

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2010

AUDIT REPORT

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

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2010

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PONDERA COUNTY, MONTANA

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PONDERA COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2010

BOARD OF COUNTY COMMISSIONERS

Sandra J. Broesder
Cynthia A. Johnson
Joseph Christiaens

Chairperson
Commissioner
Commissioner

COUNTY OFFICIALS

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

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

Pondera County, Montana
Management Discussion and Analysis (MD&A)
Fiscal Year 2009-10

Our discussion and analysis of Pondera County's financial performance provides an overview of Fiscal Year 2009-2010 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 decreased over 48.26% compared to the prior fiscal year. This reduction coupled with the prior year reduction of 40.75% has had a significant impact on all budget areas.
- The eight maintainers (motor graders) leased in FY 08, have been problematic with repair issues, but an extended warranty agreement was arranged which stabilized repair costs. The maintainers are financed and payments appropriated in the budget.
- The road and bridge departments purchased a pad foot roller (\$23,500), a used pickup (\$1,500), replacement culverts and cattle guards (\$19,657); 2 rotary levels (\$2,100), 6 Mobile Radios and 2 bases (\$4,359) and shop repairs (\$ 2,709).
- While acres remained the same, the amount of the Pondera County PILT Payment decreased by \$70,992 due to the negative impact of federal prior year payments. The 2009 Budget reflected both the additional amount received in November 2008 (\$81,962) and the full payment in June of 2009 of \$214,011 so the net impact to the FY10 budget was \$152,954 less. This reduction in PILT funds negatively impacted the Road Department and the Community/Senior Center updates.
- Forest Reserve payments remained the same as the prior fiscal year. Since Pondera County's payment exceeded \$100,000, 15% of the total payment had to be designated to either Title II or Title III program. Pondera County chose to designate to Title III early in the fiscal year. Since these funds are forwarded to the county but must be segregated and used only for federally approved projects, any unused dollars will ultimately need to be returned to the Federal government. Titles III designated funds, used or not, negatively impact the county budget in that they are included in prior year federal payments and reduce current year PILT payments.
- The emergency snow removal cost was \$102,249, which was significant given that we no longer receive revenue from the US Air Force for these activities.
- 18 miles of road were re-built or re-graveled with approximately 27,321 yards of gravel at a cost of \$38,898. This amount is less than fiscal year 2009. Pondera County also purchased 2,500 tons of chips at a cost of \$25,000 along with hot and cold mix asphalt for \$51,090.

- Fuel costs remained relatively stable with minimal impact on all areas of the budget, especially Road and Bridge Departments
- Oil and Gas Revenues decreased 51.17% in Fiscal year 2010.
- 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 Use Prevention.
- The Community Service Program, in cooperation with the City of Conrad, continues to be funded at \$15,000. A Contract Supervisor manages the program.
- The County owned airport received hangar income for this fiscal year as well as ground area lease payments and farm income. The lease for management contract for the Valier airport is currently being re-negotiated to allow for both rental and farmland related income.
- Pondera County is rehabilitating an old retail sales building to be used for a new Community/Senior Center. In addition to the \$147,656 we received as a result of Montana HB645, we also received \$200,000 in an Energy Efficiency Community Block Grant and \$450,000 in a CDBG grant
- The Pondera Regional Port Authority was approved to use local PILT money for Economic Development. The local PILT, \$14,962, is established as a loan at the time of the Budget adoption. The Port Authority must utilize the loan to facilitate businesses within the county. When the annual report is produced to Pondera County, proving the use of funds is appropriate, the loan is forgiven and treated as a grant (transfer). 2010 is the fourth successful year in this Economic Development partnership for county businesses.
- Pondera County continues to make an annual contribution (\$2,500) to the Four County Marias Fair for maintenance and upkeep of the fair complex in Toole County. The county continues to contribute \$2,000 annually to the state mandated regional economic development corporation. Pondera County continues to be a part of an interlocal agreement with the Northern Transit for public transportation which currently requires an annual contribution of \$5,000.
- The Sheriff's department replaced one public safety vehicle.
- Local Option tax revenue remained stable, actually increasing \$619 from the prior fiscal year.
- With an increase of less than 1% (\$497), Federal Mineral Royalties remained relatively constant in FY10.
- 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 2009-10</u>	<u>Post Audit</u>
	<u>Governmental</u>	<u>FY 2008-09</u>
	<u>Activities</u>	<u>Governmental</u>
		<u>Activities</u>
Current and other assets	\$ 4,177,694	\$ 4,107,378
Capital assets	<u>5,469,342</u>	<u>5,939,274</u>
Total assets	<u>\$ 9,647,036</u>	<u>\$10,046,652</u>
Long-term debt outstanding	\$ 2,026,830	\$ 2,676,496
Other liabilities	<u>685,669</u>	<u>244,457</u>
Total liabilities	<u>\$ 2,712,499</u>	<u>\$ 2,920,953</u>
Net assets:		
Invested in capital assets net of related debt	\$ 3,295,863	\$ 3,508,472
Restricted	2,971,035	2,861,694
Unrestricted	<u>667,634</u>	<u>755,533</u>
Total net assets	<u>\$ 6,934,537</u>	<u>\$ 7,125,699</u>

Government-wide STATEMENT OF ACTIVITIES

	<u>FY2009-10</u>	<u>Post Audit</u>
	<u>Governmental</u>	<u>FY2008-09</u>
	<u>Activities</u>	<u>Governmental</u>
		<u>Activities</u>
<u>Program Revenues</u>		
Charges for Services	\$ 561,325	\$ 574,291
Operating Grants and Contributions	241,253	448,308
Capital Grants and Contributions	<u>519,817</u>	<u>163,252</u>
Total Program Revenues	<u>\$ 1,322,395</u>	<u>\$ 1,185,851</u>
<u>General Revenues</u>		
Property Taxes	\$ 2,531,434	\$ 2,391,768
Video Poker Apportionment	2,325	2,275
Miscellaneous	25,929	46,842
Interest/Investment Earnings	48,209	69,666
PILT	143,019	295,973
MT Oil and Gas Production Tax	125,330	256,582
State Entitlement	388,128	376,563
Grants & Entitlements not restricted to specific programs	105,865	3,250
Intergovernmental Agreement	14,963	24,457
Reimbursements	99,044	194,212
Royalties	7,419	19,746
Gain (Loss) on disposal of capital assets	<u>14,000</u>	<u>-</u>
Total General Revenues	<u>\$ 3,505,665</u>	<u>\$ 3,681,334</u>
Total Revenues	<u>\$ 4,828,060</u>	<u>\$ 4,867,185</u>

Government-wide STATEMENT OF ACTIVITIES (continued)	<u>FY2009-10</u>	<u>Post Audit</u> <u>FY2008-09</u>
<u>Program Expenses by Function</u>	<u>Governmental</u> <u>Activities</u>	<u>Governmental</u> <u>Activities</u>
General Government	\$ 1,348,813	\$ 1,298,846
Public Safety	993,319	1,010,773
Public Works	1,571,409	1,264,840
Public Health	667,889	703,063
Social & Economic Services	121,738	129,095
Culture & Recreation	154,523	149,583
Housing & Community Development	35,612	13,690
Debt Service Interest	96,943	83,038
Miscellaneous	<u>183,260</u>	<u>166,007</u>
Total Expenses	<u>\$ 5,173,506</u>	<u>\$ 4,818,935</u>
Excess (deficiency) before special items & transfers	\$ (345,466)	\$ 48,250
Gain on sale of capital assets	-	<u>586,723</u>
Changes in net assets	<u><u>\$ (345,466)</u></u>	<u><u>\$ 634,973</u></u>

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

GOVERNMENTAL ACTIVITIES

The cost of all governmental activities this year was \$5,173,506, compared to \$4,818,935 for fiscal year 2008-09 as found in the Statement of Activities, an increase of \$459,142 or approximately 9%. The increase was due to the general costs of doing business as well as the award of grants for Homeland Security (\$89,000), Homeland Security Emergency Operations' Plan (\$10,000), asphalt remediation (\$38,500), transfers to capital improvement fund (\$120,000), HB645 Stimulus funding grant of \$74,000, H1N1 Preparedness grant of \$30,000, upgrades to the 9-1-1 system (\$50,000), more activity in the Neighborhood Stabilization grant program (\$29,449) and the Growth Plan (\$5,000). The County paid \$7,000 more in SID's this year in FY2009-10; debt service payments increased by \$60,000 due to initial payments for the motor graders and on the intercap loan for the community center (\$64,000) and near-completion of an access road to the interstate exchange. As shown on the same statement, the amount that our taxpayers ultimately financed for these activities through county taxes was only \$2,531,434, up by \$139,666 from \$2,391,768 in fiscal year 2008-09, partially as a result of a correction of the calculation error in the Determination of Tax Revenue worksheet from FY2008-09. 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>FY2009-10</u> <u>Net Expense</u>	<u>Post Audit</u> <u>FY2008-09</u> <u>Net Expense</u>
General Government	\$ 1,348,813	\$ (1,132,184)
Public Safety	993,319	(732,534)
Public Works	1,571,409	(931,265)
Public Health	667,889	(486,554)
Social & Economic Services	121,738	48,570
Culture & Recreation	154,523	(149,583)
Housing & Community Development	35,612	(489)
Debt Service Interest	96,943	(83,038)
Miscellaneous	183,260	(166,007)
Total Net Expenses	<u>\$ 5,173,506</u>	<u>\$ (3,633,084)</u>

Unreserved Fund Balance Analysis (Major Funds)

	<u>General</u>	<u>Road</u>	<u>Public</u> <u>Safety</u>	<u>DES</u> <u>Grant</u>	<u>Road/Bridge</u> <u>Equip Purch</u>
Unreserved Fund Balance – Current Year	526,189	592,786	478,115	26,770	473,130
Unreserved Fund Balance – Prior Year	645,584	584,355	505,416	-	309,622
Change in unreserved fund balance	-119,195	-8,431	-27,301	26,770	163,508
% change in unreserved fund balance	-18.46%	-1.49%	-5.40%	100.00%	52.8%

The decrease in the unreserved fund balance in the General Fund is due to a decrease in revenue from PILT funding which was shared by the General Fund and Road fund in FY2008-09 but receipted to only the Road Fund in FY2009-10 (\$72,556); revenue from non-tax sources was also down from the previous year, notably the receipt of an Intercap Loan (\$89,550) and the sale of the old community center (\$75,000) in fiscal year 2008-09.

The decreases in the Road and Public Safety Funds are a result of transfers from these operating funds to their corresponding capital improvement funds

The increase in the DES Grant Fund is due to additional funding and expenditures under the H1N1 flu prevention program; thus, diminishing the expenditures from the emergency preparedness funding within the same grant.

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

Revenue Budget to Actual Variances:

<u>General Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	1,133,168	1,079,534	(53,634)	(4.73)%

There was a variation between the final budget amount and actual amount of revenue received in the General Fund of \$58,634 for a (5.15)% variance. The County budgeted for \$53,162 of PILT funding in the general fund but not receipt that portion to the general fund because the PILT payment was lower than in past year and was all receipted to the Road Fund. In addition, investment earnings, oil and gas production revenue and other miscellaneous funding were over budgeted.

<u>Road Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	723,703	701,275	(22,428)	(3.19)%

There was a variation between the final budget amount and actual amount of revenue received in the Road Fund of \$(22,428) for a (3.09)% variance. The County over budgeted for PILT and Forest Reserve Act funds by \$22,243 (both were impacted by the American Recovery and Reinvestment Act of 2009) and the for the oil and gas production tax (which is a large variable each year) by \$12,845.

Public Safety

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	763,006	781,248	18,242	.80%

County under-budgeted local option tax by \$12,524.

DES Grants

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	82,959	83,048	89	.10%

County under-budgeted by \$89 for grant award amount.

Road/Bridge Equipment Purchase

<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variation</u>	<u>% Variance</u>
	0	156,455	(156,455)	(100)%

County under-budgeted by \$156,455 for transfers from the Road Fund and the Bridge Fund. The intent was to purchase equipment from operating funds by year-end but since that did not happen, a transfer was made to the capital improvement fund.

CAPITAL ASSETS AND LONG-TERM DEBT

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

Long Term Debt

During the fiscal year, the County decreased its long term debt by \$257,323.

Capital Assets

The purchase of new assets, sale of assets, depreciation and other factors resulted in the current value of Pondera County net capital assets as of June 30, 2010 of \$5,469,342. In addition, the County continues with its construction in progress project at the community/senior center.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The fiscal year 2010-2011 Taxable Valuation increased slightly in Pondera County from \$13,249,990 to 13,361,116. The value of a county-wide mill increases from \$13,249 to \$13,361. The FY11 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, 2011, is that of a Fourth Class County.

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

The Conrad Community/Senior Center reconstruction should be completed in FY11. While the bulk of the remodel funding has been from grants, there will be ongoing maintenance expenses once the building is occupied. These costs will be offset in part with rental income, but will need to become part of future budgets.

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

Airport contracts are being renegotiated to secure revenue. The farmland lease at the Conrad Airport went from a crop share to cash based rent and the lease in Valier is patterned the same way.

The new road to access the Northern I15 interchange was completed late in the summer of 2010 and we have an agreement in place to purchase the Right of Way.

Group Health Insurance costs remain relatively stable without changing providers.

The school districts in the County did not hold any levy elections in FY2010.

While aiming for a 33% reserve in all funds, reserve amounts range from 11.7% (ambulance) to 31.5% (road). 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, 2010, 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 86.14%, 78.04%, and 97.86% respectively, of the assets and net assets as of December 31, 2009, and revenues for the year then ended of the 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 the Pondera Medical Center, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pondera County, Pondera County, Montana, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit included the building of the Pondera Medical Center. The County maintains that the building and its related improvements are the property of the County. The net book value of the County for the building is \$558,375. 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 \$2,106,616.

As described in Note 1, the County has implemented the Post Retirement Benefits other than Pensions, as required by the provisions of GASB Statement No. 45, as of June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of the Pondera County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 9, and 54 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of Americas, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

March 31, 2011

Pondera County, Montana
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>	<u>Total</u>	<u>Component Unit Pondera Regional Port Authority</u>
ASSETS			
Current assets:			
Cash and investments	\$ 3,722,404	\$ 3,722,404	\$ 227,672
Taxes and assessments receivable, net	324,927	324,927	7,781
Accounts receivable - net	3,468	3,468	-
Notes and loans receivable	-	-	404,917
Due from other governments	27,395	27,395	125,145
Inventories	99,500	99,500	107,197
Total current assets	<u>\$ 4,177,694</u>	<u>\$ 4,177,694</u>	<u>\$ 872,712</u>
Noncurrent assets			
Capital assets - land	\$ 238,609	\$ 238,609	\$ 70,810
Capital assets - construction in progress	135,638	135,638	-
Capital assets - depreciable, net	5,095,095	5,095,095	-
Total noncurrent assets	<u>\$ 5,469,342</u>	<u>\$ 5,469,342</u>	<u>\$ 70,810</u>
Total assets	<u>\$ 9,647,036</u>	<u>\$ 9,647,036</u>	<u>\$ 943,522</u>
LIABILITIES			
Current liabilities			
Warrants payable	\$ 234	\$ 234	\$ -
Accounts payable	30,371	30,371	92,479
Accrued payroll	36,401	36,401	1,209
Revenues collected in advance	189,037	189,037	-
Current portion of long-term liabilities	-	-	1,284
Current portion of long-term capital liabilities	267,235	267,235	-
Current portion of compensated absences payable	162,391	162,391	-
Total current liabilities	<u>\$ 685,669</u>	<u>\$ 685,669</u>	<u>\$ 94,972</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 19,933	\$ 19,933	\$ -
Noncurrent portion of long-term capital liabilities	1,906,244	1,906,244	-
Noncurrent portion of compensated absences	100,653	100,653	-
Total noncurrent liabilities	<u>\$ 2,026,830</u>	<u>\$ 2,026,830</u>	<u>\$ -</u>
Total liabilities	<u>\$ 2,712,499</u>	<u>\$ 2,712,499</u>	<u>\$ 94,972</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,295,863	\$ 3,295,863	\$ 178,007
Restricted by donors for specific purposes	26,863	26,863	-
Restricted for capital projects	717,568	717,568	-
Restricted for debt service	147,483	147,483	-
Restricted for special projects	2,079,121	2,079,121	-
Unrestricted	667,639	667,639	670,543
Total net assets	<u>\$ 6,934,537</u>	<u>\$ 6,934,537</u>	<u>\$ 848,550</u>
Total liabilities and net assets	<u>\$ 9,647,036</u>	<u>\$ 9,647,036</u>	<u>\$ 943,522</u>

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Functions/Programs Primary government:	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		Component Unit	
	Charges for Services		Operating Grants and Contributions		Capital Grants and Contributions			Pondera Regional Port Authority
	Expenses	Total	Governmental Activities	Total	Primary Government	Total		
Governmental activities:								
General government	\$ 1,348,813	\$ 165,761	\$ 305	\$ 74,696	\$ (1,108,051)	\$ (1,108,051)	\$ -	
Public safety	993,319	231,747	114,799	89,488	(557,285)	(557,285)	-	
Public works	1,571,409	108,658	2,286	-	(1,460,465)	(1,460,465)	-	
Public health	667,889	39,499	117,900	-	(510,490)	(510,490)	-	
Social and economic services	121,738	15,660	49	355,633	249,604	249,604	-	
Culture and recreation	154,523	-	-	-	(154,523)	(154,523)	-	
Housing and community development	35,612	-	5,914	-	(29,698)	(29,698)	-	
Debt service - interest	96,943	-	-	-	(96,943)	(96,943)	-	
Miscellaneous	183,260	-	-	-	(183,260)	(183,260)	-	
Total governmental activities	<u>\$ 5,173,506</u>	<u>\$ 561,325</u>	<u>\$ 241,253</u>	<u>\$ 519,817</u>	<u>\$ (3,851,111)</u>	<u>\$ (3,851,111)</u>	<u>\$ -</u>	
Total primary government	<u>\$ 5,173,506</u>	<u>\$ 561,325</u>	<u>\$ 241,253</u>	<u>\$ 519,817</u>	<u>\$ (3,851,111)</u>	<u>\$ (3,851,111)</u>	<u>\$ -</u>	
Component units:								
Pondera Regional Port Authority	\$ 62,762	\$ -	\$ 162,316	\$ -	\$ -	\$ -	\$ 99,554	
Total component units	<u>\$ 62,762</u>	<u>\$ -</u>	<u>\$ 162,316</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,554</u>	
General Revenues:								
Property taxes for general purposes					\$ 2,531,434	\$ 2,531,434	\$ 55,282	
Video poker apportionment					2,325	2,325	-	
Miscellaneous					25,929	25,929	3,552	
Interest/investment earnings					48,209	48,209	21,314	
PILT					143,019	143,019	-	
Montana oil and gas production tax					125,330	125,330	-	
State entitlement					388,128	388,128	-	
Grants and entitlements not restricted to specific programs					105,865	105,865	-	
Intergovernmental agreement					14,963	14,963	-	
Reimbursements					99,044	99,044	-	
Royalties					7,419	7,419	-	
Gain (loss) on sale of capital assets					14,000	14,000	-	
Total general revenues, special items and transfers					<u>\$ 3,505,665</u>	<u>\$ 3,505,665</u>	<u>\$ 80,148</u>	
Change in net assets					<u>\$ (345,446)</u>	<u>\$ (345,446)</u>	<u>\$ 179,702</u>	
Net assets - beginning					\$ 7,125,699	\$ 7,125,699	\$ 668,848	
Restatements					154,284	154,284	-	
Net assets - beginning - restated					7,279,983	7,279,983	668,848	
Net assets - end					<u>\$ 6,934,537</u>	<u>\$ 6,934,537</u>	<u>\$ 848,550</u>	

See accompanying Notes to the Financial Statements

Pondera County, Montana
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Road	Public Safety	DES Grants	Road/Bridge Equip Purchase	Other Governmental Funds	Total Governmental Funds
ASSETS							
Current assets:							
Cash and investments	\$ 494,388	\$ 523,510	\$ 486,283	\$ 109,168	\$ 473,130	\$ 1,635,925	\$ 3,722,404
Taxes and assessments receivable, net	89,594	46,440	45,365	-	-	143,528	324,927
Accounts receivable - net	-	-	-	-	-	3,468	3,468
Due from other funds	16,364	-	-	-	-	-	16,364
Due from other governments	8,868	-	-	-	-	18,527	27,395
Inventories	-	84,500	5,000	-	-	10,000	99,500
Total current assets	\$ 609,214	\$ 654,450	\$ 536,648	\$ 109,168	\$ 473,130	\$ 1,811,448	\$ 4,194,058
Noncurrent assets:							
Advances to other funds	\$ 25,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,163
Total noncurrent assets	\$ 25,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,163
Total assets	\$ 634,377	\$ 654,450	\$ 536,648	\$ 109,168	\$ 473,130	\$ 1,811,448	\$ 4,219,221
LIABILITIES							
Current liabilities:							
Warrants payable	\$ 12	\$ -	\$ -	\$ -	\$ -	\$ 222	\$ 234
Accounts payable	4,497	9,859	3,677	8,000	-	4,338	30,371
Accrued payroll	14,085	5,365	9,491	-	-	7,460	36,401
Due to other funds	-	-	-	-	-	16,364	16,364
Revenues collected in advance	-	-	-	74,398	-	114,639	189,037
Deferred revenue	89,594	46,440	45,365	-	-	143,528	324,927
Total current liabilities	\$ 108,188	\$ 61,664	\$ 58,533	\$ 82,398	\$ -	\$ 286,551	\$ 597,334
Noncurrent liabilities:							
Advances payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,163	\$ 25,163
Total noncurrent liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,163	\$ 25,163
Total liabilities	\$ 108,188	\$ 61,664	\$ 58,533	\$ 82,398	\$ -	\$ 311,714	\$ 622,497
FUND BALANCES							
Reserved for inventories	\$ -	\$ 84,500	\$ 5,000	\$ -	\$ -	\$ 10,000	\$ 99,500
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 147,483	\$ 147,483
Reserved for capital projects	\$ -	\$ -	\$ -	\$ -	\$ 473,130	\$ 244,438	\$ 717,568
Reserved for other purposes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,863	\$ 26,863
Unreserved reported in general fund	\$ 526,189	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 526,189
Unreserved reported in special revenue funds	\$ -	\$ 508,286	\$ 473,115	\$ 26,770	\$ -	\$ 1,070,950	\$ 2,079,121
Total fund balance	\$ 526,189	\$ 592,786	\$ 478,115	\$ 26,770	\$ 473,130	\$ 1,499,734	\$ 3,596,724
Total liabilities and fund balance	\$ 634,377	\$ 654,450	\$ 536,648	\$ 109,168	\$ 473,130	\$ 1,811,448	\$ 4,219,221

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, 2010

Total fund balances - governmental funds	\$ 3,596,724
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,469,342
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.	324,927
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,456,456)
Total net assets - governmental activities	\$ <u>6,934,537</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, 2010

	General Fund	Road	Public Safety	DES Grants	Road/Bridge Equip Purchase	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes and assessments	\$ 632,706	\$ 348,222	\$ 595,421	\$ -	\$ -	\$ 1,038,567	\$ 2,614,916
Licenses and permits	20	-	-	-	-	-	20
Intergovernmental	215,532	346,148	76,616	83,048	-	1,043,114	1,764,458
Charges for services	149,873	-	98,816	-	-	34,355	283,044
Fines and forfeitures	35,059	-	-	-	-	2,362	37,421
Miscellaneous	8,102	6,905	10,395	-	-	117,826	143,228
Investment earnings	38,242	-	-	-	4,706	5,580	48,528
Total revenues	\$ 1,079,534	\$ 701,275	\$ 781,248	\$ 83,048	\$ 4,706	\$ 2,241,804	\$ 4,891,615
EXPENDITURES							
General government	\$ 958,693	\$ -	\$ -	\$ -	\$ -	\$ 308,046	\$ 1,266,739
Public safety	62,832	-	761,549	6,459	-	91,275	922,115
Public works	-	452,634	-	-	-	690,127	1,142,761
Public health	117,666	-	-	39,128	-	252,411	409,205
Social and economic services	7,254	-	-	-	-	114,484	121,738
Culture and recreation	1,472	-	-	-	-	153,051	154,523
Housing and community development	-	-	-	-	-	35,612	35,612
Debt service - principal	7,533	49,568	-	-	-	200,222	257,323
Debt service - interest	2,717	42,739	-	-	-	51,487	96,943
Miscellaneous	14,963	-	-	-	-	168,297	183,260
Capital outlay	26,711	41,654	-	10,691	37,050	217,289	333,395
Total expenditures	\$ 1,199,841	\$ 586,595	\$ 761,549	\$ 56,278	\$ 37,050	\$ 2,282,301	\$ 4,923,614
Excess (deficiency) of revenues over expenditures	\$ (120,307)	\$ 114,680	\$ 19,699	\$ 26,770	\$ (32,344)	\$ (40,497)	\$ (31,999)
OTHER FINANCING SOURCES (USES)							
Proceeds from the sale of general capital asset disposition	\$ 2,000	\$ -	\$ -	\$ -	\$ -	\$ 12,000	\$ 14,000
Transfers in	2,912	-	-	-	151,749	70,102	224,763
Transfers out	(3,800)	(106,249)	(47,000)	-	-	(67,714)	(224,763)
Total other financing sources (uses)	\$ 1,112	\$ (106,249)	\$ (47,000)	\$ -	\$ 151,749	\$ 14,388	\$ 14,000
Net Change in Fund Balance	\$ (119,195)	\$ 8,431	\$ (27,301)	\$ 26,770	\$ 119,405	\$ (26,109)	\$ (17,999)
Fund balances - beginning	\$ 598,745	\$ 505,534	\$ 470,553	\$ (377)	\$ 353,725	\$ 1,532,259	\$ 3,460,439
Restatements	46,639	78,821	34,863	377	-	(6,416)	154,284
Fund balances - beginning, restated	\$ 645,384	\$ 584,355	\$ 505,416	\$ -	\$ 353,725	\$ 1,525,843	\$ 3,614,723
Fund balance - ending	\$ 526,189	\$ 592,786	\$ 478,115	\$ 26,770	\$ 473,130	\$ 1,499,734	\$ 3,596,724

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, 2010

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

Net change in fund balances - total governmental funds	\$	(17,999)
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		333,395
- Depreciation expense		(803,327)
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)		(77,555)
The change in compensated absences is shown as an expense in the Statement of Activities		
		(17,350)
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		257,323
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		
- Other post employment benefits - annual required contribution		(19,933)
Change in net assets - Statement of Activities	\$	<u><u>(345,446)</u></u>

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$ 7,165,208	\$ 1,509,482
Receivables:		
Taxes	-	787,829
Protested taxes sent to the state	-	(156,950)
Total assets	<u>\$ 7,165,208</u>	<u>\$ 2,140,361</u>
LIABILITIES		
Warrants payable	\$ -	\$ 294,712
Accounts payable	-	6,854
Due to others	-	1,838,795
Total liabilities	<u>\$ -</u>	<u>\$ 2,140,361</u>
Assets held in trust	<u>\$ 7,165,208</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, 2010

		<u>Investment Trust Funds</u>
ADDITIONS		
Contributions to Investment Trust Fund	\$	11,561,481
Interest and change in fair value of investments		136,366
Total additions	\$	<u>11,697,847</u>
DEDUCTIONS		
Distributions from investment trust fund	\$	<u>15,915,104</u>
Total deductions	\$	<u>15,915,104</u>
Change in net assets	\$	<u>(4,217,257)</u>
Net Assets - Beginning of the year	\$	11,382,465
Net Assets - End of the year	\$	<u><u>7,165,208</u></u>

See accompanying Notes to the Financial Statements

Pondera Medical Center, Pondera County, Montana
Balance Sheet
December 31, 2009

ASSETS		LIABILITIES AND NET ASSETS	
Current Assets		CURRENT LIABILITIES	
Cash and equivalents	\$ 431,296	Current liabilities	\$ 291,438
Certificates of deposit	176,860	Accounts payable	
Receivables		Trade	435,905
Patient and resident, net of estimated uncollectibles of \$792,000	1,334,140	Accrued expenses	
Estimated third-party payor settlements	228,495	Vacation	365,994
Other	368,129	Salaries and wages	294,068
Supplies	218,738	Payroll taxes and other	195,202
Prepaid expenses	56,174	Litigation	19,427
Total current assets	<u>\$ 2,813,832</u>	Interest	14,891
		Total current liabilities	<u>\$ 1,616,925</u>
ASSETS LIMITED AS TO USE		LONG-TERM DEBT, less current maturities	<u>\$ 1,232,077</u>
By Board for capital improvements and equipment purchases	<u>\$ 10,567</u>	Total liabilities	<u>\$ 2,849,002</u>
		NET ASSETS	
CAPITAL ASSETS, net	<u>\$ 3,013,154</u>	Invested in capital assets, net of related debt	\$ 1,514,333
OTHER ASSETS		Restricted	
Deferred financing costs, net	\$ 24,694	Expendable for capital acquisitions	54,771
Other assets	2,972	Unrestricted	1,447,113
Total other assets	<u>27,666</u>	Total net assets	<u>\$ 3,016,217</u>
Total assets	<u>\$ 5,865,219</u>	Total liabilities and net assets	<u>\$ 5,865,219</u>

See Notes to Financial Statements

Pondera Medical Center, Pondera County, Montana
Statements of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2009

Operating Revenue	
Net patient and resident service revenue	\$ 10,629,301
(net of provision for bad checks of \$260,847)	
Other revenue	94,580
Total operating revenue	<u>\$ 10,723,881</u>
EXPENSES	
Professional care of patients and residents	\$ 7,172,198
General and administrative	2,537,021
Property and household	764,967
Depreciation and amortization	607,712
Dietary	532,621
Total expenses	<u>\$ 11,614,519</u>
OPERATING LOSS	<u>\$ (890,638)</u>
NON-OPERATING REVENUE (EXPENSE)	
Bond payment funds from County	\$ 151,478
Levied funds from County	133,255
Intergovernmental transfer	55,095
Interest income	19,435
Grants	18,294
Unrestricted contributions	3,530
Gain on sale of equipment	-
Interest expense	(54,854)
Total non-operating revenue (expense)	<u>\$ 326,233</u>
EXCESS OF EXPENSES OVER REVENUE BEFORE CAPITAL GRANTS AND RESTRICTED CONTRIBUTIONS	<u>\$ (564,405)</u>
CAPITAL GRANTS AND CONTRIBUTIONS	19,760
RESTRICTED CONTRIBUTIONS	<u>31,676</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (512,969)</u>
NET ASSETS, BEGINNING OF YEAR	<u>\$ 3,529,186</u>
NET ASSETS, END OF YEAR	<u><u>\$ 3,016,217</u></u>

See Notes to Financial Statements

Pondera Medical Center, Pondera County, Montana
Statements of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2009

Operating Activities	
Receipts from and on behalf of patients and residents	\$ 10,623,736
Payments to employees	(7,240,721)
Payments to suppliers and contractors	(3,545,963)
Other receipts and payments, net	<u>94,580</u>
Net Cash used for Operating Activities	<u>(68,368)</u>
Non-Capital Financing Activities	
Levied funds from County	133,255
Intergovernmental transfer received	55,095
Non-capital contributions received	3,530
Borrowings on non-capital financing	142,635
Principal paid on non-capital financing	(142,635)
Interest paid on non-capital financing	(1,789)
Non-capital grants received	<u>18,294</u>
Net Cash from Non-Capital Financing Activities	<u>208,385</u>
Capital and Capital Related Financing Activities	
Bond payment funds from County	151,478
Restricted contributions	31,676
Capital grants and contributions	19,760
Purchases of capital assets	(144,751)
Proceeds from sale of equipment	-
Principal paid on capital debt and leases	(331,768)
Interest paid on capital debt and leases	<u>(53,065)</u>
Net Cash used for Capital and Capital Related Financing Activities	<u>(326,607)</u>
Investing Activities	
Redemptions of certificates of deposit	(176,860)
Purchases of certificates of deposit	174,101
Interest income	<u>19,435</u>
Net Cash from Investing Activities	<u>16,676</u>
Net Change in Cash and Cash Equivalents	(169,977)
Cash and Cash Equivalents at Beginning of Year	<u>611,840</u>
Cash and Cash Equivalents at end of Year	<u>\$ 441,863</u>

Pondera Medical Center, Pondera County, Montana
Statements of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2009

Reconciliation of Cash and Cash Equivalents	
to the Balance Sheets	
Cash and cash equivalents in current assets	\$ 431,296
Cash and cash equivalents in assets limited as to use	<u>10,567</u>
Cash and Cash Equivalents at End of Year	<u>\$ 441,863</u>
Reconciliation of Operating Loss to Net Cash	
used for Operating Activities	
Operating loss	(890,638)
Adjustments to reconcile operating loss to net cash	
from operating activities	
Depreciation and amortization	607,712
Provision for bad debts	260,847
Changes in assets and liabilities	
Receivables	(196,198)
Supplies	84,989
Prepaid expenses	974
Accounts payable	52,021
Accrued expenses	<u>11,925</u>
Net Cash used for Operating Activities	<u>\$ (68,368)</u>
Supplemental Disclosure of Cash	
Flow Information	
Capital assets acquired through liability assumption	<u>\$ 98,607</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The government adopted the provisions of Governmental Accounting Standards Board statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.

Financial Reporting Entity

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

Primary Government

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

Discretely Presented Component Units

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Medical Center has a December 31, 2009, year end. See Page 43 for detailed footnotes related to Pondera Medical Center.

Pondera Regional Port Authority

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

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

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

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

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

Measurement Focus and Basis of Accounting

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Fund Financial Statements:

Basis of Presentation

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

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds

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

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

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Major Funds:

The County reports the following major governmental funds:

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

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

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

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

Road/Bridge Equipment Purchase Fund – A capital projects fund that accounts for the activities of the County’s money used for capital purchases.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2010, are as follows:

	<u>Primary Government</u>	<u>Pondera Regional Port Authority</u>	<u>Total</u>
<u>Cash on hand and Deposits:</u>			
Cash on Hand	\$ 35,988	\$ -	\$ 35,988
Petty Cash	300	28	328
<u>Cash in Banks:</u>			
Demand Deposits	733,314	26,011	759,325
Savings Deposits	518,843	201,633	720,476
<u>Investments:</u>			
State Short-Term Investment Pool (STIP)	2,338	-	2,338
U.S. Government Securities	3,250,000	-	3,250,000
Repurchase Agreements	<u>7,856,311</u>	<u>-</u>	<u>7,856,311</u>
Total	<u>\$12,397,094</u>	<u>\$227,672</u>	<u>\$12,624,766</u>

Repurchase Agreements

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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transfers securities to the County and promises to repay the cash plus interest in exchange for the same securities.

Credit Risk

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

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

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

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

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

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

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

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

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

Short Term Investment Pool (STIP) Credit Quality ratings by the NRSRO as of June 30, 2010 (unaudited):

PONDERA COUNTY, MONTANA
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<u>Security Investment Type</u>	<u>Amortized</u> <u>Cost</u>	<u>Credit</u> <u>Quality</u> <u>Rating</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>in Days</u>
Asset Backed Commercial Paper	\$ 368,299,047	A1	23
Corporate Commercial Paper	196,596,245	A1+	31
Corporate Variable-Rate	206,328,268	A2	35
Certificates of Deposit Fixed	105,006,272	A3	71
Certificates of Deposit Variable-Rate	235,000,000	A2	42
U.S. Government Agency Fixed	100,306,188	A1+	174
U.S. Government Agency Variable-Rate	760,102,766	A1+	40
Money Market Funds (Unrated)	181,695,137	NR	1
Money Market Funds (Rated)	10,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>85,617,544</u>	D	NA
Total Investments	\$ <u>2,248,951,467</u>	A1	39
Securities Lending Collateral Investment Pool	\$ <u>86,635,985</u>	NR	20

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, 2010 the government's bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>Primary</u> <u>Government</u> <u>Balance</u>	<u>Pondera Regional</u> <u>Port Authority</u> <u>Balance</u>
Insured	\$ 934,846	\$231,416
Collateralized		
- Collateral held by the pledging bank's trust department in the County's name.	<u>426,211</u>	<u>-</u>
Total Deposits and Investments	<u>\$1,361,057</u>	<u>\$231,416</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
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The amount of collateral held for County deposits at June 30, 2010, did not meet the amount required by State statutes.

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

	% of credit risk
Repurchase Agreements	63%

Interest Rate Risk

The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of individual investments as of June 30, 2009 along with their related interest rates and maturity dates.

<u>Investment</u>	<u>Interest rate</u>	<u>Maturity dates</u>	<u>Amount</u>
FHLB #3133XXTX5	1.50%	10/19/2012	\$ 250,000
FHLB \$3133XX6W2	1.65%	12/10/2010	\$ 500,000
FHLMC #3133F4CY5	1.50%	07/15/2013	\$ 200,000
FHLB #3133XYDB8	2.14%	11/20/2013	\$ 250,000
FNMA #3136FMGJ7	2.25%	12/30/2013	\$ 350,000
FNMA #3136FML85	1.00%	07/14/2014	\$ 200,000
FHLMC #3133F4CZ2	2.00%	07/15/2010	\$ 200,000
FHLMC \$3133F4N7	2.50%	08/15/2014	\$ 500,000
FHLB #3133XXU39	2.80%	10/06/2014	\$ 200,000
FHLB #3133XXTW7	1.50%	10/14/2014	\$ 200,000
FNMA #3136FMM50	2.00%	07/07/2015	\$ 200,000
FHLB #3133XYXX7	1.50%	07/22/2015	\$ 200,000

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.

PONDERA COUNTY, MONTANA
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The County has one pooled investment trust fund, which is invested in STIP, money market, U.S. government securities and repurchase agreements. The pooled funds invested in STIP, money market, U.S. government securities and repurchase agreements are carried at fair value.

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

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2010 to support the value of the shares in the pool.

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

Investment Income

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

Condensed statements of investments pools

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2010.

Statement of Net Assets

Net assets held in trust for all pool participants:	
Equity of internal pool participants	\$ 4,083,083
Equity of external pool participants	<u>7,165,208</u>
Total equity	<u>\$ 11,248,291</u>

Condensed Statement of Changes in Net Assets

	<u>External</u>	<u>Internal</u>
Investment Earnings	\$ 136,366	\$ 66,316
Contributions to Trust	11,561,481	7,867,044
Distributions Paid	<u>(15,915,104)</u>	<u>(6,502,041)</u>
Net change in net assets	\$ (4,217,257)	\$ 1,431,319
Net assets at beginning of year	<u>11,382,465</u>	<u>2,651,764</u>
Net assets at end of year	<u>\$ 7,165,208</u>	<u>\$ 4,083,083</u>

NOTE 3. RECEIVABLES

Property tax levies are set on or before the second Monday in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the

PONDERA COUNTY, MONTANA
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June 30, 2010

following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

NOTE 4. INVENTORIES

Inventories are valued at cost using the Last in-First Out method.

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

Pondera Regional Port Authority

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

NOTE 5. CAPITAL ASSETS

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

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

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 2010 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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A summary of changes in governmental capital assets was as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets not being depreciated:				
Land	\$ 218,609	\$ -	\$ -	\$ 218,609
Construction in Progress	-	135,638	-	135,638
Pondera Medical Center	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total capital assets not being depreciated	<u>\$ 238,609</u>	<u>\$ 135,638</u>	<u>\$ -</u>	<u>\$ 374,247</u>
Other Capital Assets:				
Buildings	\$ 3,251,020	\$ -	\$ -	\$ 3,251,020
Improvements Other than Buildings	3,070,943	20,353	-	3,091,296
Machinery and Equipment	4,275,967	77,512	(6,900)	4,346,579
Infrastructure	-	89,123	-	89,123
Pondera Medical Center	<u>6,106,390</u>	<u>10,769</u>	<u>-</u>	<u>6,117,159</u>
Total other Capital Assets at historical cost	<u>\$ 16,704,320</u>	<u>\$ 197,757</u>	<u>\$ (6,900)</u>	<u>\$ 16,895,177</u>
Less Accumulated Depreciation	<u>\$(11,003,655)</u>	<u>\$(803,327)</u>	<u>\$ 6,900</u>	<u>\$(11,800,082)</u>
Total	<u>\$ 5,939,274</u>	<u>\$ (469,932)</u>	<u>\$ -</u>	<u>\$ 5,469,342</u>

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

Governmental Activities:	
General Government	\$ 44,791
Public Safety	75,660
Public Works	424,192
Public Health	<u>258,684</u>
Total governmental activities depreciation expense	<u>\$803,327</u>

Component Unit: Pondera Regional Port Authority

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

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets not being depreciated:			
Land	\$ 44,961	\$ -	\$ 44,961

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.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Changes in Long-Term Debt Liabilities - During the year ended June 30, 2010, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due within</u> <u>one year</u>
General Obligation Bonds	\$ 935,000	\$ -	\$ (120,000)	\$ 815,000	\$ 125,000
Compensated Absences	245,694	17,350	-	263,044	162,391
Intercap Loans	492,639	-	(87,755)	404,884	90,362
Capital Leases	1,003,163	-	(49,568)	953,595	51,873
Other Post Employment Benefits *	-	19,933	-	19,933	-
Total	<u>\$ 2,676,496</u>	<u>\$37,283</u>	<u>\$(257,323)</u>	<u>\$2,456,456</u>	<u>\$ 429,626</u>

* See Note 10

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

Component Unit – Pondera Regional Port Authority

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due within</u> <u>one year</u>
Promissory Notes	\$10,750	\$ -	\$ (9,466)	\$1,284	\$1,284
Compensated Absences Payable	<u>2,283</u>	-	<u>(2,283)</u>	-	-
Total	<u>\$13,033</u>	<u>\$ -</u>	<u>\$(11,749)</u>	<u>\$1,284</u>	<u>\$1,284</u>

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, 2010 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>Annual</u> <u>Payment</u>	<u>Balance</u> <u>June 30, 2010</u>
Tax-supported Hospital and Nursing Home Revenue Refunding Bonds, Series 2004	04/15/2004	1.7-3.85%	11 yrs	08/01/2015	<u>\$1,415,000</u>	varies	<u>\$815,000</u>

Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
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>\$815,000</u>	<u>\$91,279</u>

PONDERA COUNTY, MONTANA
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Intercap Loans

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 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, 2010 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, 2010</u>
911 Emergency Draw #1	02/26/2003	1.95-4.85%	10 yrs	02/15/2013	\$209,506	\$69,405
911 Emergency Draw #2	03/05/2004	1.95-4.85%	9 yrs	02/15/2013	69,799	25,077
911 Emergency Draw #3	06/25/2004	1.95-4.85%	8 yrs	02/15/2013	53,791	20,170
Heat-Ventilation-AC System Replace Draw 1	05/28/2004	1.95-4.85%	10 yrs	08/15/2014	101,656	49,136
Heat-Ventilation-AC System Replace Draw 2	06/25/2004	1.95-4.85%	9 yrs	08/15/2014	56,483	27,057
Heat-Ventilation-AC System Replace Draw 3	07/16/2004	1.95-4.85%	9 yrs	08/15/2014	45,702	21,974
Heat-Ventilation-AC System Replace Draw 4	09/03/2004	1.95-4.85%	9 yrs	08/15/2014	96,526	46,499
Heat-Ventilation-AC System Replace Draw 5	10/15/2004	1.95-4.85%	9 yrs	08/15/2014	15,487	7,406
Heat-Ventilation-AC System Replace Draw 6	12/10/2004	1.95-4.85%	9 yrs	08/15/2014	68,987	34,869
Heat-Ventilation-AC System Replace Draw 7	10/29/2004	1.95-4.85%	9 yrs	08/15/2014	50,159	25,351
Building for Senior Center	07/03/2008	1.95-4.25%	10 yrs	08/15/2018	89,550	<u>77,940</u>
Total						<u>\$404,884</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 90,362	\$ 7,458
2012	93,050	5,682
2013	94,935	3,855
2014	57,823	2,187
2015	33,582	1,058
2016	9,695	638
2017	10,111	447
2018	10,546	248
2019	<u>4,780</u>	<u>47</u>
Total	<u>\$404,884</u>	<u>\$21,620</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Capital Leases

The County has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2010 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Capitalized Original Cost</u>	<u>Less Accumulated Depreciation</u>	<u>Net Value</u>	<u>Remaining Payments as of June 30, 2010</u>
8 Motor Graders	08/06/2008	4%	\$1,607,806	\$214,895	\$852,911	\$953,595

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 51,873	\$ 40,523
2012	53,984	38,323
2013	56,279	36,028
2014	58,671	33,636
2015	61,164	31,143
2016	<u>671,624</u>	<u>28,543</u>
Total	<u>\$953,595</u>	<u>\$208,196</u>

Compensated Absences

It is the County's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from County service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective fund.

NOTE 7. DEFICIT FUND BALANCES/NET ASSETS

<u>Fund</u>	<u>Amount</u>	<u>How the deficit will be eliminated</u>
District Court	\$ (507)	Receipt of grant funds
CDBG – Community Center Remodel	(351)	Receipt of grant funds
Maternal Child Health	(709)	Receipt of grant funds

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2010, were as follows:

Due to/from other funds:			
<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Cover negative cash balance	General – Major Governmental	Homeland Security Grant EOP – Nonmajor Governmental	\$ 2,779
Cover negative cash balance	General – Major Governmental	CDBG Growth Plan – Nonmajor Governmental	5,914
Cover negative cash balance	General – Major Governmental	CDBG Community Center Remodel – Nonmajor Governmental	386
Cover negative cash balance	General – Major Governmental	Buckle Up Montana – Nonmajor Governmental	5,464
Cover negative cash balance	General – Major Governmental	WIC Grant – Nonmajor Governmental	<u>1,821</u>
			<u>\$ 16,364</u>
Advances to/from other funds:			
<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
To avoid deficit cash	General – Major Governmental	Comprehensive Insurance – Nonmajor Governmental	\$ 23,000
To avoid deficit cash	General – Major Governmental	Homeland Security Grant – Nonmajor Governmental	<u>2,163</u>
			<u>\$ 25,163</u>

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2010:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Residual equity transfer	General – Major Governmental	District Court – Nonmajor Governmental	\$ 2,912
Capital transfer	Land Use Planning – Nonmajor Governmental	General – Major Governmental	3,800
Capital transfer	Road/Bridge Equipment Purchase – Major Governmental	Road – Major Governmental	106,249
Capital transfer	Road/Bridge Equipment Purchase – Major Governmental	Bridge – Major Governmental	45,500
Operating transfer	Noxious Weed Grant – Nonmajor Governmental	Weed – Nonmajor Governmental	1,555
Capital transfer	Weed District Capital Improvement – Nonmajor Governmental	Weed – Nonmajor Governmental	2,500
Capital transfer	Ambulance Capital Improvements – Nonmajor Governmental	Ambulance – Nonmajor Governmental	13,000

PONDERA COUNTY, MONTANA
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Capital transfer	Junk Vehicle Capital Improvements – Nonmajor Governmental	Junk Vehicle – Nonmajor Governmental	2,247
Capital transfer	Public Safety Capital Improvements – Nonmajor Governmental	Public Safety – Major Governmental	<u>47,000</u>
			<u>\$224,763</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) or the 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, 2010, were:

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

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the County's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling Public Employees Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

The County's contributions for the years ended June 30, 2008, 2009, and 2010, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2008	\$ 87,536	\$ 36,964
2009	\$ 87,065	\$ 43,698
2010	\$ 89,749	\$ 48,972

PONDERA COUNTY, MONTANA
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 June 30, 2010

NOTE 10. POSTEMPLOYMENT HEALTHCARE PLAN

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

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

Funding Status and funding Progress. The funded status of the plan as of June 30, 2010, was as follows:

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

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

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

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	63
Discount rate (average anticipated rate)	1.64%
Average salary increase	2.80%

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

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

NOTE 11. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all County employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 12. FUND EQUITY

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>
Road	\$ 84,500	Reserved for inventory
Public Safety	5,000	Reserved for inventory
Gas Apportionment Tax	10,000	Reserved for inventory
Debt Service Hospital 95	147,483	Reserved for debt service
Public Safety Capital Improvement	63,500	Reserved for capital projects
Junk Vehicle Capital Improvement	14,569	Reserved for capital projects
Ambulance Capital Improvement	72,969	Reserved for capital projects
General Fund Capital Improvement	55,039	Reserved for capital projects
Road/Bridge Equipment Purchase	473,130	Reserved for capital projects
Weed District Capital Improvement	38,361	Reserved for capital projects
Cemetery	<u>26,863</u>	Reserved for trust
Total	<u>\$991,414</u>	

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

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>
General	\$ 3,232	Prior year revenue adjustment
Public Safety	55	Prior year revenue adjustment
Road	59,500	Prior year inventory adjustment
Road	19,321	Prior year payroll accrual adjustment
Public Safety	34,808	Prior year revenue adjustment
DES Grants	377	Prior year revenue adjustment
Bridge	5,354	Prior year revenue adjustment
Weed	4,770	Prior year revenue adjustment
District Court	1,439	Prior year revenue adjustment
Comprehensive Insurance	2,841	Prior year revenue adjustment
Extension Service	1,493	Prior year revenue adjustment
PERS Employer Contribution	4,841	Prior year revenue adjustment
Health Insurance Employer Contribution	2,413	Prior year revenue adjustment
Crime Control MDOT	(30,309)	Prior year expenditure adjustment
WIC Grant	335	Prior year revenue adjustment
Tobacco Use Prevention Grant	407	Prior year revenue adjustment
General	43,407	Prior year revenue 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.

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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, 2010, are available from the Montana Association of Counties Workers' Compensation Trust.

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

Audited financial statements for the fiscal year ended September 30, 2010, are available from the Montana Association of Counties Joint Powers Insurance Trust.

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Pondera Medical Center (Medical Center) is a licensed 25-bed (acute or swing bed) critical access hospital (20 beds in use) and a 59-bed nursing facility located in Conrad, Montana. The Medical Center is exempt from income taxes under Section 509(a), as defined in Section 501(c)(3), of the Internal Revenue Code and organized under the laws of the State of Montana. The purpose of the Medical Center is to maintain and operate a hospital, nursing home, and clinic, furnish medical and surgical care to the sick, infirmed, or injured.

The Medical Center is governed by a Board of Trustees, which has all the powers necessary to provide for the acquisition, betterment, operation, maintenance, and administration of the Medical Center. The members of the Board are appointed by the County Commissioners of Pondera County and one of the appointees is a member of the Pondera County Commissioners. For this reason the Medical Center is controlled by Pondera County (County).

Proprietary Fund Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Patient and Resident Receivables

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

Payments of patient and resident receivables are allocated to the specific invoices identified on the remittance advice or, if unspecified, are applied to the earliest unpaid invoice. The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that may not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

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

Assets Limited as to Use

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

Capital Assets

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

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

Deferred Financing Costs

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

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Grants and Contributions

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

Restricted Resources

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

Net Assets

Net assets are presented in the following three components:

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

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

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

Net Patient and Resident Service Revenue

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

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Operating Revenues and Expenses

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

Charity Care

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

Advertising Costs

The Medical Center expenses advertising costs as they are incurred.

Vacation and Compensated Absences

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

Income Taxes

The Medical Center is exempt from income taxes under Section 509(a), as defined in Section 501(c)(3), of the Internal Revenue Code and organized under the laws of the State of Montana. The Medical Center has adopted the provisions of Accounting Standards Codification Topic ASC 40-10, Accounting for Uncertainty in Income Taxes, and as of December 31, 2009, the unrecognized tax benefit accrual was zero.

Risk Management

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

Subsequent Events

The Medical Center has evaluated subsequent events through June 11, 2010, the date which the financial statements were available to be issued.

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's reporting format.

NOTE 2. CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, was \$89,516 during the year ended December 31, 2009.

NOTE 3. NET PATIENT AND RESIDENT SERVICE REVENUE

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

Medicare. The Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Medical Center and are subject to audits thereof by the Medicare intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2007. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medical Center.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Medical Center's Medicare cost report, or rates as established by the Medicaid program. The Medical Center is reimbursed at a tentative rate with final settlement determined by the program based on the Medical Center's final Medicaid cost report. The Medical Center's final Medicaid settlements have been processed through the year ended December 31, 2007.

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

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

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2009

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

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient and resident service revenue and contractual adjustments for the years ended December 31, 2009 is as follows:

	<u>2009</u>
Total patient and resident service revenue	<u>\$12,624,263</u>
Contractual adjustments	
Medicare	(722,944)
Medicaid	(228,193)
Blue Cross	(153,069)
Other	<u>(629,909)</u>
Total contractual adjustments	<u>\$(1,734,115)</u>
Provision for bad debts	<u>\$ (260,847)</u>
Net patient and resident service revenue	<u>\$10,629,301</u>

NOTE 4. OTHER RECEIVABLES

	<u>2009</u>
State of Montana bed tax receivable	\$150,470
Bond payment funds from County	85,380
Subscribers savings accounts	<u>132,279</u>
	<u>\$368,129</u>

The Montana State Legislature passed an act imposing a utilization fee on hospital facilities for inpatient bed days, and authorized the Department of Revenue to collect the deposit fees in a state special revenue account for funding increases in Medicaid payments to Montana hospitals (Montana State Bed Tax). The state special revenue account received an appropriation from a federal special revenue fund to match the state special revenue collected through the utilization fee. The receivable balance as of December 31, 2009 represents the Medicaid payment estimated to be received from the state special revenue account.

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

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 5. NET CAPITAL ASSETS

Capital asset additions, retirements, and balances for the year ended December 31, 2009 are as follows:

	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
<i>Capital assets, non-depreciable:</i>					
Land	\$ 27,854	\$ -	\$ -	\$ -	\$ 27,854
Construction in progress	4,058	-	-	(2,543)	1,515
Total capital assets, non-depreciable	<u>\$ 31,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,543)</u>	<u>\$ 29,369</u>
 <i>Capital assets, depreciable:</i>					
Land improvements	\$ 167,880	\$ -	\$ -	\$ -	\$ 167,880
Buildings and improvements	6,872,987	52,921	-	-	6,925,908
Equipment	3,804,099	190,437	-	2,543	3,997,079
Total capital assets depreciable	<u>\$10,844,966</u>	<u>\$243,358</u>	<u>\$ -</u>	<u>\$ 2,543</u>	<u>\$ 11,090,867</u>
Total capital assets	<u>\$10,876,878</u>	<u>\$243,358</u>	<u>\$ -</u>	<u>\$ 2,543</u>	<u>\$ 11,120,236</u>
 <i>Less accumulated depreciation for:</i>					
Land improvements	\$ 126,522	\$ 6,578	\$ -	\$ -	\$ 133,100
Building and improvements	4,528,969	290,323	-	-	4,819,292
Equipment	2,851,760	302,930	-	-	3,154,690
Total accumulated depreciation	<u>\$ 7,507,251</u>	<u>\$599,831</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,107,082</u>
Capital assets, net	<u>\$ 3,369,627</u>	<u>\$(356,573)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,013,154</u>

Construction in progress at December 31, 2009, represents remodeling of the clinic building. The estimated costs to complete remodeling of the building are approximately \$4,500.

NOTE 6. CASH AND CASH DEPOSITS

At December 31, 2009 the Medical Center had bank balances as follows:

Insured (FDIC)	\$523,884
Uninsured or uncollateralized	264,918
Total	<u>\$788,802</u>
Carrying value	<u>\$618,723</u>

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 7. DEFERRED FINANCING COSTS

Deferred financing costs	\$ 78,082
Accumulated amortization	<u>(53,388)</u>
Total	<u>\$ 24,694</u>

Amortization expense for the deferred financing costs were \$7,881 for the year ended December 31, 2009. The future amortization expense on the deferred financing costs for the years ended December 31, 2010, 2011, 2012, 2013, 2014, and 2015 is \$7,003, \$5,995, \$4,860, \$3,627, \$2,320, and \$889 respectively.

NOTE 8. LEASES

The Medical Center leases certain equipment under non-cancelable short-term lease agreements. Total lease expense in December 31, 2009 for all operating leases was \$31,849.

There are no future operating lease payments for the year ending December 31, 2009.

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

	<u>2009</u>
Equipment	\$ 557,616
Less accumulated depreciation	<u>(123,940)</u>
	<u>\$ 433,676</u>

Future minimum capital lease payments as of December 31, 2009 are:

<u>Years Ending December 31,</u>	<u>Amount</u>
2010	\$ 140,808
2011	140,400
2012	136,680
2013	78,184
2014	<u>2,051</u>
Total minimum lease payments	<u>\$498,123</u>
Less interest	<u>\$(23,989)</u>
Present value of net minimum capital lease payments – Note 9	<u>\$474,134</u>

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 9. LONG-TERM DEBT

Long-term debt consists of:

Revenue Refunding Bonds, Series 2004, interest rates from 2.3% to 3.85%, due in semi-annual installments, to August 2015, secured by property and equipment	\$ 815,000
Capitalized lease obligations, interest 1.39%-11.36%	474,134
Note payable, at a variable interest rate, (3.25% at December 31, 2009), due in varying semi-annual installment to August 2014, secured by equipment	234,381
	\$ 1,523,515
Less current maturities	\$ (291,438)
	\$ 1,232,077

	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009	Amounts Due Within One Year
Bonds, Notes and Leases Payable					
Revenue bonds	\$ 935,000	\$ -	\$120,000	\$ 815,000	\$ 125,000
Notes and leases payable	821,676	241,242	354,403	708,515	166,438
Total non-current liabilities	\$1,756,676	\$ 241,242	\$ 474,403	\$ 1,523,515	\$ 291,438

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

Long-term debt maturities are as follows:

	Long-Term Debt	
	Principal	Interest
Years Ending December 31,		
2010	\$ 291,438	\$ 49,726
2011	308,514	40,561
2012	314,552	30,729
2013	268,097	20,970
2014	190,914	12,727
Thereafter	150,000	5,775
	\$1,523,515	\$160,488

NOTE 10. RESTRICTED NET ASSETS

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

Medical equipment	\$ 42,535
Solarium	9,178
Capital improvements	3,058
	\$ 54,771

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

In 2009 net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amount of \$59,613.

NOTE 11. PENSION PLAN

During 2009, the Medical Center eliminated its defined contribution plan which covers all employees who have completed one year of service, worked at least 1,000 hours, and attained 21 years of age. Total employer pension plan expense which consists of plan administrative expenses only for the year ended December 31, 2009 was \$12,773.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

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

County Lease

On April 15, 2004, the Medical Center entered into a lease agreement with Pondera County (County), effective as of January 1, 2004. Under the terms of the agreement the Medical Center agreed to lease the hospital and nursing home facilities from the County for a term of twelve months, with the Lease renewing automatically if the conditions of this Lease have been satisfactorily met, for \$10 with additional lease payments described below. At the end of the lease or upon lease termination all of the Medical Center's property and equipment, inventory and accounts receivable will become property of the County.

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

In prior years, management has consistently recorded Medical Center assets purchased with County funds as assets of the Medical Center. Therefore, the Medical Center has also recorded the related bonds as long-term debt and the corresponding principal and interest payments as reductions of principal and interest expense.

In prior years, management has consistently recorded Medical Center assets purchased with county funds as assets of the Medical Center. Therefore, the Medical Center has also recorded the related bonds as long-term debt and the corresponding principal and interest payments as reductions of principal and interest expense.

PONDERA MEDICAL CENTER, PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Pending Litigation

The Medical Center is a defendant in various claims arising in the normal course of business. The Medical Center has insurance coverage to cover the cost of any claims. 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 \$20,000 as of December 31, 2009 to cover any potential legal liability.

NOTE 13. CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients and residents at December 31, 2009 was as follows:

	<u>2009</u>
Medicare	34%
Commercial insurance	15%
Medicaid	8%
Other third-party payors and patients	<u>43%</u>
	<u>100%</u>

**REQUIRED SUPPLEMENTAL
INFORMATION**

Pondera County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2010

	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	\$ 618,476	\$ 618,418	\$ 632,706	\$ 14,288	\$ 342,011	\$ 339,467	\$ 348,222	\$ 8,755
Licenses and permits	50	50	20	(30)	-	-	-	-
Intergovernmental	283,594	286,054	215,532	(70,522)	381,236	381,236	346,148	(35,088)
Charges for services	137,540	137,540	149,873	12,333	-	-	-	-
Fines and forfeitures	34,300	34,300	35,059	759	-	-	-	-
Miscellaneous	11,406	11,406	8,102	(3,304)	3,000	3,000	6,905	3,905
Investment earnings	45,400	45,400	38,242	(7,158)	-	-	-	-
Amounts available for appropriation	\$ 1,130,766	\$ 1,133,168	\$ 1,079,534	\$ (53,634)	\$ 726,247	\$ 723,703	\$ 701,275	\$ (22,428)
CHARGES TO APPROPRIATIONS (OUTFLOWS):								
General government	\$ 1,155,202	\$ 1,158,102	\$ 958,693	\$ 199,409	-	-	-	-
Public safety	64,845	67,305	62,832	4,473	-	-	-	-
Public works	-	-	-	-	714,506	714,506	452,634	261,872
Public health	128,598	128,598	117,666	10,932	-	-	-	-
Social and economic services	10,500	10,500	7,254	3,246	-	-	-	-
Culture and recreation	1,800	1,800	1,472	328	-	-	-	-
Debt service - principal	11,434	11,434	7,533	3,901	70,000	70,000	49,568	20,432
Debt service - interest	4,056	4,056	2,717	1,339	28,000	28,000	42,739	(14,739)
Miscellaneous	-	-	14,963	(14,963)	-	-	-	-
Capital outlay	9,500	8,500	26,711	(18,211)	30,800	30,800	41,654	(10,854)
Total charges to appropriations	\$ 1,385,935	\$ 1,390,295	\$ 1,199,841	\$ 190,454	\$ 843,306	\$ 843,306	\$ 586,595	\$ 256,711
OTHER FINANCING SOURCES (USES)								
Proceeds from the sale of general capital asset disposition	-	-	2,000	2,000	-	-	-	-
Transfers in	5,000	5,000	2,912	(2,088)	-	-	-	-
Transfers out	(40,664)	(40,664)	(3,800)	36,864	(106,249)	(106,249)	(106,249)	-
Total other financing sources (uses)	\$ (35,664)	\$ (35,664)	\$ 1,112	\$ 36,776	\$ (106,249)	\$ (106,249)	\$ (106,249)	\$ -
Net change in fund balance			\$ (119,195)				\$ 8,431	
Fund balance - beginning of the year			\$ 598,745				\$ 505,534	
Restatements			46,639				78,821	
Fund balance - beginning of the year - restated			\$ 645,384				\$ 584,355	
Fund balance - end of the year			\$ 526,189				\$ 592,786	

Pondera County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2010

	Public Safety				DES Grants			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL			ORIGINAL	FINAL		
RESOURCES (INFLOWS):								
Taxes and assessments	\$ 580,653	\$ 580,615	\$ 595,421	\$ 14,806	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	82,791	82,791	76,616	(6,175)	43,258	82,959	83,048	89
Charges for services	96,400	96,400	98,816	2,416	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-
Miscellaneous	3,200	3,200	10,395	7,195	-	-	-	-
Investment earnings	-	-	-	-	-	-	-	-
Amounts available for appropriation	\$ 763,044	\$ 763,006	\$ 781,248	\$ 18,242	\$ 43,258	\$ 82,959	\$ 83,048	\$ 89
CHARGES TO APPROPRIATIONS (OUTFLOWS):								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	999,095	999,095	761,549	237,546	117,656	157,357	6,459	150,898
Public works	-	-	-	-	-	-	-	-
Public health	-	-	-	-	-	4	39,128	(39,124)
Social and economic services	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Capital outlay	47,000	47,000	-	47,000	-	-	10,691	(10,691)
Total charges to appropriations	\$ 1,046,095	\$ 1,046,095	\$ 761,549	\$ 284,546	\$ 117,656	\$ 157,361	\$ 56,278	\$ 101,083
OTHER FINANCING SOURCES (USES)								
Proceeds from the sale of general capital asset disposition	\$ 12,000	\$ 12,000	\$ -	\$ (12,000)	\$ -	\$ -	\$ -	\$ -
Transfers in	-	-	(47,000)	(47,000)	-	-	-	-
Transfers out	-	-	(47,000)	(47,000)	-	-	-	-
Total other financing sources (uses)	\$ 12,000	\$ 12,000	\$ (47,000)	\$ (59,000)	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ (27,301)				\$ 26,770	
Fund balance - beginning of the year			\$ 470,553				\$ (377)	
Restatements			34,863				377	
Fund balance - beginning of the year - restated			\$ 505,416				\$ -	
Fund balance - end of the year			\$ 478,115				\$ 26,770	

**PONDERA COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress**

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

SINGLE AUDIT SECTION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2010

Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Beginning Balance July 1, 2009	Federal Revenue	Match /Other Revenue	Federal Expenditures	Match /Other Expenditures	Ending Balance June 30, 2010
U.S. Department of Agriculture								
<i>Passed through Teton County:</i>								
Special Supplemental Program for Women, Infants and Children (WIC)								
<i>Passed through Montana Department of Administration:</i>								
School and Roads - Grants to States (Forest Reserve)								
10.557	N/A	\$ 25,043	(500)	\$ 25,043	\$ -	\$ 25,043	\$ -	(500)
10.665	N/A	N/A	22,708	101,921	-	80,587	-	44,042
			22,208	126,964	-	105,630	-	43,542
Total U.S. Department of Agriculture								
U.S. Department of Housing & Urban Development								
<i>Passed through Montana Department of Commerce:</i>								
Community Development Block Grant								
14.228	MT-NSP-018-01-001	\$ 272,270	-	\$ 29,450	\$ -	\$ 29,450	\$ -	-
14.228	MT-CDBG-07PG-17	\$ 15,000	-	\$ 5,913	-	\$ 5,913	-	-
14.228	MT-CDBG-08PE-09	\$ 322,070	-	\$ 322,070	-	\$ 322,070	-	-
<i>Passed through the City of Conrad:</i>								
14.228	N/A	N/A	-	386	-	386	-	-
			-	357,819	-	357,819	-	-
Total U.S. Department of Housing & Urban Development								
U.S. Department of Transportation								
<i>Direct:</i>								
Airport Improvement Program								
20.106	3-30-0018-004-2008	\$ 173,000	-	\$ 3,727	\$ -	\$ 3,727	\$ -	-
<i>Passed through Healthy Mothers, Healthy Babies, The Montana Coalition:</i>								
State and Community Highway Safety								
20.600	N/A	\$ 15,586	-	15,586	-	15,586	-	-
<i>Passed through Montana Department of Military Affairs:</i>								
Interagency Hazardous Material Public Sector Training and Planning Grants								
20.703	N/A	\$ -	-	2,194	-	2,194	-	-
			-	21,507	-	21,507	-	-
Total U.S. Department of Transportation								
U.S. Election Assistance Commission								
<i>Passed through Montana Secretary of State:</i>								
Help America Vote Act Requirement Payments								
90.401	N/A	\$ 2,521	-	2,521	-	2,521	-	-
			-	2,521	-	2,521	-	-
Total U.S. Election Assistance Commission								
U.S. Department of Health and Human Services								
<i>Passed through Montana Department of Health & Human Services:</i>								
Public Health Emergency Preparedness								
93.069	10-07-6-11-038-0	N/A	-	83,048	-	83,048	-	-
93.069	N/A	N/A	74,398	-	-	-	-	74,398
93.268	09-07-4-31-034-0	\$ 2,860	-	2,860	-	1,363	-	1,497
93.268	10-07-43-31-0340	N/A	-	979	-	-	-	979
<i>Passed through Montana State University:</i>								
Centers for Disease Control and Prevention - BioTerrorism Grant								
93.283	G232-09-W2236	\$ 24,000	(1,884)	9,000	-	4,384	-	2,732
<i>Passed through Teton County:</i>								
Centers for Disease Control and Prevention - Tobacco Grant								
93.283	10-07-3-31-027-0	\$ 31,930	10	31,930	-	31,254	-	686
93.919	06-07-3-01-012-0	\$ 4,800	-	4,800	-	2,653	-	2,147
<i>Passed through Montana Department of Health & Human Services:</i>								
Maternal and Child Services Health Block Grant								
93.994	10-07-5-01-037-0	N/A	-	7,772	-	7,772	669	(669)
			72,524	140,389	-	130,474	669	81,770
Total U.S. Department of Health and Human Services								
U.S. Department of Homeland Security								
<i>Passed through Montana Department of Military Affairs:</i>								
Emergency Management Program Grant								
97.042	2009-DP-E9-0009	\$ 30,001	-	22,946	\$ 24,654	\$ 22,946	\$ 24,654	-
97.067	2009-SS-T9-0005	\$ 16,491	-	6,233	-	6,233	-	-
97.067	2007-GE-T7-001	\$ 100,000	(365)	89,488	-	89,123	-	-
			(365)	118,667	\$ 24,654	\$ 118,302	\$ 24,654	-
Total U.S. Department of Homeland Security								
Total Federal Financial Assistance								
			94,367	767,867	24,654	736,253	25,323	125,312

N/A = Not Applicable or Not Available

PONDERA COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2010

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, 2010, which collectively comprise the Pondera County's basic financial statements and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pondera County internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pondera County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pondera County's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 10-1, 10-2 and 10-4, that we consider to be material weaknesses and deficiencies that we consider to be significant deficiencies in internal control over financial reporting as items 10-3 and 10-5. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

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 is required to be reported under *Governmental Auditing Standards*.

Pondera County's response to the findings identified in our audit is described in the Auditee's response to Findings. 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 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.

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

March 31, 2011

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

Board of County Commissioners
Pondera County
Conrad, Montana

Compliance

We have audited Pondera County, Montana, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Pondera County's major federal programs for the year ended June 30, 2010. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion of the County's compliance based on our audit.

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

In our opinion, Pondera County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

This report is intended for the information of 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.

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

March 31, 2011

PONDERA COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2010

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	No
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>
10.665	Schools and Roads – Grants to States (Forest Reserve)
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

10-1 Pondera Port Authority - Financial Reporting Problems

Condition:

Several items associated with the N.S.P. grant were recorded on a cash basis rather than a full accrual basis. These were payments made in 2011 which should have been recorded as accounts payable and expenditures for \$92,480. Cash receipts in fiscal year 2011 which should have been recorded as receivables and revenues were \$132,926.

Criteria:

Generally accepted accounting principles require that the financial statements be reported on a full accrual basis and that expenditures made for long term assets be capitalized.

Effect:

Receivables, payables, revenues and expenditures were all understated. This has been corrected for the audit report.

Cause:

Financial records were prepared on the cash basis of accounting and grant expenditures for capital assets were not capitalized.

Recommendation:

We recommend that the financial records be maintained on a full accrual basis and that all expenditures for capital assets be capitalized.

10-2 Unrecorded Inventory

Condition:

Material inventory in the amount of \$99,500 was not recorded at year end.

Criteria:

Generally accepted accounting principles require that material amounts of inventory be recorded as inventories rather than expenses in the years purchased.

Effect:

Inventories were understated and prior year and current year expenses were overstated in the following areas:

Governmental activities	- \$99,500
Road Fund	- \$84,500
All other aggregate funds	- \$15,000

The audit report has been corrected.

Cause:

Inventories were understated and prior year and current year expenses were overstated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation:

We recommend that an inventory count be performed at least once per year at year end and that inventory account's be adjusted to reflect the proper amount of inventory.

10-3 Accrued Payroll Expense

Condition:

The County did not reverse prior year accruals of payroll payable and added current year payroll payable to the prior year accumulation. This is a repeat of finding 09-01 in the prior year.

Criteria:

Generally accepted accounting principles require payables to be accurately reported.

Effect:

Accrued payroll overstated expenditures and liabilities, and has been corrected for the audit report, by the following amounts in the following funds:

General Fund	\$ 43,407
Road Fund	\$ 19,291
Public Safety Fund	\$ 34,808
DES Grants	\$ 377
All other aggregate funds	\$ 23,893

Recommendation:

We recommend that the County reverse prior year payroll accruals when recording current year amounts.

10-4 Unrecorded Accounts Payable

Condition:

The County is not recording accounts payable at fiscal year end for good and services arising from transactions relating to services and goods received in the prior year and paid in the subsequent fiscal year.

Criteria:

Generally Accepted Accounting Principals indicates governments should report liabilities that would be considered legally enforceable, meaning that a court could compel the government to fulfill the obligation.

Effect:

Liabilities and expenditures in the following funds are understated:

General Fund	\$ 4,497
Road Fund	\$ 9,859
Public Safety	\$ 3,677
DES Grants	\$ 8,000
All other aggregate funds	\$ 9,704

The Audit Report has been corrected

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation:

We recommend the County review transactions at fiscal year end for possible recording of payables.

10-5 Forest Reserve

Condition:

The County calculation of the percentage of mills levied to the countywide school funds was incorrect.

Criteria:

Internal control procedures should be in place to verify the distribution of forest reserve funds to the school countywide funds.

Effect:

The countywide school funds distributions were overstated or understated by the following:

Transportation Fund	\$1,112 overdistributed
Elementary Retirement Fund	\$ 387 overdistributed
High School Retirement Fund	\$ 4 overdistributed
Elementary General Fund	\$ 714 underdistributed
High School General Fund	\$ 792 underdistributed

Cause:

An error in the calculation of the percentages was made resulting in the distribution to be in error.

Recommendation:

The County should implement review procedures to ensure the distribution is made properly.

Section III – Federal Award Findings and Questioned Costs

There are no findings to report.

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, CPA's, P.C.

March 31, 2011

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

<u>Recommendation</u>	<u>Action Taken</u>
Accrued Payroll Expense	Repeated
Forest Reserve Title III Distribution	Repeated
Negative Grant Revenues	Implemented
Justice of the Peace – Segregation of Duties	Implemented

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

March 31, 2011

Pondera County Port Authority
Response to Finding 10-1
June 30, 2010

March 28, 2011

JohnPaul Poelman, CPA

Staff Accountant
Denning, Downey & Associates, CPAs, P.C.
1361 Elm Street, Suite #4
Helena, MT 59601

Dear Mr. Poelman,

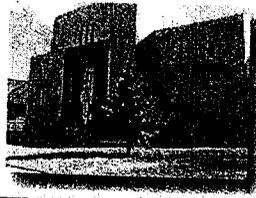
This letter is in response to your audit findings in reference to the Pondera Regional Port Authority that several items associated with the N.S.P. grant were recorded on a cash basis rather than a full accrual basis. This refers to payments in 2011 which should have been recorded as accounts payable for \$92,480, and cash receipts in fiscal year 2011 which should have been recorded as receivables for \$132,926. In addition, there were expenses recorded in the fiscal year which should have been capitalized in the amount of \$40,567.

Pondera Regional Port Authority will see that the financial records will be maintained on a full accrual basis and that all expenditures for capital assets be capitalized.

Sincerely,

Cheryl Curry
Executive Director
Pondera Regional Port Authority

PONDERA COUNTY
MONTANA



Office of
Clerk and Recorder
and
Election Administrator

Janice Hoppes
Clerk and Recorder
Pondera County
20 Fourth Ave SW, Ste 202
Conrad, MT 59425-2340

Phone (406) 271-4000
Fax (406) 271-4070
email: clerkrec@3rivers.net

March 25, 2011

JohnPaul Poelman
Staff Accountant
Denning, Downey & Associates, CPAs, P.C.
1361 Elm Street, Suite #4
Helena, MT 59620-0547

Dear Mr. Poelman:

10-3 Understated Inventory

Condition:

Material inventory in the amount of \$99,500 was not recorded at year end.

County Action:

We will perform an inventory count annually at year end and adjust the inventory accounts to reflect the proper amount of inventory.

10-4 Accrued Payroll Expense

Condition:

The County did not reverse prior year accruals of payroll payable and added current year payroll payable to the prior year accumulation. This is a repeat of finding 09-01 in the prior year.

County Action: The County will reverse prior year payroll accruals when recording current year amounts.

10-5 Forest Reserve Distribution

Condition:

The County calculation of the percentage of mills levied to the countywide school funds was incorrect.

County Action:

The County will implement review procedures to ensure the distribution is made properly.

10-6 Unrecorded Accounts Payable

Condition:

The County is not recording accounts payable at fiscal year end for good and services arising from transactions relating to services and goods received in the prior year and paid in the subsequent fiscal year.

County Action:

The County will review vendor invoices received in July and those that pertain to the prior year's business will be recorded as accounts payable in the period the service or merchandise was received.

If further information is needed, please contact us.

Sincerely,



Janice Hoppes

Clerk and Recorder