

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2008

AUDIT REPORT

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

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2008

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PONDERA COUNTY, MONTANA

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PONDERA COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2008

BOARD OF COUNTY COMMISSIONERS

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

Chairperson
Commissioner
Commissioner

COUNTY OFFICIALS

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 2007-08

Our discussion and analysis of Pondera County's financial performance provides an overview of Fiscal Year 2007-2008 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 remained relatively stable compared to the prior fiscal year.**
- **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. The original intent was to roll these 8 maintainers but the actual transfer did not occur until after the end of the fiscal year.**
- **The road department purchased one chipper for roads \$(10,500); replacement culverts \$(7,018); a wood chipper \$(3,950); and new windows for the shop building in Valier \$(3,216).**
- **While acres remained the same, the amount of the Pondera County PILT Payment was increased slightly by \$2,974. Forest Reserve payments were only \$71 less than the prior fiscal year.**
- **Emergency snow removal revenue, due to the contractual relationship with the US Air Force, remained in place for this final year and is dedicated exclusively to road and bridge maintenance. The payment did not come to Pondera County until after the close of the fiscal year.**
- **Roads were re-built or re-graveled 24 miles of road with approximately 35,894 yards of gravel at a cost of \$100,601. This amount is increased compared to FY 07.**
- **Three sets (24 feet) of cattle-guards were purchased for a total of \$16,164 but have not yet been installed.**
- **Milling and overlay was completed on 5 miles of road with road oil costs of \$55,032 and chips cost of \$12,800.**
- **High fuel costs continued to impact all areas of the budget, especially Road and Bridge.**
- **Oil and Gas Revenues increased 25% in Fiscal year 2008.**

- **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.**
- **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 airports do not have any hangar income for this fiscal year. A greater effort will be made to rectify this.**
- **Pondera County purchased an old retail sales building for \$113,977 to eventually be used for a new Community/Senior Center. This purchase was not budgeted for in the original FY 08 budget. The anticipated revenue from the sale of the old Community/Senior Center is \$75,000.**
- **The County received a settlement of protested and gross proceeds taxes from a fuel company of \$142,249 that had not been budgeted for.**
- **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 continues to contribute \$2,000 annually to the state mandated regional economic development corporation. Pondera County has entered into an interlocal agreement with the Northern Transit for public transportation which currently requires a contribution of \$2,500 - \$5,000. FY 08 reflects the \$2,500 contribution.**
- **The Sheriff's department replaced one public safety vehicle.**
- **Local Option tax revenue again increased \$7,389 over the prior fiscal year due to increases 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 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:

	<u>FY 2007-08</u>	<u>Post Audit</u>
	<u>Governmental</u>	<u>FY 2006-07</u>
	<u>Activities</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
Current and other assets	\$ 3,743,060	\$ 3,733,945
Capital assets	5,255,368	5,810,874
Total assets	\$ 8,998,428	\$ 9,544,819
Long-term debt outstanding	\$ 1,866,781	\$ 2,584,582
Other liabilities	523,390	43,906
Total liabilities	\$ 2,390,171	\$ 2,628,488
Net assets:		
Invested in capital assets net of related debt	\$ 3,178,451	\$ 3,460,134
Restricted	2,651,366	2,638,971
Unrestricted	778,440	817,226
Total net assets	\$ 6,608,257	\$ 6,916,331

Government-wide STATEMENT OF ACTIVITIES:

	<u>FY2007-08</u>	<u>Post Audit</u>
	<u>Governmental</u>	<u>FY2006-07</u>
	<u>Activities</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
<u>Program Revenues</u>		
Charges for Services	\$ 511,583	\$ 512,602
Operating Grants and Contributions	582,111	245,288
Total Program Revenues	\$ 1,093,694	\$ 757,890
<u>General Revenues</u>		
Property Taxes	\$ 2,476,203	\$ 2,298,115
Video Poker Apportionment	2,350	2,875
Personal Property Reimbursement	13,608	27,201
Miscellaneous	17,394	59,664
Investment Earnings & Oil Royalties	119,359	119,393
PILT	135,072	132,099
MT Oil and Gas Production Tax	212,318	182,261
State Entitlement	367,009	357,744
Grants & Entitlements not restricted to specific progra	3,250	-
Intergovernmental Agreement	42,563	-
Reimbursements	143,161	203,930
Royalties	10,571	16,610
Total General Revenues	\$ 3,542,858	\$ 3,399,892
Total Revenues	\$ 4,636,552	\$ 4,157,782

Government-wide STATEMENT OF ACTIVITIES (continued):

	<u>FY2007-08</u>	<u>Post Audit</u> <u>FY2006-07</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
<u>Program Expenses by Function</u>		
General Government	\$ 1,232,985	\$ 1,174,125
Public Safety	847,228	854,579
Public Works	1,400,951	1,471,630
Public Health	593,062	630,566
Social & Economic Services	111,420	105,043
Culture & Recreation	146,504	141,375
Housing & Community Development	382,178	-
Miscellaneous	147,199	143,551
Debt Service Interest	89,132	98,991
Total Expenses	\$ 4,950,659	\$ 4,619,860
Excess (deficiency) before special items & transfers	\$ (314,107)	\$ (462,078)
Special Items	7,029	7,290
Transfers – net	(14,963)	(28,830)
Changes in net assets	\$ (322,041)	\$ (483,618)

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 \$4,950,655, compared to \$4,619,860 for fiscal year 2006-07 as found in the Statement of Activities, an increase of \$330,795 or approximately 7%. However, as shown on the same statement, the amount that our taxpayers ultimately financed for these activities through county taxes was only \$2,476,203, up by \$178,088 from \$2,298,115 in fiscal year 2006-07. 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>FY2007-08</u>	<u>Post Audit</u>
	<u>Net Expense</u>	<u>FY2006-07</u> <u>Net Expense</u>
General Government	\$ 1,065,964	\$ 1,048,389
Public Safety	598,831	519,235
Public Works	1,279,119	1,300,599
Public Health	439,720	532,815
Social & Economic Services	90,492	82,015
Culture & Recreation	146,504	141,375
Housing & Community Development	-	(5,000)
Debt Service Interest	89,132	98,991
Miscellaneous	147,199	143,551
Total Net Expenses	\$ 3,856,961	\$ 3,861,970

Unreserved Fund Balance Analysis (Major Funds)

	<u>General</u>	<u>Road</u>	<u>Public</u> <u>Safety</u>	<u>Comprehensive</u> <u>Insurance</u>
Unreserved Fund Balance – Current Year	\$ 570,401	\$ 313,322	\$ 534,635	\$ 81,700
Unreserved Fund Balance – Prior Year	\$ 762,696	\$ 376,370	\$ 581,564	\$ 101,017
Change in unreserved fund balance	\$(192,295)	\$(63,048)	\$(46,929)	\$(19,317)
% change in unreserved fund balance	-25.0%	-17.0%	-8.0%	-19.0%

The decreases in the unreserved fund balances in the four major funds are a result of either having to utilize cash reserves in addition to projected revenues to maintain current level of operations and/or the movement of mills from one fund to another during the budget process.

Revenue Budget to Actual Variances:

<u>General Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	\$966,108	\$1,048,005	\$81,897	7.81%

There was a variation between the final budget amount and actual amount of revenue received in the General Fund of \$81,897 for a 7.81% variance. The County had not budgeted for the settlement of net and gross proceeds protested tax situation.

<u>Road Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	\$561,101	\$578,224	\$17,123	2.96%

There was a variation between the final budget amount and actual amount of revenue received in the Road Fund of \$17,123 for a 2.96% variance. The County had not budgeted for the settlement of net and gross proceeds protested tax situation and under-budgeted for non-tax revenue.

<u>Comprehensive Insurance</u>	<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
		\$154,897	\$152,571	\$(2,326)	(1.52%)

The County budgeted for a transfer from general fund which was not made as the fund was able to meet its expenses.

Public Safety

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	\$648,924	\$639,997	\$(8,927)	(1.39%)

The County under-budgeted non-tax revenues, particularly charges for services.

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 \$274,572.

Capital Assets

New assets, totaling \$209,496, were purchased during the year. Deletions, additions and adjustment, along with depreciation, reduced the net book value of Pondera County assets by \$301,700, resulting in the current value as of June 30, 2008 of \$5,255,368.

Included in the new assets is the purchase of land and the building in the amount of \$114,377. This asset is centered in the City of Conrad and the building will be renovated and used for a community/senior citizens’ center. 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 fiscal year 2007-2008 Taxable Valuation decreased slightly in Pondera County from \$12,443,284 to 12,435,463. The value of a county-wide mill decreased from \$12,443 to \$12,435. The FY 08 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, 2009, remains the same as 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 impact the 2007-08 budget, especially in the areas of Road, Bridge, and Public Safety, but budget predictions may be a bit high given the current economy.

Public Safety will add an intercom system for the jail at \$12,500.

The public auction of the old Community/Senior Center will be held early in the fiscal year with the minimum anticipated revenue of \$75,000.

The County airport at Conrad is currently undergoing an update which requires a local match of \$4,470, which will reflect poorly in the reserve amount for the airport unless we are able to generate some income from the property.

The County intends to replace, through a new lease, 8 new maintainers. This had been scheduled in FY 08 but did not occur prior to year end. Capital Improvement will include savings for a loader and a Walk'n Roll. We also continue to budget, in Capital Improvements, for a new road to access the Northern I15 interchange, once it is complete.

Group Health Insurance costs remain stable without changing providers.

All funds are expected to remain stable in fiscal year 2008.

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 1.26% (airport) to 33%. 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

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, Montana, as of and for the year ended June 30, 2008, 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 91.33%, 86.06%, and 95.70%, 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 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, 2008, and the respective changes in financial position and, where applicable, cash flows 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 \$1,202,500. 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 \$2,560,985.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009, 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 information on pages 2 through 9 and pages 46 through 47, 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.

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, Montana. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

February 27, 2009

Pondera County, Montana
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>	<u>Component Unit Pondera Regional Port Authority</u>
ASSETS		
Current assets:		
Cash and investments	\$ 3,333,408	\$ 123,666
Taxes and assessments receivable, net	375,875	6,333
Accounts receivable - net	33,777	-
Notes and loans receivable	-	455,607
Total current assets	<u>\$ 3,743,060</u>	<u>\$ 585,606</u>
Noncurrent assets		
Capital assets - land	\$ 248,609	\$ 44,961
Capital assets - depreciable, net	5,006,759	-
Total noncurrent assets	<u>\$ 5,255,368</u>	<u>\$ 44,961</u>
Total assets	<u>\$ 8,998,428</u>	<u>\$ 630,567</u>
LIABILITIES		
Current liabilities		
Warrants payable	\$ 222	\$ -
Accounts payable	12	-
Accrued payroll	79,657	619
Revenues collected in advance	273	-
Current portion of long-term liabilities	-	9,009
Current portion of long-term capital liabilities	290,183	-
Current portion of compensated absences payable	153,043	-
Total current liabilities	<u>\$ 523,390</u>	<u>\$ 9,628</u>
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$ -	\$ 10,726
Noncurrent portion of long-term capital liabilities	1,786,734	-
Noncurrent portion of compensated absences	80,047	-
Total noncurrent liabilities	<u>\$ 1,866,781</u>	<u>\$ 10,726</u>
Total liabilities	<u>\$ 2,390,171</u>	<u>\$ 20,354</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 3,178,451	\$ 44,961
Restricted by donors for specific purposes	25,380	-
Restricted for capital projects	560,697	-
Restricted for debt service	233,743	-
Restricted for special projects	1,831,546	-
Unrestricted	778,440	565,252
Total net assets	<u>\$ 6,608,257</u>	<u>\$ 610,213</u>
Total liabilities and net assets	<u>\$ 8,998,428</u>	<u>\$ 630,567</u>

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Functions/Programs Primary government:	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating		Governmental Activities	Pondera Regional Port Authority
			Grants and Contributions	Capital Grants and Contributions		
Governmental activities:						
General government	\$ 1,232,985	\$ 167,017	\$ -	\$ -	\$ (1,065,968)	\$ -
Public safety	847,228	186,691	61,706	-	(598,831)	-
Public works	1,400,951	113,346	8,486	-	(1,279,119)	-
Public health	593,062	23,601	129,741	-	(439,720)	-
Social and economic services	111,420	20,928	-	-	(90,492)	-
Culture and recreation	146,504	-	-	-	(146,504)	-
Housing and community development	382,178	-	382,178	-	-	-
Debt service - interest	89,132	-	-	-	(89,132)	-
Miscellaneous	147,199	-	-	-	(147,199)	-
Total governmental activities	\$ 4,950,659	\$ 511,583	\$ 582,111	\$ -	\$ (3,856,965)	\$ -
Total primary government	\$ 4,950,659	\$ 511,583	\$ 582,111	\$ -	\$ (3,856,965)	\$ -
Component units:						
Pondera Regional Port Authority	\$ 424,762	-	\$ 368,000	-	-	\$ (56,762)
Total component units	\$ 424,762	-	\$ 368,000	-	-	\$ (56,762)
General Revenues:						
Property taxes for general purposes				\$	2,476,203	\$ 55,166
Video poker apportionment					2,350	-
Personal property tax reimbursement					13,608	-
Miscellaneous					17,394	1,409
Interest/investment earnings					119,359	23,786
PILT					135,072	-
Montana oil and gas production tax					212,318	-
State entitlement					367,009	-
Grants and entitlements not restricted to specific programs					3,250	36,141
Intergovernmental agreement					42,563	-
Reimbursements					143,161	-
Royalties					10,571	-
Gain (loss) on sale of capital assets					7,029	-
Transfers - net					(14,963)	-
Total general revenues, special items and transfers				\$	3,534,924	\$ 116,502
Change in net assets				\$	(322,041)	\$ 59,740
Net assets - beginning				\$	6,916,331	\$ 550,473
Restatements					13,967	-
Net assets - beginning - restated					6,930,298	550,473
Net assets - end				\$	6,608,257	\$ 610,213

See accompanying Notes to the Financial Statements

Pondera Medical Center
A Component Unit of Pondera County, Montana

Balance Sheet
December 31, 2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	485,668
Certificates of deposit		189,080
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,066,000 in 2007 and \$928,000 in 2006		1,705,312
Estimated third-party payor settlements		-
Other		327,141
Supplies		286,556
Prepaid expenses		66,940
Total current assets	\$	<u>3,060,697</u>

ASSETS LIMITED AS TO USE

By Board for capital improvements and equipment purchases	\$	<u>161,668</u>
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CAPITAL ASSETS, net \$ 3,373,584

OTHER ASSETS

Deferred financing costs, net	\$	41,206
Other assets		2,972
Total other assets	\$	<u>44,178</u>

Total assets \$ 6,640,127

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current maturities of long-term debt	\$	170,603
Accounts payable		
Trade		223,022
Estimated third-party payor settlement		414,310
Accrued expenses		
Vacation		312,075
Salaries and wages		246,997
Payroll taxes and other		217,284
Litigation		50,000
Interest		21,018
Total current liabilities	\$	<u>1,655,309</u>

LONG-TERM DEBT, less current maturities \$ 1,219,321

Total liabilities \$ 2,874,630

NET ASSETS

Invested in capital assets, net of related debt	\$	2,024,866
Restricted		
Expendable for capital acquisitions		32,101
Unrestricted		1,708,530
	\$	<u>3,765,497</u>

Total liabilities and net assets \$ 6,640,127

See accompanying Notes to the Financial Statements

Pondera Medical Center
A Component Unit of Pondera County, Montana
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2007

OPERATING REVENUE	\$	10,275,993
Net patient and resident service revenue (net of provision for bad debts of \$424,092 in 2007 and \$321,701 in 2006)		
Other revenue		78,612
Total operating revenue	\$	<u>10,354,605</u>
 EXPENSES		
Professional care of patients and residents	\$	6,783,931
General and administrative		2,100,608
Property and household		719,849
Depreciation and amortization		586,560
Dietary		498,935
Total expenses	\$	<u>10,689,883</u>
 OPERATING LOSS	 \$	 <u>(335,278)</u>
 NON-OPERATING REVENUE (EXPENSE)		
Bond payment funds from County	\$	150,149
Intergovernmental transfer		41,962
Levied funds from County		101,612
Grants		17,904
Interest income, including finance charges		54,503
Unrestricted contributions		5,836
Interest expense		(59,788)
Total non-operating revenue (expense)	\$	<u>312,178</u>
 EXCESS OF EXPENSES OVER REVENUE BEFORE CAPITAL GRANTS AND RESTRICTED CONTRIBUTIONS	 \$	 (23,100)
 CAPITAL GRANTS AND CONTRIBUTIONS	 \$	 37,868
 RESTRICTED CONTRIBUTIONS	 \$	 <u>23,867</u>
 INCREASE (DECREASE) IN NET ASSETS	 \$	 38,635
 NET ASSETS, BEGINNING OF YEAR		 <u>3,726,862</u>
 NET ASSETS, END OF YEAR	 \$	 <u><u>3,765,497</u></u>

See accompanying Notes to the Financial Statements

Pondera Medical Center
A Component Unit of Pondera County, Montana
Statement of Cash Flows
Year Ended December 31, 2007

OPERATING ACTIVITIES	
Receipts from and on behalf of patients and residents	\$ 10,599,114
Payments to employees	(6,586,374)
Payments to suppliers and contractors	(3,770,014)
Other receipts and payments, net	78,612
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 321,338</u>
NON-CAPITAL FINANCING ACTIVITIES	
Levied funds from County	\$ 101,612
Intergovernmental transfer received	41,962
Non-capital contributions received	5,836
Borrowings on non-capital financing	262,092
Principal paid on non-capital financing	(386,045)
Interest paid on non-capital financing	(6,471)
Non-capital grants received	17,904
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>\$ 36,890</u>
CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES	
Bond payment funds from County	\$ 133,361
Capital contributions received	23,867
Capital grants received	37,868
Purchases of capital assets	(119,176)
Principal paid on capital debt and leases	(169,123)
Interest paid on capital debt and leases	(40,162)
NET CASH USED FOR CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES	<u>\$ (133,365)</u>
INVESTING ACTIVITIES	
Redemptions of certificates of deposit	\$ 181,144
Purchases of certificates of deposit	(289,604)
Interest income	54,503
NET CASH FROM INVESTING ACTIVITIES	<u>\$ (53,957)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ 170,906</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	\$ 375,906
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 546,812</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS	
Cash and cash equivalents in current assets	\$ 485,668
Cash and cash equivalents in assets limited as to use	61,144
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 546,812</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES	
Operating loss	\$ (335,278)
Adjustments to reconcile operating loss to net cash from (used for) operating activities	
Depreciation and amortization	586,560
Provision for bad debts	424,092
Change in assets and liabilities	
Receivables	(502,158)
Supplies	(9,308)
Prepaid expenses	(18,204)
Accounts payable	132,323
Accrued expenses	43,311
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 321,338</u>

See accompanying Notes to the Financial Statements

Pondera County, Montana
Balance Sheet
Governmental Funds
June 30, 2008

	<u>General Fund</u>	<u>Road</u>	<u>Comprehensive Insurance</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Current assets:						
Cash and investments	\$ 597,576	\$ 326,715	\$ 118,094	\$ 558,116	\$ 1,732,907	\$ 3,333,408
Taxes and assessments receivable, net	103,098	54,581	20,551	39,889	157,756	375,875
Accounts receivable - net	-	-	-	-	33,777	33,777
Total current assets	<u>\$ 700,674</u>	<u>\$ 381,296</u>	<u>\$ 138,645</u>	<u>\$ 598,005</u>	<u>\$ 1,924,440</u>	<u>\$ 3,743,060</u>
Noncurrent assets:						
Advances to other funds	\$ 65,197	\$ -	\$ -	\$ -	\$ -	\$ 65,197
Total noncurrent assets	<u>\$ 65,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,197</u>
Total assets	<u>\$ 765,871</u>	<u>\$ 381,296</u>	<u>\$ 138,645</u>	<u>\$ 598,005</u>	<u>\$ 1,924,440</u>	<u>\$ 3,808,257</u>
LIABILITIES						
Current liabilities:						
Warrants payable	\$ -	\$ -	\$ -	\$ -	\$ 222	\$ 222
Accounts payable	-	-	-	-	12	12
Accrued payroll	27,175	13,393	1,394	23,481	14,214	79,657
Revenues collected in advance	-	-	-	-	273	273
Deferred revenue	103,098	54,581	20,551	39,889	157,813	375,932
Total current liabilities	<u>\$ 130,273</u>	<u>\$ 67,974</u>	<u>\$ 21,945</u>	<u>\$ 63,370</u>	<u>\$ 172,534</u>	<u>\$ 456,096</u>
Noncurrent liabilities:						
Advances payable	\$ -	\$ -	\$ 35,000	\$ -	\$ 30,197	\$ 65,197
Total noncurrent liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ -</u>	<u>\$ 30,197</u>	<u>\$ 65,197</u>
Total liabilities	<u>\$ 130,273</u>	<u>\$ 67,974</u>	<u>\$ 56,945</u>	<u>\$ 63,370</u>	<u>\$ 202,731</u>	<u>\$ 521,293</u>
FUND BALANCES						
Reserved for advances	\$ 65,197	\$ -	\$ -	\$ -	\$ -	\$ 65,197
Reserved for debt service	-	-	-	-	233,743	233,743
Reserved for capital projects	-	-	-	-	560,697	560,697
Reserved for other purposes	-	-	-	-	25,380	25,380
Unreserved reported in general fund	570,401	-	-	-	-	570,401
Unreserved reported in special revenue funds	-	313,322	81,700	534,635	901,889	1,831,546
Total fund balance	<u>\$ 635,598</u>	<u>\$ 313,322</u>	<u>\$ 81,700</u>	<u>\$ 534,635</u>	<u>\$ 1,721,709</u>	<u>\$ 3,286,964</u>
Total liabilities and fund balance	<u>\$ 765,871</u>	<u>\$ 381,296</u>	<u>\$ 138,645</u>	<u>\$ 598,005</u>	<u>\$ 1,924,440</u>	<u>\$ 3,808,257</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, 2008

Total fund balances - governmental funds	\$ 3,286,964
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,255,368
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.	375,932
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,310,007)
Total net assets - governmental activities	\$ <u>6,608,257</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, 2008

	General Fund	Road	Comprehensive Insurance	Public Safety	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes and assessments	\$ 527,001	\$ 311,522	\$ 129,963	\$ 466,723	\$ 959,010	\$ 2,394,219
Intergovernmental	255,930	255,474	22,608	82,763	926,128	1,542,903
Charges for services	134,871	-	-	84,192	42,624	261,687
Fines and forfeitures	33,073	-	-	-	8,415	41,488
Miscellaneous	8,340	11,228	-	6,319	162,894	188,781
Investment earnings	88,790	-	-	-	31,124	119,914
Total revenues	\$ 1,048,005	\$ 578,224	\$ 152,571	\$ 639,997	\$ 2,130,195	\$ 4,548,992
EXPENDITURES						
General government	\$ 918,654	\$ -	\$ -	\$ -	\$ 265,183	\$ 1,183,837
Public safety	49,815	-	-	686,926	65,573	802,314
Public works	-	625,832	-	-	379,805	1,005,637
Public health	100,121	-	-	-	238,067	338,188
Social and economic services	6,855	-	-	-	104,565	111,420
Culture and recreation	1,321	-	-	-	145,183	146,504
Housing and community development	-	-	-	-	382,178	382,178
Debt service - principal	-	11,161	-	-	262,962	274,123
Debt service - interest	-	4,279	-	-	84,853	89,132
Miscellaneous	-	-	143,628	-	3,571	147,199
Capital outlay	99,818	-	-	-	108,584	208,402
Total expenditures	\$ 1,176,584	\$ 641,272	\$ 143,628	\$ 686,926	\$ 2,040,524	\$ 4,688,934
Excess (deficiency) of revenues over expenditures	\$ (128,579)	\$ (63,048)	\$ 8,943	\$ (46,929)	\$ 89,671	\$ (139,942)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 34,944	\$ -	\$ -	\$ -	\$ 72,666	\$ 107,610
Transfers out	(33,463)	-	-	-	(89,110)	(122,573)
Total other financing sources (uses)	1,481	-	-	-	(16,444)	(14,963)
Net Change in Fund Balance	(127,098)	(63,048)	8,943	(46,929)	73,227	(154,905)
Fund balances - beginning	\$ 762,696	\$ 376,370	\$ 72,757	\$ 581,564	\$ 1,608,280	\$ 3,401,667
Restatements	-	-	-	-	40,202	40,202
Fund balances - beginning, restated	\$ 762,696	\$ 376,370	\$ 72,757	\$ 581,564	\$ 1,648,482	\$ 3,441,869
Fund balance - ending	\$ 635,598	\$ 313,322	\$ 81,700	\$ 534,635	\$ 1,721,709	\$ 3,286,964

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, 2008

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

Net change in fund balances - total governmental funds	\$	(154,905)
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		208,402
- Depreciation expense		(745,002)
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:		
- Gain on the sale of capital assets		7,029
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)		87,560
The change in compensated absences is shown as an expense in the Statement of Activities		
		752
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		274,123
Change in net assets - Statement of Activities	\$	<u><u>(322,041)</u></u>

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$ 6,153,412	\$ 1,663,918
Receivables:	\$ -	\$ 105,036
Other receivables	-	56,175
Taxes	-	675,781
Protested taxes sent to the state	-	(9,111)
Total receivables	\$ -	\$ 827,881
Land Acquired By Tax Deed	\$ -	\$ 317
Total assets	<u>\$ 6,153,412</u>	<u>\$ 2,492,116</u>
LIABILITIES		
Warrants payable	\$ -	\$ 296,998
Due to other governments	-	2,195,118
Total liabilities	\$ -	\$ 2,492,116
Assets held in trust	<u>\$ 6,153,412</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, 2008

		<u>Investment Trust Funds</u>
ADDITIONS		
Contributions to Investment Trust Fund	\$	8,865,750
Interest and change in fair value of investments		<u>185,502</u>
Total additions	\$	<u>9,051,252</u>
DEDUCTIONS		
Distributions from investment trust fund	\$	<u>9,118,771</u>
Total deductions	\$	<u>9,118,771</u>
Change in net assets	\$	<u>(67,519)</u>
Net Assets - Beginning of the year	\$	6,220,931
Net Assets - End of the year	\$	<u><u>6,153,412</u></u>

See accompanying Notes to the Financial Statements

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

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, 2007. 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, 2007, year end. See Note 17 for detailed footnotes related to Pondera Medical Center.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

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. 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, 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, 2008

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, 2008

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.

Comprehensive Insurance Fund – A special revenue fund that accounts for the liability insurance of the County.

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, 2008

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2008, are as follows:

	<u>Primary Government</u>	<u>Pondera Regional Port Authority</u>
<u>Cash on hand and Deposits:</u>		
Cash on Hand	\$ 23,948	\$ 104
Cash in Banks:		
Demand Deposits	1,635,774	74,061
Savings Deposits	321,283	49,501
<u>Investments:</u>		
State Short-Term Investment Pool (STIP)	6,097,338	-
U.S. Government Bonds	<u>3,072,395</u>	<u>-</u>
Total	<u>\$11,150,738</u>	<u>\$ 123,666</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.

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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

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, 2008:

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>
Commercial Paper	\$1,278,677,750	A1+
Corporate Variable-Rate	\$ 179,971,989	A1
Certificates of Deposit	\$ 79,997,934	A1+
U.S. Government Agency	\$ 439,007,788	A1+
Money Market Funds (Unrated)	\$ 149,352,667	NR
Money Market Funds (Rated)	\$ 55,000,000	A1+
Structured Investment Vehicles (SIV)	<u>\$ 140,000,000</u>	D
 Total Investments	 <u>\$2,322,008,128</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, 2008, the government's bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>Primary Government Balance</u>
Insured (FDIC)	\$ 290,045
Collateralized	
Collateral held by the pledging bank's trust department but not in the County's name	<u>1,601,422</u>
Total	<u>\$1,891,467</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%.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

The amount of collateral held for the County deposits at June 30, 2008, 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, 2008 along with their related interest rates and maturity dates.

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
FHLB #3133XQWC3	3.00%	5/5/2010	\$498,280
FHLB #3133XPAL8	3.625%	2/8/2011	\$399,500
FHLMC #3128X6RS7	4.600%	11/28/2011	\$201,210
FNMA #3136F9TV5	3.970%	3/12/2012	\$199,650
FFCBC #31331YXF2	3.970%	3/12/2012	\$199,500
FMLB #3133XPY24	3.950%	3/13/2012	\$299,439
FHLBC #3133XQRQ7	3.700%	4/18/2012	\$247,658
FHLMC #3128X7RT3	4.000%	11/28/2012	\$397,836
FFCBC #31331YUN8	3.900%	2/13/2013	\$197,688
FHLMC #3128X7LK8	4.050%	5/1/2013	\$247,840
FFCBC #31331YW89	4.625%	6/12/2013	\$201,126

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, money market funds, and US Government securities. The pooled funds invested in STIP, the pooled funds invested in money market funds, and the pooled funds invested in US Government securities are all 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, 2008 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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

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, 2008.

Statement of Net Assets

Net assets held in trust for all pool participants:	
Equity of internal pool participants	\$ 3,099,839
Equity of external pool participants	<u>6,153,412</u>
Total equity	<u>\$ 9,253,251</u>

Condensed Statement of Changes in Net Assets

	<u>External</u>	<u>Internal</u>
Investment Earnings	\$ 185,502	\$ 93,449
Contributions to Trust	8,865,750	4,667,171
Distributions Paid	<u>(9,118,771)</u>	<u>(4,492,427)</u>
Net change in net assets	<u>\$ (67,519)</u>	<u>\$ 268,193</u>
Net assets at beginning of year	\$ 6,220,931	\$ 2,831,646
Net assets at end of year	<u>\$ 6,153,412</u>	<u>\$ 3,099,839</u>

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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

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

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

Capital assets for the Pondera Regional Port Authority are accounted for as follows:

The Port Authority's capital assets are capitalized at historical cost or estimated historical cost. It is in the Port Authority's policy to capitalize all land purchases.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

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 2008 Basic Financial Statements. The government has elected not to retroactively report the County's general infrastructure assets.

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

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions / Adjustments</u>	Balance <u>June 30, 2008</u>
Capital assets not being depreciated:				
Land	\$ 134,232	\$ 114,377	\$ (20,000)	\$ 228,609
Pondera Medical Center	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total	<u>\$ 154,232</u>	<u>\$ 114,377</u>	<u>\$ (20,000)</u>	<u>\$ 248,609</u>
Other Capital Assets:				
Buildings	\$ 3,270,956	\$ 18,624	\$ -	\$ 3,289,580
Improvements other than Buildings	2,789,379	-	-	2,789,379
Machinery and Equipment	3,957,880	48,634	(28,739)	3,977,775
Pondera Medical Center	<u>6,059,673</u>	<u>26,767</u>	<u>-</u>	<u>6,086,440</u>
Total other capital assets at historical cost	<u>\$ 16,077,888</u>	<u>\$ 94,025</u>	<u>\$ (28,739)</u>	<u>\$ 16,143,174</u>
Less Accumulated Depreciation	<u>\$(10,421,246)</u>	<u>\$(745,002)</u>	<u>\$ 29,833</u>	<u>\$(11,136,415)</u>
Total	<u>\$ 5,810,874</u>	<u>\$(536,600)</u>	<u>\$ (18,906)</u>	<u>\$ 5,255,368</u>

Governmental capital assets depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 49,900
Public Safety	44,914
Public Works	395,314
Public Health	<u>254,874</u>
Total governmental activities depreciation expense	<u>\$745,002</u>

A summary of changes in the Pondera Regional Port Authority capital assets were as follows:

	Balance <u>July 1, 2007</u>	<u>Additions</u>	Balance <u>June 30, 2008</u>
Capital assets not being depreciated:			
Land	<u>\$ -</u>	<u>\$ 44,961</u>	<u>\$ 44,961</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

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, 2008, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance <u>July 1, 2007</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>	Due within <u>one year</u>
General Obligation Bonds	\$ 1,165,000	\$(115,000)	\$ 1,050,000	\$115,000
Intercap Loans	587,579	(89,071)	498,508	91,342
Capital Leases	598,161	(69,752)	528,409	83,841
Compensated Absences	<u>233,842</u>	<u>(752)</u>	<u>233,090</u>	<u>153,043</u>
Total	<u>\$ 2,584,582</u>	<u>\$(274,575)</u>	<u>\$ 2,310,007</u>	<u>\$443,226</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, 2008 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>Annual Payment</u>	<u>Balance June 30, 2008</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>\$1,050,000</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
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>\$1,050,000</u>	<u>\$153,396</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 16th 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, 2008 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, 2008</u>
911 Emergency Draw 1	2/26/03	2.70-4.85%	10 yrs	2/15/13	\$209,506	\$ 112,497
911 Emergency Draw 2	3/05/04	2.70-4.85%	9 yrs	2/15/13	69,799	40,771
911 Emergency Draw 3	6/25/04	2.70-4.85%	8 yrs	2/15/13	53,791	32,899
Cardiac Monitors	12/31/03	2.70-4.85%	5 yrs	2/15/09	64,315	13,343
HVAC System Replace Draw 1	5/28/04	2.70-4.85%	10 yrs	8/15/14	101,656	69,139
HVAC System Replace Draw 2	6/25/04	2.70-4.85%	9 yrs	8/15/14	56,483	38,185
HVAC System Replace Draw 3	7/16/04	2.70-4.85%	9 yrs	8/15/14	45,702	30,973
HVAC System Replace Draw 4	9/03/04	2.70-4.85%	9 yrs	8/15/14	96,526	65,502
HVAC System Replace Draw 5	10/15/04	2.70-4.85%	9 yrs	8/15/14	15,487	10,457
HVAC System Replace Draw 6	10/29/04	2.70-4.85%	9 yrs	8/15/14	50,159	35,674
HVAC System Replace Draw 7	12/10/04	2.70-4.85%	9 yrs	8/16/14	<u>68,987</u>	<u>49,068</u>
Total					<u>\$832,411</u>	<u>\$ 498,508</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 91,342	\$ 20,219
2010	80,222	16,457
2011	82,506	13,024
2012	84,856	9,493
2013	86,388	5,860
2014	48,910	2,594
2015	<u>24,284</u>	<u>516</u>
Total	<u>\$ 498,508</u>	<u>\$ 68,163</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, 2008</u>
4 Motor Graders	03/05/03	4%	\$726,265	\$ 327,322
4 Motor Graders	09/16/02	5%	\$661,840	<u>201,087</u>
Total				<u>\$ 528,409</u>

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 83,841	\$ 12,657
2010	345,382	18,548
2011	<u>99,186</u>	<u>4,586</u>
Total	<u>\$ 528,409</u>	<u>\$ 35,791</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

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 statement of net assets.

Pondera Regional Port Authority Long-term Debt

Changes in Long-term Debt Liabilities – During the year ended June 30, 2008, the following changes occurred in liabilities reported in long-term debt.

Governmental Activities:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due within</u> <u>one year</u>
Contracted Debt	\$ <u>15,952</u>	\$ <u>15,675</u>	\$(<u>11,892</u>)	\$ <u>19,735</u>	\$ <u>9,009</u>

Loans/Contracted Debt

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

<u>Purpose</u>	<u>Origination</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Term</u>	<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Balance</u> <u>June 30, 2008</u>
Pondera Economic Development corporation note April 06	3/21/2006	1.00%	9 months	10/01/2007	\$ 9,325	\$ -
Pondera Economic Development corporation note July 06	7/07/2006	4.50%	4 years	6/28/2011	\$15,300	8,148
Pondera Economic Development corporation note August 07	8/01/2007	6.00%	3 years	1/1/2010	\$15,675	<u>11,587</u>
Total						<u>\$ 19,735</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 9,009	\$ 984
2010	9,467	497
2011	<u>1,259</u>	<u>29</u>
Total	<u>\$ 19,735</u>	<u>\$1,510</u>

NOTE 7. 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>
District Court	\$(1,946)	Transferred too much cash to General Fund at year end	Collection of receivables
WIC Grant	\$(1,334)	Year end receivable was not recorded	Collection of receivables
Tobacco Use Prevention	\$(2,169)	Year end receivable was not recorded	Collection of receivables

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2008, were as follows:

Advances to/from other funds:			
<u>Purpose</u>	<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
To avoid deficit cash	General –	911 Emergency –	\$24,000
To avoid deficit cash	Major Governmental	Nonmajor Governmental	
To avoid deficit cash	General –	WIC Grant –	\$ 2,861
To avoid deficit cash	Major Governmental	Nonmajor Governmental	
To avoid deficit cash	General –	Comprehensive Insurance –	35,000
To avoid deficit cash	Major Governmental	Major Governmental	
To avoid deficit cash	General –	Safe Kids, Safe Communities –	1,157
To avoid deficit cash	Major Governmental	Nonmajor Governmental	
To avoid deficit cash	General –	Tobacco Use Prevention –	<u>2,179</u>
Total	Major Governmental	Nonmajor Governmental	<u>\$ 65,197</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2008:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Operations	General –	District Court –	\$ 34,942
	Major Governmental	Nonmajor Governmental	
Operations	General –	Local Study Commission –	2
	Major Governmental	Nonmajor Governmental	
Operations	County Hospital & Nursing Home –	General –	15,000
	Major Governmental	Major Governmental	
Operations	Ambulance Capital Improvements –	Ambulance –	16,862
	Nonmajor Governmental	Nonmajor Governmental	
Operations	Land Use Planning –	General –	3,500
	Nonmajor Governmental	Major Governmental	
Operations	Junk Vehicle Capital Improvements –	Junk Vehicle –	6,304
	Nonmajor Governmental	Nonmajor Governmental	
Operations	Weed Capital Improvements –	Weed –	1,000
	Nonmajor Governmental	Nonmajor Governmental	
Operations	Bridge Capital Improvement –	Bridge –	<u>30,000</u>
	Nonmajor Governmental	Nonmajor Governmental	
	Total		<u>\$107,610</u>

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) 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, 2008, were:

	<u>PERS</u>	<u>SRS</u>
Employer	6.935%	9.825%
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, 2008

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, 2006, 2007, and 2008, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2006	\$81,456	\$28,437
2007	\$80,798	\$34,584
2008	\$87,536	\$36,964

NOTE 10. 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, 2008.

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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

NOTE 12. 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>
General	\$ 65,197	Reserved for Advances
Debt Service Hospital	233,743	Reserved for Debt Service
Public Safety Capital Improvements	111,429	Reserved for Capital Projects
Junk Vehicle Capital Improvements	9,532	Reserved for Capital Projects
Ambulance Capital Improvements	42,683	Reserved for Capital Projects
General Fund Capital Improvements	52,938	Reserved for Capital Projects
Road/Bridge Equipment Purchases	309,622	Reserved for Capital Projects
Weed District Capital Improvements	34,493	Reserved for Capital Projects
Cemetery District #2 Perpetual Care	<u>25,380</u>	Reserved for Capital Projects
Total	<u>\$885,017</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>
Crime Control – MDOT	\$ 15,155	Prior period revenue adjustment
Safe Kids, Safe Communities	\$ 766	Prior period revenue adjustment
DES Grants	\$ 23,497	Prior period revenue adjustment
Breast & Cervical Screening	\$ 459	Prior period revenue adjustment
WIC Grant	\$ 325	Prior period revenue adjustment
Governmental Activities	\$ (25,935)	Capital Asset adjustment
Governmental Activities	\$ (300)	Long-term Debt adjustment

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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

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, 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, 2008, are available from the Montana Association of Counties Workers' Compensation Trust.

Audited financial statements for the fiscal year ended September 30, 2008, are available from the Montana Association of Counties Join Powers Insurance Trust.

NOTE 16. PENDING LITIGATION

There was no pending or threatened litigation or unasserted claims or assessments against the County at June 30, 2008.

NOTE 17. FOOTNOTES FOR THE PONDERA MEDICAL CENTER, INC.

NET CAPITAL ASSETS

The Pondera Medical Center, a component unit, capital asset additions, retirements, and balances for the year ended December 31, 2007 were as follows:

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

	<u>Balance</u> <u>December 31, 2006</u>	<u>Additions</u>	<u>Balance</u> <u>December 31, 2007</u>
Capital assets not being depreciated:			
Land	\$ 27,854	\$ -	\$ 27,854
Construction in Progress	<u>3,491</u>	<u>52,815</u>	<u>56,306</u>
Total capital assets not being depreciated:	<u>\$ 31,345</u>	<u>\$ 52,815</u>	<u>\$ 84,160</u>
Other capital assets:			
Land improvements	\$ 167,880	\$ -	\$ 167,880
Buildings and improvements	6,801,073	-	6,801,073
Equipment	<u>3,197,126</u>	<u>66,361</u>	<u>3,263,487</u>
Total other capital assets at historical cost	<u>\$ 10,166,079</u>	<u>\$ 66,361</u>	<u>\$ 10,232,440</u>
Less Accumulated Depreciation	<u>\$(6,365,732)</u>	<u>\$(577,284)</u>	<u>\$(6,943,016)</u>
Total	<u>\$ 3,831,692</u>	<u>\$ (458,108)</u>	<u>\$ 3,373,584</u>

Construction in progress at December 31, 2007, represents remodeling of the clinic building. The estimated costs to complete remodeling of the building are approximately \$18,000.

CASH AND CASH DEPOSITS

At December 31, 2007, the Pondera Medical Center, a component unit, had bank balances as follows:

<u>Depository Account</u>	
Insured	\$ 230,414
Uninsured or uncollateralized	<u>691,472</u>
Total	<u>\$ 921,886</u>
Carrying value	<u>\$ 836,416</u>

DEFERRED FINANCING COSTS

Deferred financing costs	\$ 78,082
Accumulated amortization	<u>(36,876)</u>
Total	<u>\$ 41,206</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

LEASES

The Pondera Medical Center, a component unit, leases certain equipment under non-cancelable short-term lease agreements. Total lease expense in December 31, 2007, for all operating leases was \$23,532.

Minimum future lease payments for operating leases are as follows:

<u>Years Ending December 31,</u>	<u>Operating Leases</u>
2008	\$ 3,924
2009	<u>2,943</u>
Total minimum lease payments	<u>\$ 6,867</u>

LONG-TERM DEBT

The Pondera Medical Center, a component unit, long-term debt consisted of the following on December 31, 2007.

	<u>Amount</u>
Revenue Refunding Bonds, Series 2004, interest rates from 2.3% to 3.85%, due in semi-annual installments, to August 2015, secured by property and equipment	\$ 1,050,000
Note payable, at a variable interest rate, (4.85% at December 31, 2007), due in varying semi-annual installment to August 2014, secured by equipment	319,922
Note payable, at a variable interest rate, (4.85% at December 31, 2007) due in varying semi-annual installments to February 2009, secured by equipment	<u>20,002</u>
	\$ 1,389,924
Less current maturities	<u>\$ (170,603)</u>
	<u>\$ 1,219,321</u>

	<u>Balance December 31, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2007</u>	<u>Due Within one year</u>
Bonds and Notes Payable					
Revenue bonds	\$ 1,165,000	\$ -	\$(115,000)	\$ 1,050,000	\$115,000
Notes payable	<u>518,000</u>	<u>262,092</u>	<u>(440,168)</u>	<u>339,924</u>	<u>55,603</u>
Total non-current liabilities	<u>\$ 1,683,000</u>	<u>\$ 262,092</u>	<u>\$(555,168)</u>	<u>\$ 1,389,924</u>	<u>\$170,603</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2008

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

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 170,603	\$ 49,342
2009	169,941	44,039
2010	169,523	38,666
2011	175,733	32,912
2012	181,972	26,630
Thereafter	<u>522,152</u>	<u>38,261</u>
	<u>\$ 1,389,924</u>	<u>\$ 229,850</u>

RESTRICTED NET ASSETS

The Pondera Medical Center, a component unit, restricted, expendable net assets are available for the following purposes:

	<u>Amount</u>
Medical equipment	\$ 19,864
Solarium	9,178
Capital improvements	<u>3,059</u>
	<u>\$ 32,101</u>

In 2007, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of \$72,809.

PENSION PLAN

The Pondera Medical Center, a component unit, maintains a defined contribution plan which covers all employees who have completed one year of service and worked at least 1,000 hours and who attained 21 years of age. Employer contributions are decided by the Board annually, and are deposited with the plan trustee who invests the plan assets. Total employer pension plan expense which consists of plan administrative expenses only for the year ended December 31, 2007, was \$14,203.

COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

The Pondera Medical Center, a component unit, has insurance coverage to provide protection for professional liability losses on a claims-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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

County Lease

On April 15, 2004, the Pondera Medical Center, a component unit, 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 reduction of principal and interest expense.

Pending Litigation

The Pondera Medical Center, a component unit, 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. However, the Medical Center is responsible for a portion of one claim. While it is not possible to determine the ultimate liability, if any, with respect to these matters, management has accrued \$50,000 as of December 31, 2007 to cover any potential legal liability.

CONCENTRATION OF CREDIT RISK

The Pondera Medical Center, a component unit, 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, 2007 were as follows:

Medicare	35%
Commercial insurance	23%
Medicaid	7%
Other third-party payors and patients	<u>35%</u>
	<u>100%</u>

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2008

	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		
RESOURCES (INFLOWS):								
Taxes and assessments	\$ 492,752	\$ 492,735	\$ 527,001	\$ 34,266	\$ 308,320	\$ 308,342	\$ 311,522	\$ 3,180
Intergovernmental	257,388	257,388	255,930	(1,458)	249,438	249,438	255,474	6,036
Charges for services	110,985	110,985	134,871	23,886	-	-	-	-
Fines and forfeitures	33,200	33,200	33,073	(127)	-	-	-	-
Miscellaneous	1,501	1,500	8,340	6,840	650	3,321	11,228	7,907
Investment earnings	70,300	70,300	88,790	18,490	-	-	-	-
Amounts available for appropriation	\$ 966,126	\$ 966,108	\$ 1,048,005	\$ 81,897	\$ 558,408	\$ 561,101	\$ 578,224	\$ 17,123
CHARGES TO APPROPRIATIONS (OUTFLOWS):								
General government	\$ 1,106,589	\$ 1,106,539	\$ 918,654	\$ 187,885	\$ -	\$ -	\$ -	\$ -
Public safety	57,606	57,606	49,815	7,791	-	-	-	-
Public works	-	-	-	-	718,185	722,856	625,832	97,024
Public health	119,378	104,378	100,121	4,257	-	-	-	-
Social and economic services	11,700	11,700	6,855	4,845	-	-	-	-
Culture and recreation	6,800	6,800	1,321	5,479	-	-	-	-
Debt service - principal	-	-	-	-	27,200	27,200	11,161	16,039
Debt service - interest	-	-	-	-	-	-	4,279	(4,279)
Miscellaneous	-	-	-	-	-	-	-	-
Capital outlay	5,500	95,450	99,818	(4,368)	2,000	-	-	-
Total charges to appropriations	\$ 1,307,573	\$ 1,382,473	\$ 1,176,584	\$ 205,889	\$ 747,385	\$ 750,056	\$ 641,272	\$ 108,784
OTHER FINANCING SOURCES (USES)								
Proceeds from the sale of general capital asset disposition	\$ -	\$ 100	\$ -	\$ (100)	\$ 500	\$ 500	\$ -	\$ (500)
Transfers in	-	-	34,944	34,944	-	-	-	-
Transfers out	(124,663)	(139,663)	(33,463)	106,200	-	-	-	-
Total other financing sources (uses)	\$ (124,663)	\$ (139,563)	\$ 1,481	\$ 141,044	\$ 500	\$ 500	\$ -	\$ (500)
Net change in fund balance			\$ (127,098)				\$ (63,048)	
Fund balance - beginning of the year			\$ 762,696				\$ 376,370	
Restatements			-				-	
Fund balance - beginning of the year - restated			\$ 762,696				\$ 376,370	
Fund balance - end of the year			\$ 635,598				\$ 313,322	

Pondera County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2008

	Comprehensive Insurance				Public Safety			
	BUDGETED AMOUNTS ORIGINAL	FINAL	ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET	BUDGETED AMOUNTS ORIGINAL	FINAL	ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
RESOURCES (INFLOWS):								
Taxes and assessments	\$ 137,073	\$ 137,067	\$ 129,963	\$ (7,104)	\$ 462,729	\$ 462,717	\$ 466,723	\$ 4,006
Intergovernmental	17,580	17,580	22,608	5,028	76,349	76,349	82,763	6,414
Charges for services	-	-	-	-	106,600	106,600	84,192	(22,408)
Fines and forfeitures	-	-	-	-	-	-	-	-
Miscellaneous	250	250	-	(250)	1,520	3,258	6,319	3,061
Investment earnings	-	-	-	-	-	-	-	-
Amounts available for appropriation	\$ 154,903	\$ 154,897	\$ 152,571	\$ (2,326)	\$ 647,198	\$ 648,924	\$ 639,997	\$ (8,927)
CHARGES TO APPROPRIATIONS (OUTFLOWS):								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	906,386	934,542	686,926	247,616
Public works	-	-	-	-	-	-	-	-
Public health	-	-	-	-	-	-	-	-
Social and economic services	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Debt service - principal	5,000	5,000	-	5,000	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Miscellaneous	197,304	197,304	143,628	53,676	-	-	-	-
Capital outlay	-	-	-	-	26,418	-	-	-
Total charges to appropriations	\$ 202,304	\$ 202,304	\$ 143,628	\$ 58,676	\$ 932,804	\$ 934,542	\$ 686,926	\$ 247,616
OTHER FINANCING SOURCES (USES)								
Proceeds from the sale of general capital asset disposition	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	35,000	35,000	-	(35,000)	-	-	-	-
Total other financing sources (uses)	\$ 35,000	\$ 35,000	\$ -	\$ (35,000)	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ 8,943				\$ (46,929)	
Fund balance - beginning of the year			\$ 72,757				\$ 581,564	
Restatements			-				-	
Fund balance - beginning of the year - restated			\$ 72,757				\$ 581,564	
Fund balance - end of the year			\$ 81,700				\$ 534,635	

Pondera County, Montana
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For Fiscal Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Beginning Balance July 1, 2007	Federal Revenue	Match /Other Revenue	Federal Expenditures	Match /Other Expenditures	Ending Balance June 30, 2008
U.S. Department of Agriculture									
<i>Passed through Teton County:</i>									
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	N/A	\$ 23,618	(2,666)	21,715	-	20,393	-	(1,344)
<i>Passed through Montana Department of Agriculture:</i>									
School and Roads - Grants to States (Forest Reserve)	10.665	N/A	N/A	(2,666)	29,212	-	29,212	-	-
Total U.S. Department of Agriculture					50,927		49,605		(1,344)
U.S. Department of Housing and Urban Development									
<i>Passed through Montana Department of Commerce:</i>									
Community Development Block Grant	14.228	MT-CDBG-ED07-02	\$ 400,000	-	382,177	-	382,177	-	-
Total U.S. Department of Housing and Urban Development					382,177		382,177		-
U.S. Department of Transportation									
<i>Passed through Montana Department of Transportation - Healthy Mothers, Healthy Babies, the Montana Coalition:</i>									
State and Community Highway Safety	20.600	N/A	\$ 25,000	(1,224)	20,304	1,965	17,774	1,965	1,306
Total U.S. Department of Transportation					20,304	1,965	17,774	1,965	1,306
U.S. Department of Health and Human Services									
<i>Passed through Montana Department of Health & Human Services:</i>									
Immunization Grants	93.268	07-07-4-31-034-0	\$ 2,854	-	2,854	-	2,854	-	-
Centers for Disease Control and Prevention - BioT Grant	93.283	07-07-6-11-038-0	\$ 37,509	33,305	43,394	-	26,171	-	50,528
Maternal and Child Services Health Block Grant	93.994	08-07-5-01-037-0	N/A	10,716	10,634	-	11,442	-	9,908
<i>Passed through Teton County:</i>									
Centers for Disease Control and Prevention - Tobacco Grant	93.283	N/A	\$ 31,000	(3,015)	31,333	-	29,663	-	(1,345)
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	06-07-3-01-012-0	\$ 4,600	3,575	2,760	-	1,776	-	4,559
Total U.S. Department of Health and Human Services				44,581	90,975		71,906		63,650
U.S. Department of Homeland Security									
<i>Passed through Montana Department of Military Affairs:</i>									
Emergency Management Program Grant	97.042	N/A	N/A	-	18,312	-	18,312	-	-
Total U.S. Department of Homeland Security					18,312		18,312		-
Total Federal Financial Assistance				40,691	562,695	1,965	539,774	1,965	63,612

N/A = Not Applicable or Not Available

PONDERA COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2008

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

**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, Montana, as of and for the year ended June 30, 2008, which collectively comprise the Pondera County's basic financial statements and have issued our report which was modified to include a reference to other auditors thereon dated February 27, 2009. 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 controls 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 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 in the accompanying schedule of findings and questioned costs to be significant deficiencies in the internal control over financial reporting.

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 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 finding 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 the Board of 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.

February 27, 2009

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

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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 the compliance of Pondera County, Montana, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

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 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the audit committee, 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.

Derrig, Downey and Associates, CPAs, P.C.

February 27, 2009

PONDERA COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2008

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?	No
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

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

08-1 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 working on the control weakness with our available staff.

08-2 District Court

Condition:

The District Court has three bank accounts that require only one signature for disbursement.

Criteria:

A control system designed to safeguard assets should require two signatures for all disbursements.

Effect:

Internal controls as they relate to cash handling are weakened.

Recommendation:

We recommend that the Court require two signatures on all disbursements.

Auditee Response:

Will implement immediately.

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

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

Board of County Commissioners
Pondera County
Conrad, Montana

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

Denning, Downey and Associates, CPAs, P.C.

February 27, 2009

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

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

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of County Commissioners
Pondera County
Conrad, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Justice Court	Repeated
District Court	Repeated

Denning, Downey and Associates, CPAs, P.C.

February 27, 2009