

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2007

**AUDIT REPORT**  
(Revised 2/24/09)

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

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2007

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PONDERA COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2007

**BOARD OF COUNTY COMMISSIONERS**

Joseph E. Christiaens  
Sandra J. Broeser  
Cynthia A. Johnson

Chairperson  
Commissioner  
Commissioner

**CITY/COUNTY/TOWN OFFICIALS ETC.**

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

County Attorney  
Treasurer/Assessor  
Clerk and Recorder  
Clerk of District Clerk  
Justice of the Peace  
School Superintendent  
Sheriff/Coroner  
Public Administrator

**Pondera County, Montana**  
**Management Discussion and Analysis (MD&A)**  
**Fiscal Year 2006-07**

Our discussion and analysis of Pondera County's financial performance provides an overview of Fiscal Year 2006-2007 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 has increased over \$25,679 over the prior fiscal year due to higher interest rates.**
- **Seven of the eight maintainers (motor graders), traded in FY 02-03, are financed and remain in the budget. One maintainer, traded in 2005, is also financed and reflected in the budget.**
- **Two 2006 Case IH MX120 tractors were purchased for use in the Road Department.**
- **Pondera County renovated the court room ceiling and windows coverings for approximately \$7,500.**
- **While acres remained the same, the amount of the Pondera County PILT Payment was reduced by \$7,312. Forest Reserve payments were \$18,292 less than the prior fiscal year.**
- **Emergency snow removal revenue, resulting from a long term contractual relationship with the US Air Force, remains in place and is dedicated exclusively to road and bridge maintenance.**
- **Roads were re-built or re-graveled 14 miles of road with approximately 19,162.5 yards of gravel at a cost of \$71,476. This amount is dramatically decreased compared to FY 06.**
- **Two bridges were replaced with culverts for a total of \$7,000 and one cattle-guard was replaced for \$4,200.**
- **High fuel costs continue to impact all areas of the budget, especially Road and Bridge.**
- **Oil and Gas Revenues increased 24% in Fiscal year 2007.**
- **The Public Health Budget remains more than normal due to grant program revenue and expenditures in areas of Breast and Cervical Health, Safe Kids Safe Communities, and Tobacco Cessation.**

- **A Community Service Program was established using a volunteer Board of Directors and funded at \$15,000. Pondera County entered into an Agreement to work cooperatively with the City of Conrad for the Community Service Program. A Contract Supervisor manages the program.**
- **The Pondera Regional Port Authority has been 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, the loan is forgiven and treated as a grant (transfer).**
- **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 also contributes \$2,000 annually to the state mandated regional economic development corporation.**
- **The Sheriff's department replaced one public safety vehicle. The department also constructed a Coroner Garage/Storage facility for \$20,000.**
- **Renovations to the HVAC for the Court House were completed at a cost of \$14,283 for fiscal year 2007 and renovations to the jail plumbing were done at a cost of \$10,986.**
- **Local Option tax revenue was over \$20,542 more than the prior fiscal year due to significant increase in the manufacturer's suggested retail prices for vehicles, recreational vehicles, and trailers. This positively impacts the Public Safety budget.**
- **Election Costs remain significant due to necessary additional training for staff and judges and 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:

	<u>FY 2006-07</u> <u>Governmental</u> <u>Activities</u>	<u>FY 2005-06</u> <u>Governmental</u> <u>Activities</u>
Current and other assets	3,733,945	3,913,836
Capital assets	5,810,874	6,395,272
Total assets	9,544,819	10,309,108
Long-term debt outstanding	2,163,358	2,638,599
Other liabilities	465,130	292,825
Total liabilities	2,628,488	2,915,337
Net assets:		
Invested in capital assets net of related debt	3,726,304	3,756,673
Restricted	2,638,971	2,792,452
Unrestricted	551,056	828,559
Total net assets	6,916,331	7,377,684

## Government-wide STATEMENT OF ACTIVITIES

	<u>FY2006-07</u> <u>Governmental</u> <u>Activities</u>	<u>FY2005-06</u> <u>Governmental</u> <u>Activities</u>
<b><u>Program Revenues</u></b>		
Charges for Services	512,602	283,206
Operating Grants and Contributions	245,288	364,618
Capital Grants and Contributions		1,051,660
Total Program Revenues	757,890	1,699,484
<b><u>General Revenues</u></b>		
Property Taxes	2,298,115	2,224,087
Video Poker Apportionment	2,875	2,850
Personal Property Reimbursement	27,201	41,392
Miscellaneous	59,664	205,812
Investment Earnings & Oil Royalties	119,393	104,788
PILT	132,099	139,410
MT Oil and Gas Production Tax	182,261	244,353
State Entitlement	357,744	360,718
Grants & Entitlements not restricted to specific programs		6,899
Royalties	16,610	
Loss on disposal of capital assets		(76,787)
Transfers – net		
Total General Revenues	3,399,892	3,253,522
<b>Total Revenues</b>	4,157,782	4,953,006

Government-wide STATEMENT OF ACTIVITIES (continued)

	<u>FY2006-07</u>	<u>FY2005-06</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
<b><u>Program Expenses by Function</u></b>		
General Government	1,174,125	1,113,592
Public Safety	854,579	751,389
Public Works	1,471,630	1,326,416
Public Health	630,566	580,101
Social & Economic Services	105,043	95,703
Culture & Recreation	141,375	139,539
Housing & Community Development		395,000
Miscellaneous	143,551	133,774
Unallocated Depreciation		
Debt Service Costs & Fees		
Debt Service Interest	98,991	99,282
Total Expenses	4,619,860	4,634,796
Excess (deficiency) before special items & transfers	(462,078)	318,210
Restatements		
Transfers – net	7,290	1,095
<b>Changes in net assets</b>	(483,618)	319,305

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 \$4,619,860, compared to \$4,634,796 for fiscal year 2005-06, as found in the Statement of Activities, a decrease of \$14,936 or less than 1%. However, as shown on the same statement, the amount that our taxpayers ultimately financed for these activities through county taxes was only \$2,298,115, up by \$74,028 from \$2,224,087 in fiscal year 2005-06. Some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with operating grants. Other revenues were derived from investment earnings, entitlement reimbursements, loans and other miscellaneous charges. Cash carryovers from the prior fiscal year (reserves) were utilized as well.

The County's programs net costs are presented below:

**Net Program Expenses by Function:**

<u>Governmental Activities</u>	<u>FY2006-07</u> <u>Net Expense</u>	<u>FY2005-06</u> <u>Net Expense</u>
General Government	1,174,125	1,113,592
Public Safety	854,579	751,389
Public Works	1,471,630	1,326,416
Public Health	630,566	580,101
Social & Economic Services	105,043	95,703
Culture & Recreation	141,375	139,539
Housing & Community Development		395,000
Debt Service Interest	98,991	99,282
Miscellaneous	143,551	133,774
Total Net Expenses	4,619,860	4,634,796

**Unreserved Fund Balance Analysis**

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>
Unreserved Fund Balance – Current Year	886,628	554,262	734,843
Unreserved Fund Balance – Prior Year	817,292	477,768	556,969
Change in unreserved fund balance	69,336	76,494	177,874
% change in unreserved fund balance	8.48%	1.60%	31.94%

A 8.48% decrease in General Fund from FY06 is attributed to the departments' holding the line on expenses.

The increase of 1.60% in the fund balance for the Road Special Revenue Fund was due to the department holding the line on expenses.

Increase in Public Safety by 31.94% is the result of the department holding the line on expenses.

**Budget to Actual Variances:**

<u>General Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	830,933	886,628	55,695	6.70%

There was a variation between the revenue final budget amount and actual amount of revenue in the General Fund of \$55,695 for a 6.70% variance. Non-tax revenue, particularly investment earnings, was under-budgeted.

<u>Road Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	544,821	554,262	9,441	1.73%

County under-budgeted miscellaneous revenue source, particularly revenue received for hauling junk vehicles.

<u>Public Safety</u>	<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
		672,850	734,843	61,993	9.21%

County under-budgeted non-tax revenues, particularly charges for services and miscellaneous revenue.

## **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 reduced its long term debt by \$287,859.

### **Capital Assets**

New assets, totaling \$256,928, were purchased during the year. Deletions, additions and adjustment, along with depreciation, reduced the net book value of Pondera County assets by \$583,302.95, resulting in the current value as of June 30, 2007 of \$5,791,969.31.

No new land was purchased nor sold and other capital assets 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 total fiscal year 2007-2008 Taxable Valuation increased slightly in Pondera County from \$12,173,729 to 12,443,284. The value of a county-wide mill increased from \$12,173 to \$12,443. The FY 07 budget did not allow for the reservation of any floated mills; all were levied. Under Department of Revenue calculations, Pondera County classification, beginning January 1, 2008, rises to that of a Third Class County.

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

The cost of fuel will continue to significantly impact the 2007-08 budget, especially in the areas of Road, Bridge, and Public Safety.

The County intends to replace, through a new lease, 8 new maintainers, purchase 1 truck and one Rock' N Roll for road work. We also intend to replace 3 large culverts and 3 cattle-guards. Capital Improvement will include savings for a loader in the future.

Group Health Insurance costs remain stable in this third year of a 3 year obligation to remain with the Joint Powers Trust.

District Court costs are no longer recognized as separate agency funds and have been merged into the General Budget.

All funds are expected to remain stable in fiscal year 2007.

The school districts in the County levied funds pursuant to levy elections held in May, 2007. All school levies in the County passed and were increased.

While aiming for a 33% reserve in all funds, reserve amounts range from 11.8% to 33%. Our goal remains to achieve the 33% reserve in all funds.

	<u>2,006</u>
<b>Operating Activities:</b>	
Receipts from and on behalf of patients and residents	\$ 9,039,316
Payments to employees	(6,473,691)
Payments to suppliers and contractors	(2,790,690)
Other receipts and payments, net	82,014
Net cash used for operating activities	\$ <u>(143,051)</u>
<b>Non-Capital Financing Activities</b>	
Levied funds from County	\$ 100,904
Intergovernmental transfer received	46,962
Non-capital contributions received	1,690
Borrowings on non-capital financing	379,840
Principal paid on non-capital financing	(255,887)
Interest paid on non-capital financing	(37,563)
Non-capital grants received	46,842
Net cash from non-capital financing activities	\$ <u>282,788</u>
<b>Capital and Capital Related Financing Activities</b>	
Bond payments from County	\$ 171,439
Capital contributions	18,337
Capital grants received	117,107
Purchases of capital assets	(309,992)
Principal paid on capital debt and leases	(169,230)
Interest paid on capital debt and leases	(47,567)
Net cash used for capital and capital related financing activities	\$ <u>(219,906)</u>
<b>Investing activities:</b>	
Redemptions of certificates of deposit	\$ 318,734
Purchases of certificates of deposit	(324,874)
Interest income	34,681
Net cash from investing activities	\$ <u>28,541</u>
<b>Net change in cash and cash equivalents</b>	\$ (51,628)
<b>Cash and cash equivalents at beginning of year</b>	427,534
<b>Cash and cash equivalents at end of year</b>	\$ <u><u>375,906</u></u>

<b>Reconciliation of cash and cash equivalents to the balance sheets:</b>	<b>2006</b>
Cash and cash equivalents in current assets	\$ 373,843
Cash and cash equivalents in assets limited as to use	2,063
Cash and cash equivalents at end of year	<u>\$ 375,906</u>
	-
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (562,031)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation and amortization	589,133
Provision for bad debts	321,701
Changes in assets and liabilities	-
Receivables	(602,146)
Supplies	32,132
Prepaid expenses	(577)
Accounts payable	65,371
Accrued expenses	13,366
Net cash used for operating activities	<u>\$ (143,051)</u>

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

*1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901*

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**INDEPENDENT AUDITOR'S REPORT**

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, Montana, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 92.20%, 87.13%, and 79.37%, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. 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 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 provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the 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, Montana, as of June 30, 2007, 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 \$1,071,049. 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 \$2,844,203.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2008, 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.

The management's discussion and analysis and budgetary comparison information on pages 2 through 10 and 41 through 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

April 24, 2008

**Pondera County, Montana**  
**Statement of Net Assets**  
**June 30, 2007**

	<b>Governmental Activities</b>	<b>Pondera Regional Port Authority</b>	<b>Pondera Medical Center</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 3,448,072	\$ 100,509	\$ 554,987
Taxes and assessments receivable, net	288,315	4,326	-
Accounts receivable - net	(2,442)	-	-
Notes and loans receivable	-	462,723	-
Prepaid expenses	-	-	48,736
Patient receivables	-	-	1,524,980
Other receivables	-	-	365,032
Supplies	-	-	277,248
Estimated third-party payor settlements	-	-	47,587
Total current assets	\$ 3,733,945	\$ 567,558	\$ 2,818,570
Noncurrent assets:			
Restricted cash and investments	\$ -	\$ -	\$ 2,063
Capital assets - land	\$ 154,232	-	-
Capital assets - depreciable, net	5,656,642	-	3,831,692
Intangible assets	-	-	50,482
Other assets	-	-	2,972
Total noncurrent assets	\$ 5,810,874	\$ -	\$ 3,887,209
Total assets	\$ 9,544,819	\$ 567,558	\$ 6,705,779
<b>LIABILITIES</b>			
Current liabilities:			
Warrants payable	\$ 222	\$ -	\$ -
Accounts payable	346	-	505,009
Accrued payroll	-	1,133	-
Current portion of long-term liabilities	-	7,746	293,077
Current portion of long-term capital liabilities	278,200	-	-
Current portion of compensated absences payable	153,112	-	-
Accrued payables	43,338	-	790,908
Total current liabilities	\$ 475,218	\$ 8,879	\$ 1,588,994
Noncurrent liabilities:			
Noncurrent portion of long-term liabilities	\$ -	\$ 8,206	\$ 1,389,923
Noncurrent portion of long-term capital liabilities	2,072,540	-	-
Noncurrent portion of compensated absences	80,730	-	-
Total noncurrent liabilities	\$ 2,153,270	\$ 8,206	\$ 1,389,923
Total Liabilities	\$ 2,628,488	\$ 17,085	\$ 2,978,917
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 3,460,134	\$ -	\$ 2,279,140
Restricted for capital projects	532,465	-	36,942
Restricted for debt service	229,214	-	-
Restricted for special projects	1,852,890	-	-
Restricted for other purposes	24,402	-	-
Unrestricted	817,226	550,473	1,410,780
Total net assets	\$ 6,916,331	\$ 550,473	\$ 3,726,862
Total liabilities and net assets	\$ 9,544,819	\$ 567,558	\$ 6,705,779

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2007**

Functions/Programs Primary government:	Net (Expenses) Revenues and Changes in Net Assets			
	Program Revenues		Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	Pondera Regional Port Authority	Pondera Medical Center	Governmental Activities	Pondera Regional Port Authority
Governmental activities:				
General government	\$ 1,174,125	\$ 125,736	\$ -	\$ -
Public safety	854,579	224,277	111,067	(1,048,389)
Public works	1,471,630	122,663	48,368	(519,235)
Public health	630,566	16,898	80,853	(1,300,599)
Social and economic services	105,043	23,028	-	(532,815)
Culture and recreation	141,375	-	-	(82,015)
Housing and community development	-	-	5,000	(141,375)
Debt service - interest	98,991	-	-	5,000
Miscellaneous	143,551	-	-	(98,991)
Total Governmental Activities	\$ 4,619,860	\$ 512,602	\$ 245,288	\$ (143,551)
Total primary government	\$ 4,619,860	\$ 512,602	\$ 245,288	\$ (3,861,970)
Component units:				
Pondera Regional Port Authority	\$ 46,745	\$ -	\$ 19,962	\$ -
Pondera Medical Center	10,062,049	9,430,015	103,887	(26,783)
Total component units	\$ 10,108,794	\$ 9,430,015	\$ 103,887	\$ (26,783)
General Revenues:				
Property taxes for general purposes			\$ 2,298,115	\$ 52,393
Video Poker apportionment			2,875	-
Personal property tax reimbursement			27,201	-
Miscellaneous			59,664	1,690
Interest/Investment earnings			119,393	34,681
PILT			132,099	-
MT Oil and gas production tax			182,261	-
State entitlement			357,744	-
Grants and entitlements not restricted to specific programs			-	5,000
Levied funds from County			-	-
Intergovernmental transfer			-	-
Bond payment funds from County			-	-
Contributions and donations			-	2,500
Reimbursements			203,930	-
Royalties			16,610	-
Gain on disposal of capital assets			7,290	-
Transfers - net			(28,830)	-
Total general revenues, special items and transfers			\$ 3,378,352	\$ 91,887
Change in net assets			\$ (483,618)	\$ (174,692)
Net assets - beginning			\$ 7,377,684	\$ 485,369
Restatements			22,265	-
Net assets - beginning - restated			7,399,949	485,369
Net assets - end			\$ 6,916,331	\$ 550,473
			\$ 3,726,862	\$ 3,726,862

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	<u>General Fund</u>	<u>Road</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 757,872	\$ 382,668	\$ 594,788	\$ 1,712,744	\$ 3,448,072
Taxes and assessments receivable, net	80,910	42,619	30,405	134,381	288,315
Accounts receivable - net	-	-	-	(2,442)	(2,442)
Total current assets	<u>\$ 838,782</u>	<u>\$ 425,287</u>	<u>\$ 625,193</u>	<u>\$ 1,844,683</u>	<u>\$ 3,733,945</u>
Noncurrent assets:					
Advances to other funds	\$ 16,801	-	-	-	\$ 16,801
Total noncurrent assets	<u>\$ 16,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,801</u>
Total assets	<u>\$ 855,583</u>	<u>\$ 425,287</u>	<u>\$ 625,193</u>	<u>\$ 1,844,683</u>	<u>\$ 3,750,746</u>
<b>LIABILITIES</b>					
Current liabilities:					
Warrants payable	-	-	-	222	\$ 222
Accounts payable	61	-	-	12	73
Deferred revenue	80,910	42,619	30,405	134,438	288,372
Accrued payables	11,916	6,298	13,224	11,900	43,338
Taxes collected but not charged	-	-	-	273	273
Total current liabilities	<u>\$ 92,887</u>	<u>\$ 48,917</u>	<u>\$ 43,629</u>	<u>\$ 146,845</u>	<u>\$ 332,278</u>
Noncurrent liabilities:					
Advances payable	-	-	-	16,801	\$ 16,801
Total noncurrent liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,801</u>	<u>\$ 16,801</u>
Total liabilities	<u>\$ 92,887</u>	<u>\$ 48,917</u>	<u>\$ 43,629</u>	<u>\$ 163,646</u>	<u>\$ 349,079</u>
<b>FUND BALANCES</b>					
Reserved for debt service	-	-	-	229,214	\$ 229,214
Reserved for capital projects	-	-	-	532,465	532,465
Reserved for other purposes	-	-	-	24,402	24,402
Unreserved reported in general fund	762,696	-	-	-	762,696
Unreserved reported in special revenue funds	-	376,370	581,564	894,956	1,852,890
Total fund balance	<u>\$ 762,696</u>	<u>\$ 376,370</u>	<u>\$ 581,564</u>	<u>\$ 1,681,037</u>	<u>\$ 3,401,667</u>
Total liabilities and fund balance	<u>\$ 855,583</u>	<u>\$ 425,287</u>	<u>\$ 625,193</u>	<u>\$ 1,844,683</u>	<u>\$ 3,750,746</u>

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, 2007**

<b>Total fund balances - governmental funds</b>	\$	3,401,667
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		5,810,874
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.		288,372
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(2,584,582)
<b>Total net assets - governmental activities</b>	\$	<u><u>6,916,331</u></u>

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, 2007**

	General Fund	Road	Public Safety	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes and assessments	\$ 418,000	\$ 287,604	\$ 490,297	\$ 1,072,548	\$ 2,268,449
Intergovernmental	257,179	248,483	83,425	570,127	1,159,214
Charges for services	77,777	7,070	153,031	43,292	281,170
Fines and forfeitures	36,960	-	-	5,335	42,295
Miscellaneous	7,624	11,105	8,090	216,419	243,238
Investment earnings	89,088	-	-	30,934	120,022
Internal services	-	-	-	1	1
Total revenues	<u>\$ 886,628</u>	<u>\$ 554,262</u>	<u>\$ 734,843</u>	<u>\$ 1,938,656</u>	<u>\$ 4,114,389</u>
<b>EXPENDITURES</b>					
General government	\$ 765,782	-	-	\$ 352,748	\$ 1,118,530
Public safety	46,544	-	657,427	110,117	814,088
Public works	-	607,412	-	359,068	966,480
Public health	88,752	-	-	294,304	383,056
Social and economic services	7,073	-	-	97,970	105,043
Culture and recreation	1,198	-	-	140,177	141,375
Debt service - principal	-	33,372	-	234,975	268,347
Debt service - interest	-	14,876	-	84,115	98,991
Miscellaneous	-	-	-	143,551	143,551
Capital outlay	-	-	37,916	219,012	256,928
Total expenditures	<u>\$ 909,349</u>	<u>\$ 655,660</u>	<u>\$ 695,343</u>	<u>\$ 2,036,037</u>	<u>\$ 4,296,389</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (22,721)</u>	<u>\$ (101,398)</u>	<u>\$ 39,500</u>	<u>\$ (97,381)</u>	<u>\$ (182,000)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ 1,000	-	1,095	\$ 48,523	\$ 50,618
Transfers (out)	(32,875)	-	(16,000)	(30,573)	(79,448)
Total other financing sources and uses	<u>\$ (31,875)</u>	<u>\$ -</u>	<u>\$ (14,905)</u>	<u>\$ 17,950</u>	<u>\$ (28,830)</u>
Net change in fund balance	<u>\$ (54,596)</u>	<u>\$ (101,398)</u>	<u>\$ 24,595</u>	<u>\$ (79,431)</u>	<u>\$ (210,830)</u>
Fund balances - beginning	\$ 817,292	\$ 477,768	\$ 556,969	\$ 1,757,715	\$ 3,609,744
Restatements	-	-	-	2,753	2,753
Fund balances - beginning restated	<u>\$ 817,292</u>	<u>\$ 477,768</u>	<u>\$ 556,969</u>	<u>\$ 1,760,468</u>	<u>\$ 3,612,497</u>
Fund balances - ending	<u>\$ 762,696</u>	<u>\$ 376,370</u>	<u>\$ 581,564</u>	<u>\$ 1,681,037</u>	<u>\$ 3,401,667</u>

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, 2007**

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

<b>Net change in fund balances - total governmental funds</b>	\$	(210,830)
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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		256,928
- Depreciation expense		(848,616)
- Gain on sale of capital assets		7,290

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)		43,393
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The change in compensated absences is shown as an expense in the Statement of Activities

(130)

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		268,347
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**Change in net assets - Statement of Activities**

\$ (483,618)

See accompanying Notes to the Financial Statements

**Pondera County, Montana**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2007**

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 6,220,931	\$ 364,573
Receivables:		
Taxes and assessments receivable, net	\$ -	\$ 673,414
Land Acquired by tax Deed	-	317
Protested Receivables	-	(9,111)
Total receivables	<u>\$ -</u>	<u>\$ 664,620</u>
Total assets	<u>\$ 6,220,931</u>	<u>\$ 1,029,193</u>
 <b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 181,372
Due to other governments	-	847,821
Total liabilities	<u>\$ -</u>	<u>\$ 1,029,193</u>
 <b>NET ASSETS</b>		
Assets held in trust	<u>\$ 6,220,931</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, 2007**

		<b>Investment Trust Funds</b>
		<u>                    </u>
<b>ADDITIONS:</b>		
Contributions to Investment Trust Fund	\$	7,383,798
Interest and change in fair value of investments		180,056
Total additions	\$	<u>7,563,854</u>
 <b>DEDUCTIONS:</b>		
Distributions from investment trust fund	\$	<u>7,206,253</u>
Total deductions	\$	<u>7,206,253</u>
Change in net assets	\$	<u>357,601</u>
 Net assets - beginning of the year	 \$	 5,975,723
Restatements		(112,393)
Net assets - beginning of the year - restated	\$	<u>5,863,330</u>
Net assets - end of the year	\$	<u><u>6,220,931</u></u>

See accompanying Notes to the Financial Statements

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2007

**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.

**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 it's 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 component units listed below have a fiscal year ending December 31, 2006. The County has the following discretely presented component units: Pondera Medical Center and the 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, 2006, year end.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2007

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

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2007

**Fund Financial Statements:**

*Basis of Presentation*

Fund financial statements of the reporting Entity 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.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2007

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

Major Funds:

The County reports the following major governmental funds:

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

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

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

***Fiduciary Funds***

The County reports the following fiduciary funds:

*Investment Trust Fund* – A fund which is accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting.

*Agency Funds* – This fund is used to account for assets that the County holds for others in an agency capacity.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2007

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

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2007, are as follows:

Cash on hand and Deposits:

Cash on Hand	\$ 41,564	\$ -
Cash in Banks:		
Demand Deposits	799,343	53,754
Savings Deposits	188,403	46,740

Investments:

State Short-Term Investment Pool (STIP)	13,197,338	-
U.S. Government Bonds	<u>5,806,928</u>	<u>-</u>
Total	<u>\$ 10,033,576</u>	<u>\$ 100,509</u>

**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.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2007

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

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

The government has the following investments are their related credit risk as reported by (Standard and Poor's or Moody's investment service):

Short Term Investment Pool (STIP) Credit Quality ratings by the NRSRO as of June 30, 2007.

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>
Commercial Paper	\$1,854,755,464	A1+
Corporate Fixed	\$ 475,001,174	A1+
Corporate Variable-Rate	\$ 379,982,640	A1+
Municipal Variable-Rate	\$ 5,000,000	NR
Money Market Funds	\$ 25,000,000	A1+
U.S. Government Indirect-Backed	<u>\$ 49,999,456</u>	A1+
 Total Investments	 <u>\$2,789,738,734</u>	 A1+

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, 2007 the government's bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>Primary Government Balance</u>
Insured	\$ 292,116
Collateralized	
Collateral held by the pledging bank's trust department but not in the County's name	<u>2,204,164</u>
Total	<u>\$2,496,280</u>

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2007

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, 2007, equaled or exceeded the amount required by State statutes.

**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, 2006 along with their related interest rates and maturity dates.

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
US Govt Bonds #3133XHW8	5.410%	06/05/2008	\$234,927
FHLBC #31339XTW4	2.500%	07/09/2007	249,845
FHLMC #3133FOB24	3.000%	08/15/2007	797,760
FHLBC #3133X5UR7	3.050%	10/29/2007	218,350
FHLMCM #3128X34K6	4.050%	09/02/2008	197,246
FNMA #3136F5HX2	3.000%	09/18/2008	389,500
FHLMC #3128X2AE5	5.000%	11/26/2008	248,818
FHLMC #3133F1F93	5.000%	12/15/2008	199,672
FHLBC #31339X6Z2	4.000%	12/18/2008	296,343
FHLBC #31339XGC2	3.350%	12/26/2008	340,595
FHLBC #3133XJAP3	5.250%	12/29/2008	399,124
FHLBC #3133XJFJ2	5.260%	12/29/2008	199,626
FNMA #3136F8DG7	5.400%	12/29/2008	99,875
FHLBC #3133XJHQ4	5.250%	01/26/2009	199,500
FHLBC #3133XL2K8	5.400%	06/05/2009	299,718
FHLMC #3128X2PH2	4.500%	08/10/2009	396,688
FHLMC #3128X27B5	4.000%	09/09/2009	142,855
FHLBC #3133XJ3S5	5.400%	12/21/2009	249,453
FHLBC #3133XK6Z3	5.500%	03/16/2010	249,533
FNMAM #3136F8AN5	5.500%	12/13/2011	397,500

**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."

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2007

**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 and US Government securities. The pooled funds invested in STIP are carried at fair value, and the pooled funds invested in US Government securities 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, 2007 to support the value of the shares in the pool.

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

Investment Income

Income from pooled investments is allocated to the individual funds or external participants based on the fund or participant's month end cash balance in relation to total pooled investments.

**Condensed statements of investments pools**

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2007.

**Statement of Net Assets**

Net assets held in trust for all pool participants:	
Equity of internal pool participants	\$ 2,831,646
Equity of external pool participants	<u>6,220,931</u>
Total equity	<u>\$ 9,052,577</u>

**Condensed Statement of Changes in Net Assets**

	<u>External</u>	<u>Internal</u>
Investment Earnings	\$ 180,056	\$ 81,958
Contributions to Trust	7,383,798	3,323,557
Distributions Paid	<u>(7,206,253)</u>	<u>(3,406,294)</u>
Net change in net assets	<u>\$ 357,601</u>	<u>\$ (779)</u>
Net assets at beginning of year	\$ 5,975,723	\$ 2,720,032
Restatements	<u>(112,393)</u>	<u>112,393</u>
Net assets at end of year	<u>\$ 6,220,931</u>	<u>\$ 2,831,646</u>

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2007

**NOTE 3. RECEIVABLES**

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write-off method is used for these accounts.

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**

The cost of inventories are recorded as an expenditure when purchased.

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

**NOTE 5. CAPITAL ASSETS**

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

Buildings .....	10-40 years
Improvements .....	10-20 years
Equipment .....	5-15 years

PONDERA COUNTY, MONTANA  
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Capital assets for the Pondera Medical Center are accounted for as follows:

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. All capital assets other than land 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

The Pondera Regional Port Authority has no capital assets.

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 2007 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:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 134,232	\$ -	\$ -	\$ 134,232
Pondera Medical Center	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total	<u>\$ 154,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,232</u>
Other Capital Assets:				
Buildings	\$ 3,248,751	\$ 22,205	\$ -	\$ 3,270,956
Improvements other than Buildings	2,789,379	-	-	2,789,379
Machinery and Equipment	3,757,640	231,951	(31,711)	3,957,880
Pondera Medical Center	<u>6,049,611</u>	<u>10,062</u>	<u>-</u>	<u>6,059,673</u>
Total other capital assets at historical cost	<u>\$ 15,845,381</u>	<u>\$ 264,218</u>	<u>\$ (31,711)</u>	<u>\$ 16,077,888</u>
Less Accumulated Depreciation	<u>\$(9,604,341)</u>	<u>\$(848,616)</u>	<u>\$ 31,711</u>	<u>\$(10,421,246)</u>
Total	<u>\$ 6,395,272</u>	<u>\$(584,398)</u>	<u>\$ -</u>	<u>\$ 5,810,874</u>

General fixed assets depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 55,465
Public Safety	40,491
Public Works	505,151
Public Health	<u>247,509</u>
Total governmental activities depreciation expense	<u>\$ 848,616</u>

PONDERA COUNTY, MONTANA  
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A summary of changes in the Pondera Medical Center capital assets were as follows:

	Balance December 31, 2005	Additions	Deletions	Transfers	Balance December 31, 2006
Capital assets not being depreciated:					
Land	\$ 27,854	\$ -	\$ -	\$ -	\$ 27,854
Construction in Progress	<u>127,288</u>	<u>129,845</u>	<u>-</u>	<u>(253,642)</u>	<u>3,491</u>
Total capital assets not being depreciated:	<u>\$ 155,142</u>	<u>\$ 129,845</u>	<u>\$ -</u>	<u>\$(253,642)</u>	<u>\$ 31,345</u>
Other Capital Assets:					
Land Improvements	\$ 167,880	\$ -	\$ -	\$ -	\$ 167,880
Buildings and Improvements	6,461,627	91,964	(6,160)	253,642	6,801,073
Equipment	<u>3,108,943</u>	<u>88,183</u>	<u>-</u>	<u>-</u>	<u>3,197,126</u>
Total other capital assets at historical cost	<u>\$ 9,738,450</u>	<u>\$ 180,147</u>	<u>\$ (6,160)</u>	<u>\$ 253,642</u>	<u>\$ 10,166,079</u>
Less Accumulated Depreciation	<u>\$(5,792,587)</u>	<u>\$(579,305)</u>	<u>\$ 6,160</u>	<u>\$ -</u>	<u>\$(6,365,732)</u>
Total	<u>\$ 4,101,005</u>	<u>\$(269,313)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,831,692</u>

**NOTE 6. LONG TERM DEBT OBLIGATIONS**

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

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2007, the following changes occurred in liabilities reported in long-term debt:

	Balance July 1, 2006	Additions	Deletions	Restatements	Balance June 30, 2007	Due within one year
General Obligation Bonds	\$ 1,280,000	\$ -	\$(115,000)	\$ -	\$ 1,165,000	\$115,000
Contracted Debt	700	-	(700)	-	-	-
Compensated Absences	233,712	130	-	-	233,842	153,112
Intercap Loans	674,182	-	(86,603)	-	587,579	89,071
Capital Leases	<u>683,717</u>	<u>-</u>	<u>(66,744)</u>	<u>(18,812)</u>	<u>598,161</u>	<u>74,129</u>
Total	<u>\$ 2,872,311</u>	<u>\$ 130</u>	<u>\$(269,047)</u>	<u>\$(18,812)</u>	<u>\$ 2,584,582</u>	<u>\$431,312</u>

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, 2007 were as follows:

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<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2007</u>
Tax-supported Hospital and Nursing Home Revenue Refunding Series 2004	04/15/2004	1.7-3.85%	11 yrs	08/01/2015	<u>\$1,415,000</u>	Varies	<u>\$1,165,000</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 115,000	\$ 34,972
2009	115,000	32,499
2010	120,000	29,618
2011	125,000	26,245
2012	130,000	22,385
2013	135,000	18,043
2014	135,000	13,352
2015	140,000	8,366
2016	<u>150,000</u>	<u>2,888</u>
Total	<u>\$1,165,000</u>	<u>\$188,368</u>

**Intercap Loans**

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

Intercap loans outstanding as of June 30, 2007 were as follows:

<u>Purpose</u>	<u>Originati on Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturit y Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2007</u>
911 Emergency Draw #1	2/26/03	2.7-4.75%	10 yrs	2/15/13	\$209,506	\$ 133,055
911 Emergency Draw #2	3/05/04	2.7-4.75%	9 yrs	2/15/13	69,799	48,303
911 Emergency Draw #3	6/25/04	2.7-4.75%	8 yrs	2/15/13	53,791	39,011
Cardiac Monitors	12/31/03	2.7-4.75%	5 yrs	2/15/09	64,315	26,573
HVAC System Replace Draw 1	5/28/04	2.7-4.75%	10 yrs	8/15/14	101,656	78,745
HVAC System Replace Draw 2	6/25/04	2.7-4.75%	9 yrs	8/15/14	56,483	43,529
HVAC System Replace Draw 3	7/16/04	2.7-4.75%	9 yrs	8/15/14	45,702	35,294
HVAC System Replace Draw 4	9/03/04	2.7-4.75%	9 yrs	8/15/14	96,526	74,628
HVAC System Replace Draw 5	10/15/04	2.7-4.75%	9 yrs	8/15/14	15,487	11,923
HVAC System Replace Draw 7	12/10/04	2.7-4.75%	9 yrs	8/16/14	68,987	55,885
HVAC System Replace Draw 6	10/29/04	2.7-4.75%	9 yrs	8/16/14	<u>50,159</u>	<u>40,633</u>
Total					<u>\$832,411</u>	<u>\$ 587,579</u>

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Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 89,071	\$ 27,424
2009	91,342	23,074
2010	80,222	18,780
2011	82,506	14,862
2012	84,857	10,833
2013	86,387	6,688
2014	48,910	2,961
2015	<u>24,284</u>	<u>589</u>
Total	<u>\$ 587,579</u>	<u>\$ 105,211</u>

**Capital Leases**

The County has entered into a several leases which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2007 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Capitalized Original Cost</u>	<u>Remaining Payments as of June 30, 2007</u>
4 Motor Graders	03/05/03	4%	\$726,265	\$ 355,872
4 Motor Graders	09/16/02	5%	\$661,840	<u>242,289</u>
Total				<u>\$ 598,161</u>

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 81,678	\$ 14,821
2009	77,300	19,197
2010	<u>439,183</u>	<u>16,394</u>
Total	<u>\$ 598,161</u>	<u>\$ 50,412</u>

**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 general long-term debt account

PONDERA COUNTY, MONTANA  
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group, while the liability associated with proprietary fund-type employees is recorded in the respective fund.

**Pondera Medical Center Long-term Debt**

The Medical Center leases certain equipment under non-cancelable short-term lease agreements. Total lease expense in December 31, 2006, for all property leases was \$21,592.

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

<u>Pondera Medical Center</u>	<u>December 30, 2006</u>
Revenue Refunding Bonds, Series 2004, interest rates from 2.0% to 3.85%, due in semi-annual installments, to August, 2015, secured by property and equipment	\$ 1,165,000
Note Payable, at a variable interest rate, (4.75% at December 31, 2006), due in varying semi-annual installment to August, 2014, secured by equipment	361,003
6.55% Note payable, due December 31, 2007, secured by certificate of deposit	79,966
10% Note payable, due in monthly installments of \$4,603, including interest, to November 1, 2007, unsecured	43,987
Note payable, at a variable interest rate, (4.75% at December 31, 2006) due in varying semi-annual installments to February, 2009, secured by equipment	33,044
Total	<u>\$ 1,683,000</u>
Less current maturities	<u>(293,077)</u>
	<u>\$ 1,389,923</u>

	Balance <u>December 31, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2006</u>	Due within <u>one year</u>
Revenue Bonds	\$ 1,280,000	\$ -	\$(115,000)	\$ 1,165,000	\$115,000
Notes Payable	<u>448,277</u>	<u>379,840</u>	<u>(310,117)</u>	<u>518,000</u>	<u>178,077</u>
Total	<u>\$ 1,728,277</u>	<u>\$379,840</u>	<u>\$(425,117)</u>	<u>\$ 1,683,000</u>	<u>\$293,077</u>

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Long-term debt maturities are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 293,077	\$ 38,184
2008	170,602	49,317
2009	169,940	44,017
2010	169,523	38,666
2011	175,733	32,912
Due 2012 to 2015	<u>704,125</u>	<u>64,891</u>
	<u>\$1,683,000</u>	<u>\$ 267,987</u>

**Pondera Regional Port Authority Long-term Debt**

Changes in Long-term Debt Liabilities – During the year ended June 30, 2007, the following changes occurred in liabilities reported in long-term debt.

Governmental Activities:

	<u>Balance</u>			<u>Balance</u>	<u>Due within</u>
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>	<u>one year</u>
Contracted Debt	<u>\$ 9,325</u>	<u>\$ 15,600</u>	<u>\$(8,673)</u>	<u>\$ 15,952</u>	<u>\$7,746</u>

**Loans/Contracted Debt**

Loans/contracted debts outstanding as of June 30, 2007 were as follows:

<u>Purpose</u>	<u>Origination</u>	<u>Interest</u>		<u>Maturity</u>	<u>Principal</u>	<u>Balance</u>
	<u>Date</u>	<u>Rate</u>	<u>Term</u>	<u>Date</u>	<u>Amount</u>	<u>June 30, 2007</u>
Pondera Economic Development Corp. Note April 2006	03/21/2006	1.00%	9 ms	10/01/2007	\$ 9,325	\$ 4,156
Pondera Economic Development Corp. Note July 2006	07/07/2006	4.50%	4 yrs	06/28/2011	<u>15,300</u>	<u>11,796</u>
Total					<u>\$ 24,625</u>	<u>\$ 15,952</u>

Annual requirement to amortize debt:

<u>For Fiscal</u>		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 7,807	\$ 471
2009	3,816	288
2010	3,992	113
2011	<u>337</u>	<u>1</u>
Total	<u>\$ 15,952</u>	<u>\$ 873</u>

PONDERA COUNTY, MONTANA  
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 June 30, 2007

**NOTE 9. DEFICIT FUND BALANCES/NET ASSETS**

The following funds had deficit balances at year end:

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for deficit</u>	<u>How deficit will be eliminated</u>
911 Emergency	\$(1,664)	Year end receivable was not recorded	Collection of receivables
Safe Kids, Safe Community	\$(1,990)	Year end receivable was not recorded	Collection of receivables
WIC Grant	\$(2,991)	Year end receivable was not recorded	Collection of receivables
Tobacco Use Prevention	\$(3,016)	Year end receivable was not recorded	Collection of receivables
Valier T.V.	\$ (132)	Year end receivable was not recorded	Collection of receivables

**NOTE 10. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2007, were as follows:

<u>Purpose</u>	<u>Advances to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Cash Deficit	911 Emergency –	General –	\$ 10,000
	Nonmajor Governmental	Major Governmental	
Cash Deficit	Safe Kids, Safe Communities –	General –	1,224
	Nonmajor Governmental	Major Governmental	
Cash Deficit	WIC –	General –	2,551
	Nonmajor Governmental	Major Governmental	
Cash Deficit	Tobacco Use –	General –	<u>3,026</u>
	Nonmajor Governmental	Major Governmental	
			<u>\$16,801</u>

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

The following is an analysis of operating transfers in and out during fiscal year 2007:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Operations	Land Use Planning – Nonmajor Governmental	General – Major Governmental	\$ 2,950
Operations	Port Authority – Nonmajor Fiduciary	General – Major Governmental	14,962
Operations	Port Authority – Nonmajor Fiduciary	General – Major Governmental	14,963
Operations	Road/Bridge Equipment Purchases – Nonmajor Governmental	Bridge – Nonmajor Governmental	15,000
Operations	Weed District Capital Improvements – Nonmajor Governmental	Weed – Nonmajor Governmental	3,000
Operations	Ambulance Capital Improvements – Nonmajor Governmental	Ambulance – Nonmajor Governmental	8,500
Operations	Public Safety Capital Improvements – Nonmajor Governmental	Public Safety – Major Governmental	16,000
Operations	General – Major Governmental	Junk Vehicle – Nonmajor Governmental	1,000
Operations	Junk Vehicle Capital Improvements – Nonmajor Governmental	Junk Vehicle – Nonmajor Governmental	<u>3,073</u>
	Total		<u>\$79,448</u>

**NOTE 11. STATE-WIDE RETIREMENT PLANS**

All full-time County employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS) and Sheriffs Retirement System (SRS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State.

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, 2007, were:

	<u>PERS</u>	<u>SRS</u>
Employer	6.80%	8.535%
Employee	6.90%	7.865%
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.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2007

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, 2005, 2006, and 2007, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2005	\$80,296	\$25,636
2006	\$81,456	\$28,437
2007	\$80,798	\$34,584

**NOTE 12. POST EMPLOYMENT BENEFITS**

Terminated employees may remain on the County's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal COBRA law. Retirees may remain on the County's health plan to age 65, provided they pay the monthly premiums. State law requires the County to provide this benefit. No cost can be estimated for the above benefits, although there is the probability that there are higher medical costs for retirees which would result in additional costs to the insurance program.

The County had no retired employees and no terminated employees participating in the plan as of June 30, 2007.

**NOTE 13. 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.

PONDERA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2007

**NOTE 14. FUND EQUITY**

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated below:

<u>Fund Name</u>	<u>Amount</u>	<u>Description</u>
Debt Service Hospital	\$229,214	Reserved for Debt Service
Public Safety Capital Improvements	147,555	Reserved for Capital Projects
Junk Vehicle Capital Improvements	3,104	Reserved for Capital Projects
Ambulance Capital Improvements	24,853	Reserved for Capital Projects
General Fund Capital Improvements	50,898	Reserved for Capital Projects
Road/Bridge Equipment Purchases	273,844	Reserved for Capital Projects
Weed District Capital Improvements	32,211	Reserved for Capital Projects
Cemetery District #2 Perpetual Care	<u>24,402</u>	Reserved for Capital Projects
Total	<u>\$786,081</u>	

**NOTE 15. 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>
District Court	\$ 10	To adjust expenses to actual
Crime Control – MDOT	3,243	To adjust expenses to actual
CDBG – PMC 2004	200	To adjust expenses to actual
Long-term Debt	<u>18,812</u>	To correct long-term capital lease liability
Total	<u>\$ 22,265</u>	

**NOTE 16. 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 17. RISK MANAGEMENT**

The County faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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June 30, 2007

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, 2007, are available from the Montana Association of Counties Workers' Compensation Trust.

Audited financial statements for the fiscal year ended September 30, 2007, are available from the Montana Association of Counties Join Powers Insurance Trust.

**NOTE 19. PENDING LITIGATION**

The following is a list of litigation pending against the County and the amount of damages claimed by the Plaintiff. The County Attorney has made no evaluation as to the outcome of each case. The County has liability insurance which may cover all or part of the damages requested.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
<i>USA v. Pondera County</i>	Not stated	Not stated

**REQUIRED SUPPLEMENTAL  
INFORMATION**

Pondera County, Montana  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2007

	General Fund				Road			
	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	\$ 425,627	\$ 425,627	\$ 418,000	\$ (7,627)	\$ 294,812	\$ 294,812	\$ 287,604	\$ (7,208)
Intergovernmental	248,406	248,406	257,179	8,773	249,359	249,359	248,483	(876)
Changes for services	56,350	56,350	771,777	21,427	-	-	7,070	7,070
Fines and forfeitures	33,300	33,300	36,960	3,660	-	-	-	-
Miscellaneous	1,451	1,950	7,624	5,674	650	650	11,105	10,455
Investment earnings	65,300	65,300	89,088	23,788	-	-	-	-
Amounts available for appropriation	\$ 830,434	\$ 830,933	\$ 886,628	\$ 55,695	\$ 544,821	\$ 544,821	\$ 554,262	\$ 9,441
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>								
General government	\$ 948,948	\$ 948,948	\$ 765,782	\$ 183,166	\$ -	\$ -	\$ -	\$ -
Public safety	68,896	68,896	46,544	22,352	-	-	-	-
Public works	-	-	-	-	768,505	768,505	607,412	161,093
Public health	105,239	105,739	88,752	16,987	-	-	-	-
Social and economic services	9,000	9,000	7,073	1,927	-	-	-	-
Culture and recreation	6,800	6,800	1,198	5,602	-	-	-	-
Debt service - principal	-	-	-	-	34,906	34,906	33,372	1,534
Debt service - interest	-	-	-	-	21,094	21,094	14,876	6,218
Capital outlay	-	-	-	-	2,000	2,000	-	2,000
Total charges to appropriations	\$ 1,163,883	\$ 1,164,383	\$ 909,349	\$ 255,034	\$ 826,505	\$ 826,505	\$ 655,660	\$ 170,845
<b>OTHER FINANCING SOURCES (USES):</b>								
Transfers in	\$ -	\$ -	\$ 1,000	\$ 1,000	\$ -	\$ -	\$ -	\$ -
Transfers (out)	(55,663)	(55,663)	(32,875)	(22,788)	-	-	-	-
Proceeds from the sale of general capital asset disposition	100	100	-	(100)	500	500	-	(500)
Total Other Financing Sources (Uses)	\$ (55,563)	\$ (55,563)	\$ (31,875)	\$ (21,888)	\$ 500	\$ 500	\$ -	\$ (500)
Net change in fund balance			\$ (54,596)				\$ (101,398)	
Fund balances - beginning of the year			817,292				477,768	
<b>Fund balance end of the year</b>			<u>762,696</u>				<u>376,370</u>	

Pondera County, Montana  
 Budgetary Comparison Schedule  
 For the Fiscal Year Ended June 30, 2007

Public Safety		ACTUAL	VARIANCE
RESOURCES (INFLOWS):	BUDGETED AMOUNTS	AMOUNTS	WITH FINAL
	ORIGINAL	(BUDGETARY	BUDGET
	FINAL	BASIS) See Note A	BUDGET
Taxes and assessments	\$ 489,378	\$ 490,297	\$ 919
Intergovernmental	75,352	83,425	8,073
Charges for services	106,100	153,031	46,931
Fines and forfeitures	-	-	-
Miscellaneous	2,020	8,090	6,070
Investment earnings	-	-	-
Amounts available for appropriation	\$ 672,850	\$ 734,843	\$ 61,993
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
General government	-	-	-
Public safety	915,158	915,158	-
Public works	-	657,427	257,731
Public health	-	-	-
Social and economic services	-	-	-
Culture and recreation	-	-	-
Debt service - principal	-	-	-
Debt service - interest	-	-	-
Capital outlay	27,000	37,916	(10,916)
Total charges to appropriations	\$ 942,158	\$ 695,343	\$ 246,815
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	-	1,095	1,095
Transfers (out)	(20,000)	(16,000)	(4,000)
Proceeds from the sale of general capital asset disposition	-	-	-
Total Other Financing Sources (Uses)	\$ (20,000)	\$ (14,905)	\$ (2,905)
Net change in fund balance		\$ 24,595	
Fund balances - beginning of the year		\$ 556,969	
Fund balance end of the year		\$ 581,564	

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

*1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901*

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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***

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, Montana, as of and for the year ended June 30, 2007, which collectively comprise the Pondera County's basic financial statements and have issued our report thereon dated April 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pondera County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in the internal control over financial reporting.

## **07-1 District Court**

### **Condition:**

1. The District Court has three bank accounts that require only one signature for disbursement.
2. State law allows the Clerk of District Court to personally receive the administration fee for passport applications.

When the Court receives checks made out to “Clerk of District Court” the clerk personally endorses them instead of depositing them with the County and submitting a claim for reimbursement.

### **Criteria:**

A control system designed to safeguard assets should require two signatures for all disbursements. Payments made to an elected official’s title are assumed to be deposited into the governments account. Controls over cash receipting in the Court are overriding when exceptions are made to that policy.

### **Effect:**

In both instances internal controls as they relate to cash handling are weakened.

### **Cause:**

The Court has operated in this fashion for many years.

### **Recommendation:**

We recommend that the Court require two signatures on all disbursements. We also recommend that all payments received to the title of District Court Clerk be deposited with the County.

### **Auditee Response:**

We will implement the above recommendations.

## **07-2 Justice of the Peace – Segregation of Duties**

### **Condition:**

The Court clerk handles cash and records original citations into the software system.

### **Criteria:**

The best control systems have a system of checks and balances for receipting cash.

### **Effect:**

Controls over cash receipting are weak.

### **Cause:**

Due to the small size of the office developing a control system of checks and balances may not be economically feasible.

### **Recommendation:**

We recommend that the Court segregate the functions of cash handling and recording of citations to the greatest extent possible.

**Auditee Response:**

We are currently addressing this issue.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 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 Auditee's Response to Findings included in this report. 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 the County Commissioners, management, 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.*

April 24, 2008

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

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**REPORT ON OTHER COMPLIANCE, FINANCIAL, AND INTERNAL ACCOUNTING  
CONTROL MATTERS**

County Commissioners  
Pondera County  
Conrad, Montana

There were no other compliance, financial, or internal accounting matters.

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

April 24, 2008

***Denning, Downey & Associates, P.C.***  
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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

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>
Justice of the Peace	Repeated
District Court Trust Fund	Repeated
Reporting Investments at Fair Value	Implemented
Internal Controls	Implemented
Capital Leases	Implemented

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

April 24, 2008