assets	\$ 582,182
Cash and Cash Equivalents in Assets Limited as to Use	758
Cash and Cash Equivalents at End of Year	<u>\$ 582,940</u>

Reconciliation of Operating Loss to Net Cash Used For Operating Activities

Operating Loss	\$ (742,257)
Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities	
Depreciation and Amortization	530,573
Increase in Worker's Compensation Subscriber Account	(49,938)
Intergovernmental Transfer	(57,116)
Changes in Assets and Liabilities	
Receivables	280,003
Supplies	109,181
Prepaid Expenses	11,829
Other Assets	(11,937)
Accounts Payable	176,669
Accrued Expenses	(290,180)
Net Cash Used for Operating Activities	<u>\$ (43,173)</u>

Supplemental Disclosure of Cash

Flow Information

Capital Assets Acquired through Liability Assumption	<u>\$ 142,900</u>
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See notes to financial statement.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

**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. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The government adopted the provisions of Governmental Accounting Standards Board statement No. 54 Fund Balance, Reporting and Governmental Fund Type Definitions as of June 30, 2011.

**Financial Reporting Entity**

In determining the financial reporting entity, the County complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the County appointed a voting majority of the units' board; the County is either able to impose its will on the unit or a financial benefit or burden relationship exists.

*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 and Pondera Regional Port Authority.

Separate financial statements can be obtained by contacting Pondera Medical Center, 805 Sunset Boulevard, Conrad, Montana, 59425, and the Pondera Regional Port Authority, 20 Fourth Avenue SW, 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 Pondera 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, 2010, year end. See pages 43-52 for detailed footnotes related to Pondera Medical Center.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

Pondera Regional Port Authority

The Port Authority was created to stimulate and develop commerce, create opportunities for employment, and work towards the advancement of general welfare and prosperity within the Economic Development Authority jurisdiction.

**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 Assets 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 County 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 Assets have been eliminated.

*Measurement Focus and Basis of Accounting*

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type 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 assets are available.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2011

**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
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

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.

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

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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.

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

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

*ARRA Energy Grant* – A special revenue fund that accounts for the ARRA Energy Grant used in construction of the Community Center.

***Fiduciary Funds***

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the County under the terms of a formal trust agreement.

The investment trust fund is accounted for using the accrual basis of accounting. The investment fund is used to account for the external portion of the investment pool held by the sponsoring government.

The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the County holds for others in an agency capacity.

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

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2011, are as follows:

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	Primary <u>Government</u>	Pondera Regional Port <u>Authority</u>	<u>Total</u>
<u>Cash on hand and Deposits</u>			
Petty Cash	\$ 50,957	\$ -	\$ 50,957
Cash in Banks:			
Demand Deposits	1,096,276	74,481	1,170,757
Savings Deposits	229,321	334,294	563,615
<u>Investments:</u>			
State Short-Term Investment Pool (STIP)	2,338	-	2,338
U.S. Government Securities	2,250,754	-	2,250,745
Repurchase Agreements	8,650,000	-	8,650,000
Mutual Funds	-	152,608	152,608
Total	<u>\$12,279,637</u>	<u>\$ 561,383</u>	<u>\$ 12,841,020</u>

**Repurchase Agreements**

An agreement in which a governmental County (buyer-lender) transfers cash to a broker dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the County 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.

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

PONDERA COUNTY, MONTANA  
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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, 2011:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 326,176,221	A1	18
Corporate Commercial Paper	289,334,734	A1	58
Corporate Fixed Rate	7,173,761	A1	15
Corporate Variable-Rate	522,126,148	A2	34
Certificates of Deposit Fixed Rate	28,012,037	A3	235
Certificates of Deposit Variable-Rate	359,994,307	A2	36
Other Asset Backed	24,591,903	BBB	NA
U.S. Government Agency Fixed	100,013,159	A1+	155
U.S. Government Agency Variable -Rate	474,851,769	A1+	20
Money Market Funds (Unrated)	140,598,914	NR	1
Money Market Funds (Rated)	111,000,000	A1+	1
Structured Investment Vehicles (SIV)	46,317,465	NR	5
Total Investments	<u>\$ 2,430,190,418</u>	A1	<u>35</u>
Securities Lending Collateral			
Investment Pool	<u>\$ 32,271,105</u>	NR	*

\* As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of 34 days and an average weighted final maturity of 105 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for U.S. dollar collateral.

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, 2011 the government's bank balance was exposed to custodial credit risk as follows:



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	Primary Government	Pondera Regional Port Authority
<u>Depository Account</u>	<u>Balance</u>	<u>Balance</u>
Insured	\$ 897,510	\$ 477,089
Collateralized		
- Collateral held by the pledging bank's trust department in the County's name.	<u>420,574</u>	<u>84,294</u>
Total Deposits and Investments	<u>\$1,318,084</u>	<u>\$ 561,383</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, 2011, equaled or exceeded the amount required by State statutes.

**Concentration of Credit Risk**

The government places no limit on the amount the County 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>70%</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, 2009 alone with their related interest rates and maturity dates.

**Primary Government:**

<u>Investment</u>	<u>Interest rate</u>	<u>Maturity dates</u>	<u>Amount</u>
FNMA #3135G0AB9	1.750%	07/14/2014	\$ 200,739
FHLMC #3134G13J1	1.700%	08/22/2014	\$ 150,000
FHLMC #3134G2DV1	2.000%	10/28/2014	\$ 250,000
FNMA #3136FRAW3	2.000%	08/18/2011	\$ 200,000
FNMA #3136FP4Y0	1.500%	02/18/2015	\$ 250,000
FHLB #3133XYYX7	1.500%	07/22/2015	\$ 200,000
FHLB #313371NL6	1.000%	11/25/2015	\$ 200,000
FNMA #3136FPF51	1.625%	12/16/2015	\$ 300,000
Government Money	0.30%	N/A	\$ 500,006
Mrkt FDINSTL			

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Pondera Regional Port Authority:

	Interest	Maturity	
<u>Investment</u>	<u>rate</u>	<u>dates</u>	<u>Amount</u>
Mutual Fund PRWCX	N/A	N/A	\$152,608

**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 County has one pooled investment trust fund, invested in STIP (State Short-term Investment Pool) money market deposits, U.S. government securities, and repurchase agreements. These 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, 2011 to support the value of the shares in the pool.

As noted above 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, 2011.

**Statement of Net Assets**

Net assets held in trust for all pool participants:	
Equity of internal pool participants	\$ 3,152,763
Equity of external pool participants	<u>7,756,450</u>
Total equity	<u>\$10,909,213</u>

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<b>Condensed Statement of Changes in Net Assets</b>	<u>External</u>	<u>Internal</u>
Investment Earnings	\$ 65,751	\$ 26,726
Contributions to Trust	5,591,888	1,938,553
Distributions Paid	<u>(5,066,397)</u>	<u>(2,895,600)</u>
Net change in net assets	\$ <u>591,242</u>	\$ <u>(930,321)</u>
Net assets at beginning of year	<u>7,165,208</u>	<u>4,083,084</u>
Net assets at end of year	<u>\$ 7,756,450</u>	<u>\$ 3,152,763</u>

**NOTE 3. RECEIVABLES**

Property tax levies are set on or before the second Monday in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (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.

**NOTE 4. INVENTORIES**

Inventories are valued using the First-in First-out method.

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 were not consumed.

Pondera Regional Port Authority

Port Authority inventory is property held for resale and is valued at historical cost.

**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
Infrastructure .....	20 years
Equipment .....	5-15 years

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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 2011 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:

	Balance <u>July 1, 2010</u>	<u>Additions</u>	Balance <u>June 30, 2011</u>
Capital assets not being depreciated:			
Land	\$ 218,609	\$ -	\$ 218,609
Pondera Medical Center Land	20,000	-	20,000
Construction in progress	<u>135,638</u>	<u>762,669</u>	<u>898,307</u>
Total capital assets not being depreciated	\$ <u>374,247</u>	\$ <u>762,669</u>	\$ <u>1,136,916</u>
Other Capital Assets:			
Buildings	\$ 3,251,020	\$ -	\$ 3,251,020
Improvements Other than Buildings	3,091,296	10,365	3,101,661
Machinery and Equipment	4,346,579	291,695	4,638,274
Infrastructure	89,123	-	89,123
Pondera Medical Center	<u>6,117,159</u>	<u>-</u>	<u>6,117,159</u>
Total other Capital Assets at historical cost	\$ <u>16,895,177</u>	\$ <u>302,060</u>	\$ <u>17,197,237</u>
Less Accumulated Depreciation	\$(11,800,082)	\$(762,898)	\$(12,562,980)
Total	\$ <u>5,469,342</u>	\$ <u>301,831</u>	\$ <u>5,771,173</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 34,705
Public Safety	78,149
Public Works	426,399
Public Health	<u>223,645</u>
Total governmental activities depreciation expense	<u>\$762,898</u>

Component Unit: Pondera Regional Port Authority

The Pondera Regional Port Authority assets are capitalized at historical cost or estimated historical cost. Board policy has set the capitalization threshold for reporting capital assets at \$5,000. A summary of changes in the Pondera Regional Port Authority capital assets were as follows:

	Balance <u>July 1, 2010</u>	Addition of <u>EDC Land</u>	Balance <u>June 30, 2011</u>
Capital assets not being depreciated:			
Land	\$ 44,961	\$ 65,947	\$ 110,908

PONDERA COUNTY, MONTANA  
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**NOTE 6. LONG TERM DEBT OBLIGATIONS**

In the governmental-wide and component unit financial statements, outstanding debt is reported as liabilities.

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, 2011, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due within one year
General Obligation Bonds	\$ 815,000	\$ -	\$ (125,000)	\$ 690,000	\$130,000
Compensated Absences	263,044	-	(38,920)	224,124	141,647
InterCap Loans	404,884	-	(90,363)	314,521	93,049
Capital Leases	953,595	-	(51,679)	901,916	53,984
*Other Post Employment Benefits	19,933	19,933	-	39,866	-
Total	\$ 2,456,456	\$ 19,933	\$ (305,962)	\$ 2,170,427	\$ 418,680

\* See Note 10

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, 2011 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Annual Payment	Balance June 30, 2011
Tax-supported hospital and nursing home revenue refunding bonds, series 2004	04/15/2004	1.7- 3.85%	11 yrs	08/01/2015	\$1,415,000	Varies	\$690,000

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2012	\$130,000	\$22,385
2013	135,000	18,043
2014	135,000	13,352
2015	140,000	8,366
2016	150,000	2,888
Total	\$690,000	\$65,034

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**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, 2011 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, 2011</u>
911 Emergency draw #1	02/26/2003	1.95-4.85%	10 yrs	02/12/2013	\$209,506	\$ 46,825
911 Emergency draw #2	03/05/2004	1.95-4.85%	9 yrs	02/15/2013	69,799	16,903
911 Emergency draw #3	06/25/2004	1.95-4.85%	7 yrs	02/15/2013	53,791	13,546
Heat-Ventilation-AC system replace draw 1	05/28/2004	1.95-4.85%	10 yrs	08/14/2014	101,656	38,725
Heat-Ventilation-AC system replace draw 2	06/25/2004	1.95-4.85%	9 yrs	08/14/2014	56,483	21,265
Heat-Ventilation-AC system replace draw 3	07/16/2004	1.95-4.85%	9 yrs	08/14/2014	45,702	17,290
Heat-Ventilation-AC system replace draw 4	09/03/2004	1.95-4.85%	9 yrs	08/14/2014	96,526	36,609
Heat-Ventilation-AC system replace draw 5	10/15/2004	1.95-4.85%	9 yrs	08/14/2014	15,487	5,818
Heat-Ventilation-AC system replace draw 6	10/29/2004	1.95-4.85%	9 yrs	08/14/2014	50,159	17,961
Heat-Ventilation-AC system replace draw 7	12/10/2004	1.95-4.85%	9 yrs	08/14/2014	68,987	29,496
Building for senior center	07/03/2008	1.95-4.25%	10 yrs	08/15/2018	<u>89,550</u>	<u>70,083</u>
Total					<u>\$857,646</u>	<u>\$314,521</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 93,049	\$ 5,682
2013	94,935	3,855
2014	57,823	2,187
2015	33,583	1,058
2016	9,695	638
2017	10,111	447
2018	10,546	248
2019	<u>4,780</u>	<u>47</u>
Total	<u>\$ 314,522</u>	<u>\$14,162</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

PONDERA COUNTY, MONTANA  
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the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2011 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Capitalized Original Cost</u>	<u>Less: Accumulated Amortization</u>	<u>Net Value</u>	<u>Remaining Payments as of June 30, 2011</u>
8 Motor graders	08/06/2008	4%	\$1,067,806	\$320,342	\$747,464	\$901,916

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 53,984	\$ 38,323
2013	56,279	36,028
2014	58,671	33,636
2015	61,164	31,143
2016	671,818	28,543
Total	\$901,916	\$167,673

**Compensated Absences**

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. The liability associated with governmental fund-type employees is reported in the governmental activities.

**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. DEFICIT FUND BALANCES/NET ASSETS**

<u>Fund</u>	<u>Amount</u>	<u>How the deficit will be eliminated</u>
District Court	\$ (548)	Collection of delinquent taxes receivable

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**NOTE 8. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2011, were as follows:

Due to/from other funds:			
<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
To cover negative cash balance	Oil and Gas Severance Accelerated Tax – Nonmajor Governmental	Homeland Security Grant EOP – Nonmajor Governmental	\$ 4,546
To cover negative cash balance	Oil and Gas Severance Accelerated Tax – Nonmajor Governmental	FEMA PDA Grant – Nonmajor Governmental	8,141
To cover negative cash balance	State Allocated Federal Mining Royalties – Nonmajor Governmental	Community Center Remodel – Nonmajor Governmental	13,037
To cover negative cash balance	State Allocated Federal Mining Royalties – Nonmajor Governmental	Buckle Up Montana – Nonmajor Governmental	9,528
To cover negative cash balance	State Allocated Federal Mining Royalties – Nonmajor Governmental	WIC – Nonmajor Governmental	1,514
To cover negative cash balance	State Allocated Federal Mining Royalties – Nonmajor Governmental	Maternal Child Health – Nonmajor Governmental	982
To cover negative cash balance	General – Major Governmental	ARRA Energy Grant Community Center – Major Governmental	46,064
To cover negative cash balance	Oil and Gas Severance Accelerated Tax – Nonmajor Governmental	ARRA Energy Grant Community Center – Major Governmental	<u>2,162</u>
			<u>\$ 85,974</u>
Advances to/from other funds:			
<u>Purpose</u>	<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
To avoid deficit cash	Homeland Security Grant – Nonmajor Governmental	General – Major Governmental	<u>\$ 2,163</u>

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2011:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Capital improvements	Road – Major Governmental	Road/Bridge Equipment Purchase – Nonmajor Governmental	\$ 75,000
Capital improvements	Bridge – Nonmajor Governmental	Road/Bridge Equipment Purchase – Nonmajor Governmental	23,000
Residual equity transfer	District Court – Nonmajor Governmental	General – Major Governmental	1,117
Capital improvements	Junk Vehicle – Nonmajor Governmental	Junk Vehicle CIP – Nonmajor Governmental	3,001
Capital improvements	Public Safety – Major Governmental	Public Safety CIP – Nonmajor Governmental	47,000
Funding growth plan	State Allocated Federal Mining Royalties – Nonmajor Governmental	CDBG Growth Plan – Nonmajor Governmental	<u>15,000</u>
			<u>\$164,118</u>



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

All full-time County employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS), Sheriffs Retirement System (SRS). 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.

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, 2011, were:

	<u>PERS</u>	<u>SRS</u>
Employer	7.070%	10.115%
Employee	6.90%	9.245%
State	0.10%	-

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

The County's contributions for the years ended June 30, 2009, 2010, and 2011, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2009	\$87,065	\$43,698
2010	\$89,749	\$48,972
2011	\$91,468	\$53,267

**NOTE 10. 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

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*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, 2011, was as follows:

Actuarial Accrued Liability (AAL)	\$ 135,782
Actuarial value of plan assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 135,782</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,297,712
UAAL as a percentage of covered payroll	10%

*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)	\$ 19,933
Interest on net OPEB obligation	\$ -
Adjustment to ARC	<u>\$ -</u>
Annual OPEB cost (expense)	\$ 19,933
Contributions made	<u>\$ -</u>
Increase in net OPEB obligation	\$ 19,933
Net OPEB obligation - beginning of year	\$ 19,933
Net OPEB obligation - end of year	<u>\$ 39,866</u>

*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)	63
Discount rate (average anticipated rate)	1.64%
Average salary increase	2.80%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	

<u>Year</u>	<u>% Increase</u>
2010	3.90%
2011	5.20%
2012	5.50%
2013	6.10%

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2011

2014	6.60%
2015	6.70%
2016	7.00%
2017	6.80%
2018	6.80%
2019 and after	6.60%

**NOTE 11. 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 County employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**NOTE 12. FUND EQUITY**

**Fund Balance Classification Policies and Procedures**

For committed fund balance the government's highest level of decision-making authority is the Board of County Commissioners and the formal action that is required to be taken to establish, modify or rescind a fund balance commitment is a resolution or the budgetary process.

For assigned fund balance the body or official authorized to assign amounts to a specific purpose is the Board of County Commissioners or the County Clerk and Recorder and the policy established by the governing body pursuant to which that authorization is given is the budgetary process.

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**

FUNDS:	<u>Road</u>	<u>Other Funds</u>
Inventory	\$86,447	\$56,689
Permanent Fund Principal	<u>-</u>	<u>\$27,114</u>
	\$86,447	\$83,803

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011

**Restricted Fund Balance**

FUNDS:	<u>Road</u>	<u>Public Safety</u>	<u>DES Grants</u>	<u>Other Funds</u>
Public Works	\$412,033			\$ 305,065
Public Safety		\$520,636	\$26,770	\$ 117,486
Debt Service				\$ 97,809
Capital Projects				\$ 551,553
Weed control				\$ 80,833
Culture and Recreation				\$ 37,662
Public health				\$ 140,246
Insurance				\$ 174,444
Retirement				\$ 85,441
Record Preservation				\$ 37,642
Emergency Disaster				\$ 20,195
Public services				\$ 54,459
Miscellaneous				\$ 72,876
Total	<u>\$412,033</u>	<u>\$520,636</u>	<u>\$26,770</u>	<u>\$1,775,711</u>

**NOTE 13. RESTATEMENTS**

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Bridge	\$(5,000)	To adjust prior year inventory
Public Safety	<u>5,000</u>	To adjust prior year inventory
	<u>\$ -</u>	

Pondera Regional Port Authority

<u>Amount</u>	<u>Reason for Adjustment</u>
\$242,217	To adjust fund balance to include the amount associates with the EDC

**NOTE 14. 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 15. 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,

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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.

Audited financial statements for fiscal year ended September 30, 2011, are available from the Montana Association of Counties Workers' Compensation Trust.

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.

Audited financial statements for the fiscal year ended September 30, 2011, are available from the Montana Association of Counties Joint Powers Insurance Trust.

**PONDERA MEDICAL CENTER  
A COMPONENT UNIT OF PONDERA COUNTY**

**CONRAD, MONTANA**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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**NOTE 1: PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES:**

**Organization**

Pondera Medical Center (Medical Center), a component unit of Pondera County, 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, medical clinic, and eye clinic and furnish medical and surgical care to the sick, infirmed, or injured.

The Medical Center is governed by a Board of Trustees, 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 recommended by the County Commissioners of Pondera County and one of the appointees is a member of the Pondera County Commissioners. Because of the lease described in Footnote 11, the Medical Center is a component unit of Pondera County.

**Proprietary Fund Accounting**

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**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, excluding assets limited as to use.

**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 invoices identified on the remittance advice or, if unspecified, are applied to the earliest unpaid invoice.

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 may 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.

### **Supplies**

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

### **Assets Limited as to Use**

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and equipment purchases, over which the Board retains control and may at its discretion subsequently use for other purposes. The assets limited as to use consist of cash and cash equivalents.

### **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 using these lives:

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

### **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 from federal agencies and the State of Montana as well as 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.

### **Restricted Resources**

When the Medical Center has both restricted and unrestricted resources available to finance a specific project, it is the Medical Center's practice to use restricted resources before unrestricted resources.

## **Net Assets**

Net assets are presented in the following three components:

**Net Assets Invested in Capital Assets, Net of Related Debt** - Net assets invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding balances used to finance the purchases or construction of those assets.

**Restricted Expendable Net Assets** - Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditor, grantors, or contributors external to the Medical Center.

**Unrestricted Net Assets** - Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

## **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 per discharge, 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.

## **Operating Revenues and Expenses**

The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is 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.

## **Charity Care**

To fulfill its mission of community service, the Medical Center provides care to patients 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.

## **Vacation and Compensated Absences**

The Medical Center's employees earn vacation/holidays/sick leave, referred to as Earned Time, at varying rates depending on years of service. Employees may accumulate Earned Time hours up to a specified maximum. Upon termination the employees will be paid the total number of hours accrued as Earned Time up to a maximum. The estimated amount of Earned Time hour's payable as termination payments is reported as an accrued liability in 2010.



## **Income Taxes**

The Medical Center is exempt from income taxes under Section 509(a), as defined in Section 501(c)(3), of the Internal Revenue Code and organized under the laws of the State of Montana. The Medical Center has adopted the provisions of Accounting Standards Codification Topic ASC 740-10, Accounting for Uncertainty in Income Taxes, and as of December 31, 2010, the unrecognized tax benefit accrual was zero. For years prior to 2007, the Medical Center's tax returns are generally no longer subject to examination.

## **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; medical malpractice; and employee health, dental, and accident benefits. 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.

## **Subsequent Events**

The Medical Center has evaluated subsequent events through May 24, 2011, 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 amount of charges foregone, based on established rates, was \$39,519 during the year ended December 31, 2010.

## **NOTE 3: 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, 2009. 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 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. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Medical Center's Medicare cost report, or rates as established by the Medicaid program. The Medical Center is reimbursed at a tentative rate with final settlement determined by the program based on the Medical Center's final Medicaid cost report. The Medical Center's final Medicaid settlements have been processed through the year ended December 31, 2009. The Medical Center received a final settlement for 2009 of \$73,703.

**Blue Cross** - Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

**Resident Services** - 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.

**Other** - 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.

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 year ended December 31, 2010 is as follows:

Total Patient and Resident Service Revenue	<u>\$ 13,329,283</u>
Contractual Adjustments	
Medicare	(1,081,250)
Medicaid	(311,173)
Blue Cross	(137,971)
Other	<u>(340,302)</u>
Total Contractual Adjustments	<u>(1,870,696)</u>
Provision for Bad Debts	<u>(421,945)</u>
Net Patient and Resident Service Revenue	<u><u>\$ 11,036,642</u></u>

**NOTE 4: OTHER RECEIVABLES:**

Bond Payment Funds from County	\$ 72,597
Miscellaneous	4,159
	<u><u>\$ 76,756</u></u>

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 5: NET CAPITAL ASSETS:**

Capital asset additions, retirements, and balances for the year ended December 31, 2010 are as follows:

	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Capital Assets Non-Depreciable:					
Land	\$ 27,854	\$ -	\$ -	\$ -	\$ 27,854
Construction in Progress	1,515	-	-	-	1,515
PMC Eye Clinic Land	-	7,000	-	-	7,000
	<u>29,369</u>	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>36,369</u>
Capital Assets Depreciable:					
Land Improvements	167,880	-	-	-	167,880
Building and Improvements	6,925,908	19,650	-	-	6,945,558
Equipment	3,997,079	173,554	(44,759)	-	4,125,874
PMC Eye Clinic	-	140,900	-	-	140,900
	<u>11,090,867</u>	<u>334,104</u>	<u>(44,759)</u>	<u>-</u>	<u>11,380,212</u>
Total Capital Assets	<u>11,120,236</u>	<u>341,104</u>	<u>(44,759)</u>	<u>-</u>	<u>11,416,581</u>
Less Accumulated Depreciation for:					
Land Improvements	133,100	6,540	-	-	139,640
Building and Improvements	4,819,292	174,557	-	-	4,993,849
Equipment	3,154,690	340,125	(44,759)	-	3,450,056
PMC Eye Clinic	-	2,348	-	-	2,348
Total Accumulated Depreciation	<u>8,107,082</u>	<u>523,570</u>	<u>(44,759)</u>	<u>-</u>	<u>8,585,893</u>
Capital Assets, Net	<u>\$ 3,013,154</u>	<u>\$ (182,466)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,830,688</u>

Construction in progress at December 31, 2010, represents front desk registration remodel. The estimated costs to complete remodeling are approximately \$10,000.

**NOTE 6: CASH AND CASH, DEPOSITS:**

At December 31, 2010, the Medical Center had bank balances as follows:

Insured (FDIC)	\$ 261,353
Uninsured or Uncollateralized	610,831
Total	<u>\$ 872,184</u>
Carrying Value	<u>\$ 761,804</u>

Investments are comprised of certificates of deposit. The Medical Center has not formally adopted deposit and investment policies.

**NOTE 7: DEFERRED FINANCING COSTS:**

Deferred Financing Costs	\$ 78,082
Accumulated Amortization	(60,391)
	<u>\$ 17,691</u>

Amortization expense for the deferred financing costs was \$7,003 for the year ended December 31, 2010. The future amortization expense on the deferred financing costs for the years ended December 31, 2011, 2012, 2013, 2014, and 2015 is \$5,995, \$4,860, \$3,627, \$2,320, and \$889, respectively.

**NOTE 8: LEASES:**

In 2008 and 2009, the Medical Center entered into noncancelable leases that are classified as capital leases for equipment. The leases expire between April 2012 and April 2014 and require monthly payments, including interest. At December 31, 2010, the cost of the equipment and accumulated depreciation recorded under capital leases was as follows:

Equipment	\$ 593,616
Less Accumulated Depreciation	(251,063)
	<u>\$ 342,553</u>

Future minimum capital lease payments as of December 31, 2010 are:

Years Ending December 31,	Amount
2011	\$ 140,399
2012	136,281
2013	78,286
2014	2,030
Total Minimum Lease Payments	<u>356,996</u>
Less Interest	(12,704)
Present Value of Net Minimum Capital Lease Payments	<u>344,292</u>
Less Current Portion	<u>(132,781)</u>
	<u>\$ 211,511</u>

**NOTE 9: LONG-TERM DEBT:**

Long-term debt consists of:

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

\$ 690,000

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

189,858

Note Payable, at an interest rate of 3.5%, due in monthly installments of \$2,639.93, to June 2015, secured by Eye Clinic Land and Building

128,843

1,008,701

Less Current Maturities

(203,321)

\$ 805,380

	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010	Amounts Due Within One Year
Bonds, Notes and Leases Payable and Accrued Vacation					
Revenue Bonds	\$ 815,000	\$ -	\$ 125,000	\$ 690,000	\$ 130,000
Notes Payable	234,381	-	44,523	189,858	45,733
Notes Payable-Eye Clinic	-	142,900	14,057	128,843	27,588
Lease Payable	474,134	-	129,842	344,292	132,781
Accrued Vacation	365,994	40,164	-	406,158	-
Total Non-Current Liabilities	<u>\$ 1,889,509</u>	<u>\$ 183,064</u>	<u>\$ 313,422</u>	<u>\$ 1,769,151</u>	<u>\$ 336,102</u>

Scheduled principal and interest repayments on long-term debt are as follows:

Years Ending December 31,	Long-Term Debt	
	Principal	Interest
2011	\$ 203,321	\$ 26,685
2012	210,541	22,801
2013	212,842	17,622
2014	219,532	11,883
2015	162,465	11,280
	<u>\$ 1,008,701</u>	<u>\$ 90,271</u>

Total Interest expense for the year ended December 31, 2010 is \$44,884.

**NOTE 10: RESTRICTED NET ASSETS:**

Restricted, expendable net assets are available for the following purposes:

Medical Equipment	\$ 14,069
Solarium	9,177
Capital Improvements	1,000
	<u>\$ 24,246</u>

In December 31, 2010, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amount of \$14,540.

**NOTE 11: COMMITMENTS AND CONTINGENCIES:**

**Malpractice Insurance** - The Medical Center has insurance coverage to provide protection for professional liability losses on a claim made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured without the purchase of prior incident or tail coverage.

**County Lease** - On April 15, 2004, the Medical Center entered into a lease agreement with Pondera County (County), effective as of January 1, 2004. Under the terms of the agreement the Medical Center agreed to lease the hospital and nursing home facilities from the County for a term of twelve months, with the Lease renewing automatically if the conditions of this Lease have been satisfactorily met, for \$10 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.

In prior years, management has consistently recorded Medical Center assets purchased with County funds as assets of the Medical Center. Therefore, 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.

**Pending Litigation** - The Medical Center is a defendant in various claims arising in the normal course of business. The Medical Center has insurance coverage to cover the cost of any claims.

**NOTE 12: 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, 2010 was as follows:

Medicare	30%
Commercial Insurance	28%
Medicaid	5%
Other Third-Party Payors and Patients	37%
	<u>100%</u>

**NOTE 13: REGULATIONS:**

The health care industry is subject to numerous laws and regulations including, but not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with the fraud and abuse regulations, as well as other applicable governmental laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007 are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Medical Center may incur a liability for a claims overpayment at a future date. The Medical Center is unable to determine the extent of liability of overpayments, if any. As the outcome of such potential reviews are unknown and cannot be reasonably estimated, it is the Medical Center's policy is to adjust revenue for deduction from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement, if any, is agreed upon between the Medical Center and CMS.

**NOTE 14: PRIOR PERIOD ADJUSTMENT:**

The prior period adjustment relates to an investment in perpetual trust that was not included as an asset in prior years.

**REQUIRED SUPPLEMENTAL  
INFORMATION**



Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2011

	General Fund				Road			
	BUDGETED AMOUNTS		VARIANCE WITH FINAL BUDGET	ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL			ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>								
Taxes and assessments	\$ 647,936	\$ 647,950	\$ 16,163	\$ 664,113	\$ 360,599	\$ 360,611	\$ 370,532	\$ 9,921
Licenses and permits	50	50	(10)	40	-	-	-	-
Intergovernmental	291,740	291,740	94,876	386,616	361,202	361,202	199,804	(161,398)
Charges for services	148,191	148,191	9,150	157,341	-	-	-	-
Fines and forfeitures	35,260	35,260	(2,740)	32,520	-	-	-	-
Miscellaneous	11,327	24,948	(3,059)	21,889	10,100	10,100	8,666	(1,434)
Investment earnings	60,500	60,500	(38,252)	22,248	-	-	-	-
Amounts available for appropriation	\$ 1,195,004	\$ 1,208,639	\$ 76,128	\$ 1,284,767	\$ 731,901	\$ 731,913	\$ 579,002	\$ (152,911)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>								
General government	\$ 1,074,152	\$ 1,087,773	\$ 122,017	\$ 965,756	-	-	-	-
Public safety	71,238	71,238	22,635	48,603	-	-	-	-
Public health	-	-	-	-	722,147	722,147	506,001	216,146
Social and economic services	141,669	141,669	20,403	121,266	-	-	-	-
Culture and recreation	10,500	10,500	2,212	8,288	-	-	-	-
Housing and community development	1,800	1,800	379	1,421	-	-	-	-
Debt service - principal	11,814	11,814	3,957	7,857	52,000	52,000	51,679	321
Debt service - interest	2,210	2,210	729	1,481	43,000	43,000	40,628	2,372
Capital outlay	2,000	2,000	2,000	-	29,800	29,800	-	29,800
Total charges to appropriations	\$ 1,315,383	\$ 1,329,004	\$ 174,332	\$ 1,154,672	\$ 846,947	\$ 846,947	\$ 598,308	\$ 248,639
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	\$ -	\$ -	\$ 1,117	\$ 1,117	\$ -	\$ -	\$ -	\$ -
Transfers out	(78,963)	(78,963)	78,963	-	(149,000)	(149,000)	(75,000)	74,000
Total other financing sources (uses)	\$ (78,963)	\$ (78,963)	\$ 80,080	\$ 1,117	\$ (149,000)	\$ (149,000)	\$ (75,000)	\$ 74,000
Net change in fund balance				\$ 131,212			\$ (94,306)	
Fund balance - beginning of the year				\$ 526,189			\$ 592,786	
Restatements				-			-	
Fund balance - beginning of the year - restated				\$ 526,189			\$ 592,786	
Fund balance - end of the year				\$ 657,401			\$ 498,480	

Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2011

	Public Safety				DES Grants			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL			ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>								
Taxes and assessments	\$ 607,552	\$ 607,561	\$ 625,957	\$ 18,396	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	84,157	84,157	85,704	1,547	82,873	82,873	52,659	(30,214)
Charges for services	102,390	102,390	103,568	1,178	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-
Miscellaneous	7,022	7,022	2,616	(4,406)	-	-	-	-
Investment earnings	-	-	-	-	-	-	-	-
Amounts available for appropriation	\$ 801,121	\$ 801,130	\$ 817,845	\$ 16,715	\$ 82,873	\$ 82,873	\$ 52,659	\$ (30,214)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	1,014,843	1,014,843	723,324	291,519	192,041	192,041	33,493	158,548
Public works	-	-	-	-	-	-	-	-
Public health	-	-	-	-	-	-	-	-
Social and economic services	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Housing and community development	-	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	19,166	(19,166)
Total charges to appropriations	\$ 1,014,843	\$ 1,014,843	\$ 723,324	\$ 291,519	\$ 192,041	\$ 192,041	\$ 52,659	\$ 139,382
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	(47,000)	(47,000)	(47,000)	-	-	-	-	-
Total other financing sources (uses)	\$ (47,000)	\$ (47,000)	\$ (47,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ 47,521					
Fund balance - beginning of the year			\$ 478,115				\$ 26,770	
Resurrections			(5,000)				-	
Fund balance - beginning of the year - restated			\$ 473,115				\$ 26,770	
Fund balance - end of the year			\$ 520,636				\$ 26,770	

Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2011

ARRA Energy Grant Community Center				
	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	200,000	200,000	183,104	(16,896)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Investment earnings	-	-	-	-
Amounts available for appropriation	\$ 200,000	\$ 200,000	\$ 183,104	\$ (16,896)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	200,000	200,000	-	200,000
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	-	-	183,104	(183,104)
Total charges to appropriations	\$ 200,000	\$ 200,000	\$ 183,104	\$ 16,896
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ -	
Fund balance - beginning of the year			\$ -	
Restatements			-	
Fund balance - beginning of the year - restated			\$ -	
Fund balance - end of the year			\$ -	

**PONDERA COUNTY**  
**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%

# **SINGLE AUDIT SECTION**

Pondera County, Montana  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For Fiscal Year Ended June 30, 2011

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures June 30, 2011</b>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed through Teton County:</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program)	10.557	N/A	\$ 24,471
<i>Passed through Montana Department of Administration:</i>			
School & Roads - Grants to States (Forest Reserve)	10.665	N/A	64,742
<b>Total U.S. Department of Agriculture</b>			<b>\$ 89,213</b>
<b><u>U.S. Department of Housing &amp; Urban Development</u></b>			
<i>Passed through Department of Commerce:</i>			
Community Development Block Grant	14.228	MT-NSP-018-01-001	\$ 213,484
Community Development Block Grant	14.228	MT-CDBG-ED07-02ITB	4,621
Community Development Block Grant	14.228	MT-CDBG-07PG-17	1,586
<i>Passed through the City of Conrad:</i>			
Community Development Block Grant	14.228	MT-CDBG-10PF-02	449,263
<b>Total U.S. Department of Housing &amp; Urban Development</b>			<b>\$ 668,954</b>
<b><u>U.S. Department of Transportation</u></b>			
<i>Direct:</i>			
Airport Improvement Program	20.106	3-30-0018-004-2008	\$ 9,847
<i>Passed through Montana Department of Transportation:</i>			
State and Community Highway Safety	20.600	N/A	17,963
<i>Passed through State of Montana:</i>			
Alcohol impaired driving countermeasures incentive grants	20.601	N/A	3,300
<b>Total U.S. Department of Transportation</b>			<b>\$ 31,110</b>
<b><u>U.S. Department of Energy</u></b>			
<i>Passed through State of Montana Department of Environmental Quality:</i>			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-EE0000764	\$ 183,104
<b>Total U.S. Department of Energy</b>			<b>\$ 183,104</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through Montana Department of Health &amp; Human Services:</i>			
Public Health Emergency Preparedness	93.069	10-07-6-11-038-0	\$ 43,258
Public Health Emergency Preparedness	93.069	10-07-6-11-038-0	9,401
Immunization Grants	93.268	09-07-4-31-034-0	1,497
Immunization Grants	93.268	10-07-43-31-0340	1,997
Maternal & Child Services Health Block Grant	93.994	10-07-5-01-037-0	14,672
<i>Passed through Montana State University:</i>			
Centers for Disease Control and Prevention Investigations and Technical assistance - Bioterrorism	93.283	G151-11-W3300	12,463
<i>Passed through Teton County:</i>			
Centers for Disease Control and Prevention Investigations and Technical Assistance - Tobacco	93.283	11-07-3-31-027-0	33,434
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	06-07-3-01-012-0	9,154
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 125,876</b>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed through Montana Department of Military Affairs:</i>			
Emergency Management Performance Grant	97.042	2009-EP-E9-0009	\$ 20,007
Pre-Disaster Mitigation	97.047	PDMC-PL-08-MT-2010-011	8,141
Homeland Security Grant Program	97.067	2009-SS-T9-0005	7,007
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 35,155</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 1,133,412</b>

N/A = Not Applicable or Not Available

PONDERA COUNTY, MONTANA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2011

*Basis of Presentation*

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

**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 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 the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pondera County, Pondera County, Montana, as of and for the year ended June 30, 2011, which collectively comprise the Pondera County's basic financial statements and have issued our report thereon dated March 30, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of Pondera Medical Center as described in our report on Pondera County, Montana'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, we considered the Pondera County internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pondera County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pondera County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questions costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. However, we identified a certain deficiency in



internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 11-1 that we consider to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 11-2 to be a significant deficiency.

#### 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pondera County's response to the findings identified in our audit is described in the Schedule of Findings and Questioned Costs. We did not audit Pondera County's response, and accordingly, we express no opinion on it.

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

*Derring, Downey and Associates, CPAs, P.C.*

March 30, 2012

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

Board of County Commissioners  
Pondera County  
Conrad, Montana

Compliance

We have audited Pondera County, Montana, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Pondera County's major federal programs for the year ended June 30, 2011. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion of the County's compliance based on our audit.

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

In our opinion, Pondera County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and report on internal control over compliance in

accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

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

March 30, 2012

PONDERA COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2011

**Section I – Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued	<i>Unqualified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program

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

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

### **Section II – Financial Statement Findings**

#### **11-1 Pondera Regional Port Authority Financial Reporting**

**Condition:**

Pondera Regional Port Authority (PRPA) did not properly report program inventory (housing built and held for sale) correctly. In addition, PRPA did not include the net assets of its component unit, the Economic Development Corporation (EDC), for financial reporting. Note that PRPA had reporting issues described in the June 30, 2010 audit report as well.

**Criteria:**

PRPA has used a Neighborhood Stabilization Program grant to purchase land and buildings to sell to low income individuals. These land and buildings are still held by the PRPA and should be reported as income rather than expense.

PRPA merged boards with the EDC and now has direct control over all EDC operations. The EDC still operates as a separate entity, and therefore its net assets should be combined with PRPA for reporting purposes.

**Effect:**

PRPA assets were understated by \$236,210 which was program inventory costs which were not properly recorded.

Not reporting the EDC with PRPA misstates the control that Pondera County has over the EDC, its assets and its liabilities. The net assets of the EDC are \$272,681, in investments, cash, loan receivable and land. Both of these errors have been corrected for the audit report.

**Cause:**

The inventory adjustment was not properly recorded in the accounting system.

PRPA and Pondera County personnel did not realize that EDA was a component unit of PRPA.

**Recommendation:**

Any further purchases of land and buildings with Neighborhood Stabilization Program funds should be reported as inventory in the accounting system rather than as an expense. We also recommend that the EDC continue to be reported as a component unit of PRPA which is a component unit of Pondera County.

**Auditee Response:**

The Pondera Regional Port Authority will correct its reporting of Neighborhood Stabilization Program purchases and income and expense reporting as suggested.

The Pondera Regional Port Authority is discussing the bylaws of the EDC and PRPA with the lawyer who helped set them up and will respond appropriately. The stated goal

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

of the relationship was to maximize economic opportunity and cooperation while preserving the separate identity of each entity.

### **11-2 Justice Court – Internal Controls**

#### **Condition:**

The Justice Court currently requires only one signature for check disbursements. The same person who is authorized for check disbursements also prepares and maintains the bank reconciliations.

#### **Criteria:**

Good internal controls require that there be a segregation of duties between the handling of assets and the accounting for the assets. Currently, the same person who accounts for the assets through full court and bank reconciliations is the sole signer on the checking account.

#### **Effect:**

Internal controls are significantly weakened due to the single signature and the same person handling bank reconciliations.

#### **Cause:**

One employee prepares bank reconciliations and is also the sole signer for the checking account.

#### **Recommendation:**

We recommend that the checking account be changed to require two signatures. We also recommend that the bank reconciliation be reviewed by another employee other than the preparer.

#### **Auditee Response:**

I do understand what is being asked of me, about the two signatures. Question is another employee, to be hired for the Office? I am sure there is no money for more help, but I would gladly not do anything with the money end of the office. I am the person that does the reconciliation of the books, and I am the sole check signee of the checks. I have been told by the Auditor to have someone else, from a different department to be the 2<sup>nd</sup> signee of the bank account, such as a Commissioner or Clerk and Recorder. If this is not fiddling with the separation of Powers, I don't know what is.

Either I have more help in the office to do all of the little nuances the auditor wants, or there will not be changes made at this time. As an elected Official of Pondera County, I feel like I have been slapped in the face, with allegations of what might happen. I have not passed the audit for Significant Deficiency, but until I have more help in the office, the deficiency will remain.

February 27, 2012

Pondera County Justice of the Peace

Audrey Brown

### **Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings or questioned costs reported.

***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 five recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Pondera Port Authority – Financial Reporting Problems	Repeated
Unrecorded Inventory	Implemented
Accrued Payroll Expense	Implemented
Unrecorded Accounts Payable	Implemented
Forest Reserve	Implemented

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

March 30, 2012