

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2012

AUDIT REPORT

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

PONDERA COUNTY, MONTANA

Fiscal Year Ended June 30, 2012

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PONDERA COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2012

BOARD OF COUNTY COMMISSIONERS

Cynthia A. Johnson
Sandra J. Broesder
Joseph Christiaens

Chairperson
Commissioner
Commissioner

COUNTY OFFICIALS

Mary Ann Ries
Janice Hoppes
Jeanne Moon
Josephine Stone
Audrey Brown
Thomas A. Kuka

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

Management Discussion and Analysis (MD&A)
Fiscal Year 2011-12

Our discussion and analysis of Pondera County's financial performance provides an overview of Fiscal Year 2011-2012 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should review the principal financial statements found in the annual report to augment their understanding of the County's financial performance.

FINANCIAL HIGHLIGHTS

- We maintained a basic status quo budget with an emphasis on maintaining and increasing cash reserves to insure fiscal stability. Wages were increased by a modest .06% or \$.10 per hour and health insurance contribution remained static at \$300.
- Pondera County's interest revenue, for the fourth year in a row, has decreased 33.12% compared to the prior fiscal year. This reduction coupled with the prior three years' reduction of 48.26%, 40.75% and 41.9%, continues to have a significant impact on all budget areas.
- Pondera County participated fiscally in Sweet Grass Development, the Pondera Regional Port Authority, the Northern Transit Inter-Local, and the Brady County Water and Sewer District through a CDBG grant.
- Stabilized fuel cost combined with improved warranty agreements provided constancy in the Road Department as well as Public Safety. There were some minor building and equipment updates in both departments.
- Election costs continue to be significant due to necessary staff and judge training, programming, and maintenance contracts for the Auto Mark machines.
- Most funds remained generally the same as the previous year with the exception of an increased assessment in the Brady street light fund to meet increased electrical cost.

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 2011-12</u>	<u>FY 2010-11</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
Current and other assets	\$ 4,264,627	\$ 3,942,476
Capital assets	6,023,273	5,771,173
Total assets	<u>\$ 10,287,900</u>	<u>9,713,649</u>
Long-term debt outstanding	\$ 2,048,103	\$ 2,170,427
Other liabilities	170,843	53,366
Total liabilities	<u>\$ 2,218,946</u>	<u>\$ 2,323,793</u>
Net assets:		
Invested in capital assets net of related debt	\$ 4,280,580	\$ 3,864,736
Restricted	2,980,905	2,904,852
Unrestricted	<u>807,469</u>	<u>620,268</u>
Total net assets	<u>\$ 8,068,954</u>	<u>\$ 7,389,856</u>

Government-wide STATEMENT OF ACTIVITIES

	<u>FY2011-12</u>	<u>FY2010-11</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
<u>Program Revenues</u>		
Charges for Services	\$ 574,996	\$ 574,154
Operating Grants and Contributions	290,636	252,796
Capital Grants and Contributions	134,783	939,070
Total Program Revenues	<u>\$ 1,000,415</u>	<u>\$ 1,766,020</u>
<u>General Revenues</u>		
Property Taxes	\$ 2,806,991	\$ 2,641,226
Video Poker Apportionment	2,300	2,400
Miscellaneous	22,388	36,491
Interest/Investment Earnings	13,411	29,239
PILT	193,722	151,224
MT Oil and Gas Production Tax	217,684	178,135
State Entitlement	492,946	400,261
Grants & Entitlements not restricted to specific programs	59,839	64,998
Intergovernmental Agreement	14,963	14,963
Reimbursements	463,640	227,409
Royalties	7,642	7,794
Total General Revenues	<u>\$ 4,295,526</u>	<u>\$ 3,754,140</u>
Total Revenues	<u>\$ 5,295,941</u>	<u>\$ 5,520,160</u>
<u>Program Expenses by Function</u>		
General Government	\$ 1,364,179	\$ 1,279,442
Public Safety	923,707	950,407
Public Works	1,395,236	1,283,613
Public Health	803,202	770,470
Social & Economic Services	113,378	118,273
Culture & Recreation	158,539	151,638
Housing & Community Development	107,686	238,344
Debt Service Interest	67,435	76,808
Miscellaneous	162,545	195,846
Total Expenses	<u>\$ 5,095,907</u>	<u>\$ 5,064,841</u>
Changes in net assets	<u>\$ 200,034</u>	<u>\$ 455,319</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 \$5,095,097, compared to \$5,064,841 for fiscal year 2010-11 as found in the Statement of Activities, an increase of \$31,066. The amount that our taxpayers ultimately financed for these activities through county taxes was \$2,806,991 up by \$165,765 from \$2,641,226 in fiscal year 2010-11. 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>FY2011-12</u> <u>Net Expense</u>	<u>FY2010-11</u> <u>Net Expense</u>
General Government	\$ 1,364,179	\$ 1,279,442
Public Safety	923,707	950,407
Public Works	1,395,236	1,283,613
Public Health	803,202	770,470
Social & Economic Services	113,378	118,273
Culture & Recreation	158,539	151,638
Housing & Community Development	107,686	238,344
Debt Service Interest	67,435	76,808
Miscellaneous	<u>162,545</u>	<u>195,846</u>
Total Net Expenses	<u>\$ 5,095,907</u>	<u>\$ 5,064,841</u>

Unassigned/Restricted Fund Balance Analysis (Major Funds)

	<u>General</u>	<u>Road</u>	<u>County</u> <u>Hospital</u>
Unassigned/Restricted Fund Balance	\$ 872,575	\$ 571,668	\$ 104,907
– Current Year			
Unassigned/Restricted Fund Balance	\$ 657,401	\$ 498,480	\$ 93,621*
– Prior Year			
Change in unassigned/restricted fund balance	\$ 215,174	\$ 73,188	\$ 11,128
% change in unassigned fund balance	24.66.0%	12.80%	10.76%

	<u>Public</u> <u>Safety</u>	<u>Noxious</u> <u>Weed Grant</u>	<u>DES (EP)</u> <u>Grant</u>
Unassigned Fund Balance – Current Year	\$ 582,806	\$ 9,274	\$ 28,437
Unassigned Fund Balance – Prior Year	\$ 520,636	\$ 1,121	\$ 26,770
Change in unassigned fund balance	\$ 62,170	\$ 8,153	\$ 1,667
% change in unassigned fund balance	10.67%	87.91%	5.86%

The increase in the fund balance in the General Fund is due to an increased allocation of mills levied, \$82,071; increase in intergovernmental revenues of \$61,145 due to additional PILT deposited to general fund and increase in oil and gas production revenue; increase in Clerk and Recorder and Clerk of Court charge for services \$16,178. (\$159,394) In addition, the fund received InterCap revenue. Spending was increased in FY2012, however, the increase was funded by the InterCap loan, allowing for the reserve to increase slightly.

The increase in the Road Fund is a result of failure to make the PILT transfer to the fund in the prior fiscal year (\$53,500) which understated the prior year balance; and federal disaster aid received of (\$23,357); while keeping spending below FY11 by \$71,514.

*The increase in the County Hospital Fund is a result of the facility requesting less for operating expenses in FY12 than in FY11 but enough funds were levied to cover a request equal to the prior year. This fund was not a major fund in the prior fiscal year.

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

The negative impact in the Noxious Weed Grant is due to an increase in spending for upgrades to the plant.

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

Revenue Budget to Actual Variances:

<u>General Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
	\$1,395,618	\$1,259,336	\$(136,282)	(9.82%)

There was a variance between the final budget amount and actual amount of revenue received in the General Fund of (\$136,282) for a (9.82%) variance. The county over-budgeted the property tax revenues by \$14,863 and the PILT revenue amount that would be receipted to the General Fund and not transferred to the PILT fund by \$107,903. Investment and royalty earning were budgeted to be approximately the same as the amounts received in FY2010-11, however, actual revenue for FY2011-12 proved to be approximately \$11,000 less than that received in the prior fiscal year.

<u>Road Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
	\$586,081	\$634,369	\$48,288	8.23%

There was a variance between the final budget amount and actual amount of revenue received in the Road Fund of \$48,288 for an 8.23% variance. The county had not budgeted for FEMA funds for road repairs after the spring flooding (\$23,357) and under-budgeted for State grants and shared revenues for disaster relief in the amount of 38,004

<u>County Hospital and Nursing Home Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
	\$563,873	\$565,772	\$1,899	.33%

There was a variation between the final budget amount and actual amount of revenue received in the County Hospital and Nursing Home Fund of \$1,899 for a .33% variance. The county under-budgeted miscellaneous revenue.

Public Safety

Fund:	Budgeted	Actual	Variation	% Variance
	\$837,181	\$848,766	\$11,585	1.384%

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

Noxious Weed

Grant Fund:	Budgeted	Actual	Variation	% Variance
	\$9,786	\$9,790	\$4	.04%

County under-budgeted for grant award amount.

DES Grants

Fund:	Budgeted	Actual	Variation	% Variance
	\$34,207	\$33,351	\$(856)	(2.50)%

County over-budgeted the grant award amount.

CAPITAL ASSETS AND LONG-TERM DEBT

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

Long Term Debt

During the fiscal year, the County decreased its long term debt by \$163,744.

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, 2012 of \$6,023,273. In addition, the County completed 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, as much as possible, with trade-in or sale of fixed assets.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The 2012 Taxable Valuation decreased slightly in Pondera County from \$13,839,585 to 13,380,038. The value of a county-wide mill increases from \$13,839 to \$13,380. The FY12 budget did not allow for the reservation of any floated mills; all were levied.

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

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

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

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

The school districts in the County levied funds pursuant to levy elections held in May, 2012. All school levies in the County passed.

While aiming for a 33% reserve in all funds, reserve amounts range from 11.2% (Retirement) to 33.0% (General, Bridge, Comprehensive Insurance and Road). Our goal remains to achieve the 33% reserve in all funds.

REQUESTS FOR INFORMATION

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

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

Or e-mail to: clerkrec@3rivers.net

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

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

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, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pondera County management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pondera Medical Center, which represent 100% of the assets, net assets, and revenues as of December 31, 2011, and for the year then ended of this discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Pondera Medical Center, is based on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pondera County, Montana, as of June 30, 2012, and the respective changes in financial position, and 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 \$480,962. The audit of the Pondera Medical Center, Inc. (a non-profit component unit) was completed by other auditors. In their report, the Pondera Medical Center Building is also listed as an asset with a net book value reported by the non-profit of \$1,816,911.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2013, 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 8, 54 through 60, and 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

June 21, 2013

Pondera County, Montana
Statement of Net Assets
June 30, 2012

	Governmental Activities	Pondera Regional Port Authority Component Unit
ASSETS		
Current assets:		
Cash and investments	\$ 3,700,943	\$ 480,585
Taxes and assessments receivable, net	240,304	-
Accounts receivable - net	3,467	-
Notes and loans receivable	-	491,222
Due from other governments	182,395	-
Inventories	137,518	-
Total current assets	\$ 4,264,627	\$ 971,807
Noncurrent assets		
Capital assets - land	\$ 248,609	\$ 110,908
Capital assets - depreciable, net	5,774,664	-
Inventory held for resale	-	273,281
Total noncurrent assets	\$ 6,023,273	\$ 384,189
Total assets	\$ 10,287,900	\$ 1,355,996
LIABILITIES		
Current liabilities		
Warrants payable	\$ 408	\$ -
Accounts payable	28,023	-
Accrued interest payable	13,763	-
Accrued payroll	20,805	673
Due to other governments	193	-
Deferred revenue	107,651	-
Current portion of long-term capital liabilities	293,041	-
Current portion of compensated absences payable	151,115	-
Total current liabilities	\$ 614,999	\$ 673
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$ 59,799	\$ -
Noncurrent portion of long-term capital liabilities	1,449,652	-
Noncurrent portion of compensated absences	94,496	-
Total noncurrent liabilities	\$ 1,603,947	\$ -
Total liabilities	\$ 2,218,946	\$ 673
NET ASSETS		
Invested in capital assets, net of related debt	\$ 4,280,580	\$ 110,908
Restricted for capital projects	509,609	-
Restricted for debt service	98,969	-
Restricted for special projects	2,345,079	-
Restricted for other purposes	27,248	-
Unrestricted	807,469	1,244,415
Total net assets	\$ 8,068,954	\$ 1,355,323
Total liabilities and net assets	\$ 10,287,900	\$ 1,355,996

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			Pondera Regional Port Authority Component Unit
	Expenses	Operating		Capital Grants and Contributions	Primary Government		Total	
		Charges for Services	Grants and Contributions		Governmental Activities			
Primary government:								
Governmental activities:								
General government	\$ 1,364,179	\$ 271,110	\$ 5,923	\$ 588	\$ (1,086,558)	\$ (1,086,558)	\$ -	
Public safety	923,707	144,744	65,152	-	(713,811)	(713,811)	-	
Public works	1,395,236	95,411	101,379	-	(1,198,446)	(1,198,446)	-	
Public health	803,202	47,921	114,089	-	(641,192)	(641,192)	-	
Social and economic services	113,378	15,810	-	117,288	19,720	19,720	-	
Culture and recreation	158,539	-	560	-	(157,979)	(157,979)	-	
Housing and community development	107,686	-	3,533	16,907	(87,246)	(87,246)	-	
Debt service - interest	67,435	-	-	-	(67,435)	(67,435)	-	
Miscellaneous	162,545	-	-	-	(162,545)	(162,545)	-	
Total governmental activities	\$ 5,095,907	\$ 574,996	\$ 290,636	\$ 134,783	\$ (4,095,492)	\$ (4,095,492)	\$ -	
Total primary government	\$ 5,095,907	\$ 574,996	\$ 290,636	\$ 134,783	\$ (4,095,492)	\$ (4,095,492)	\$ -	
Component units:								
Pondera Regional Port Authority	\$ 82,405	\$ -	\$ 53,351	\$ -	\$ -	\$ -	\$ (29,054)	
Total component units	\$ 82,405	\$ -	\$ 53,351	\$ -	\$ -	\$ -	\$ (29,054)	
General Revenues:								
Property taxes for general purposes					\$ 2,806,991	\$ 2,806,991	\$ 47,234	
Video poker apportionment					2,300	2,300	-	
Miscellaneous					22,388	22,388	60,166	
Interest/investment earnings					13,411	13,411	25,621	
PILT					193,722	193,722	-	
Montana oil and gas production tax					217,684	217,684	-	
State entitlement					492,946	492,946	-	
Grants and entitlements not restricted to specific programs					59,839	59,839	-	
Intergovernmental agreement					14,963	14,963	-	
Reimbursements					463,640	463,640	-	
Royalties					7,642	7,642	-	
Total general revenues, special items and transfers					\$ 4,295,526	\$ 4,295,526	\$ 133,021	
Change in net assets					200,034	200,034	103,967	
Net assets - beginning					\$ 7,389,856	\$ 7,389,856	\$ 1,249,452	
Restatements					479,064	479,064	1,904	
Net assets - beginning - restated					\$ 7,868,920	\$ 7,868,920	\$ 1,251,356	
Net assets - end					\$ 8,068,954	\$ 8,068,954	\$ 1,355,323	

See accompanying Notes to the Financial Statements

Pondera County, Montana
Balance Sheet
Governmental Funds
June 30, 2012

	County Hospital and Nursing						Noxious Weed Grant	DES Grants	Other Governmental Funds	Total Governmental Funds
	General	Road	Home	Public Safety						
ASSETS										
Current assets:										
Cash and investments	\$ 840,699	\$ 472,848	\$ 101,556	\$ 576,625	\$ 84,383	\$ 50,277	\$ 84,383	\$ 1,574,555	\$ 3,700,943	
Taxes and assessments receivable, net	72,805	36,215	11,483	32,773	-	-	-	87,028	240,304	
Accounts receivable - net	-	-	-	-	-	-	-	3,467	3,467	
Due from other funds	14,725	-	-	-	-	-	-	29,085	43,810	
Due from other governments	30,025	14,424	3,351	16,036	-	-	-	118,559	182,395	
Inventories	-	89,713	-	-	-	-	-	47,805	137,518	
Total current assets	\$ 958,254	\$ 613,200	\$ 116,390	\$ 625,434	\$ 84,383	\$ 50,277	\$ 84,383	\$ 1,860,499	\$ 4,308,437	
Noncurrent assets:										
Advances to other funds	\$ 2,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,163	
Total noncurrent assets	\$ 2,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,163	
Total assets	\$ 960,417	\$ 613,200	\$ 116,390	\$ 625,434	\$ 84,383	\$ 50,277	\$ 84,383	\$ 1,860,499	\$ 4,310,600	
LIABILITIES										
Current liabilities:										
Warrants payable	\$ 83	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 325	\$ 408	
Accounts payable	998	317	-	793	-	434	-	25,481	28,023	
Accrued interest payable	13,763	-	-	-	-	-	-	-	13,763	
Accrued payroll	-	5,000	-	9,062	-	-	-	6,743	20,805	
Due to other funds	-	-	-	-	-	-	-	43,810	43,810	
Due to other governments	193	-	-	-	-	-	-	-	193	
Deferred revenue	72,805	36,215	11,483	32,773	55,946	48,722	55,946	90,011	347,955	
Total current liabilities	\$ 87,842	\$ 41,532	\$ 11,483	\$ 42,628	\$ 55,946	\$ 49,156	\$ 55,946	\$ 166,370	\$ 454,957	
Noncurrent liabilities:										
Advances payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,163	\$ 2,163	
Total noncurrent liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,163	\$ 2,163	
Total liabilities	\$ 87,842	\$ 41,532	\$ 11,483	\$ 42,628	\$ 55,946	\$ 49,156	\$ 55,946	\$ 168,533	\$ 457,120	
FUND BALANCES										
Nonspendable	\$ -	\$ 89,713	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,805	\$ 137,518	
Restricted	-	481,955	104,907	582,806	28,437	1,121	-	1,644,434	2,843,660	
Unassigned fund balance	872,575	-	-	-	-	-	-	(273)	872,302	
Total fund balance	\$ 872,575	\$ 571,668	\$ 104,907	\$ 582,806	\$ 28,437	\$ 1,121	\$ 28,437	\$ 1,691,966	\$ 3,853,480	
Total liabilities and fund balance	\$ 960,417	\$ 613,200	\$ 116,390	\$ 625,434	\$ 84,383	\$ 50,277	\$ 84,383	\$ 1,860,499	\$ 4,310,600	

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, 2012

Total fund balances - governmental funds	\$ 3,853,480
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,023,273
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.	240,304
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,048,103)
Total net assets - governmental activities	\$ <u>8,068,954</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, 2012

	General	Road	County Hospital and Nursing Home	Public Safety	Noxious Weed Grant	DES Grants	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes and assessments	\$ 746,128	\$ 369,947	\$ 96,324	\$ 644,451	\$ -	\$ -	\$ 936,522	\$ 2,793,372
Licenses and permits	60	-	-	-	-	-	-	60
Intergovernmental	477,786	256,964	21,076	106,437	9,790	33,351	727,075	1,632,479
Charges for services	173,518	-	-	95,268	-	-	19,261	288,047
Fines and forfeitures	36,244	-	-	-	-	-	5,112	41,356
Miscellaneous	9,060	7,458	448,372	2,610	-	-	46,070	513,570
Investment earnings	10,262	-	-	-	-	-	3,148	13,410
Total revenues	\$ 1,453,058	\$ 634,369	\$ 565,772	\$ 848,766	\$ 9,790	\$ 33,351	\$ 1,737,188	\$ 5,282,294
EXPENDITURES								
General government	\$ 979,167	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 308,710	\$ 1,287,877
Public safety	47,626	-	-	695,346	-	31,572	88,350	862,894
Public works	-	547,200	-	-	2,478	-	412,078	961,756
Public health	115,651	-	462,597	-	-	-	103,468	681,716
Social and economic services	9,849	-	-	-	-	-	103,529	113,378
Culture and recreation	1,014	-	-	-	-	-	157,525	158,539
Housing and community development	14,963	-	-	-	-	-	92,723	107,686
Debt service - principal	8,847	40,411	46,356	-	-	-	181,971	277,585
Debt service - interest	1,972	28,819	3,033	-	-	-	33,611	67,435
Miscellaneous	-	-	-	-	-	-	162,545	162,545
Capital outlay	118,636	-	42,500	-	7,312	112	283,756	452,316
Total expenditures	\$ 1,297,725	\$ 616,430	\$ 554,486	\$ 695,346	\$ 9,790	\$ 31,684	\$ 1,928,266	\$ 5,133,727
Excess (deficiency) of revenues over expenditures	\$ 155,333	\$ 17,939	\$ 11,286	\$ 153,420	\$ -	\$ 1,667	\$ (191,078)	\$ 148,567
OTHER FINANCING SOURCES (USES)								
Proceeds of general long term debt	\$ 113,841	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113,841
Proceeds from the sale of general capital asset disposition	-	-	-	200	-	-	-	200
Transfers in	24,062	54,000	-	-	-	-	156,075	234,137
Transfers out	(78,062)	(17,000)	-	(91,450)	-	-	(47,625)	(234,137)
Total other financing sources (uses)	\$ 59,841	\$ 37,000	\$ -	\$ (91,250)	\$ -	\$ -	\$ 108,450	\$ 114,041
Net Change in Fund Balance	\$ 215,174	\$ 54,939	\$ 11,286	\$ 62,170	\$ -	\$ 1,667	\$ (82,628)	\$ 262,608
Fund balances - beginning	\$ 657,401	\$ 498,480	\$ 93,621	\$ 520,636	\$ 9,274	\$ 26,770	\$ 1,756,071	\$ 3,562,253
Restatements	-	18,249	-	-	(8,153)	-	18,523	28,619
Fund balances - beginning, restated	\$ 657,401	\$ 516,729	\$ 93,621	\$ 520,636	\$ 1,121	\$ 26,770	\$ 1,774,594	\$ 3,590,872
Fund balance - ending	\$ 872,575	\$ 571,668	\$ 104,907	\$ 582,806	\$ 1,121	\$ 28,437	\$ 1,691,966	\$ 3,853,480

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, 2012

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

Net change in fund balances - total governmental funds \$ 262,608

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 452,316
- Depreciation expense (650,661)

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) 13,447

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

(21,487)

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 277,585

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

- Proceeds from the sale of long-term debt (113,841)

Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability (19,933)

Change in net assets - Statement of Activities \$ 200,034

See accompanying Notes to the Financial Statements

Pondera County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$ 7,829,810	\$ 1,042,661
Due from other governments	-	7,717
Taxes receivable	-	498,000
Total assets	<u>\$ 7,829,810</u>	<u>\$ 1,548,378</u>
LIABILITIES		
Warrants payable	\$ -	\$ 185,452
Due to others	-	1,362,926
Total liabilities	<u>\$ -</u>	<u>\$ 1,548,378</u>
NET ASSETS		
Assets held in trust	<u>\$ 7,829,810</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, 2012

		<u>Investment Trust Funds</u>
ADDITIONS		
Contributions:		
Contributions	\$	<u>7,345,851</u>
Total contributions	\$	<u>7,345,851</u>
Investment earnings:		
Interest and change in fair value of investments	\$	<u>35,388</u>
Net investment earnings		<u>35,388</u>
Total additions	\$	<u>7,381,239</u>
 DEDUCTIONS		
Distributions from investment trust fund	\$	<u>7,307,879</u>
Total deductions	\$	<u>7,307,879</u>
Change in net assets	\$	<u>73,360</u>
 Net Assets - Beginning of the year	 \$	 7,756,450
 Net Assets - End of the year	 \$	 <u><u>7,829,810</u></u>

See accompanying Notes to the Financial Statements

Pondera Medical Center
A Component Unit of Pondera County, Montana
Consolidated Balance Sheet
December 31 2011

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 765,417
Certificates of Deposit	179,777
Receivables:	
Patient and Resident, Net of Estimated Uncollectibles of \$716,079 in 2011	1,360,050
Other	241,340
Supplies	162,147
Prepaid Expenses	45,484
Total Current Assets	<u>\$ 2,754,215</u>
 Assets Limited as to Use by Board for Capital Improvements and Equipment Purchases	 <u>\$ 759</u>
 Capital Assets, Net	 <u>\$ 3,175,876</u>
 Other Assets	
Deferred Financing Costs, Net	\$ 11,696
Investment - Subscriber Savings Worker's Comp	160,006
Investment in Perpetual Trust	436,601
Other Assets	32,814
Total Other Assets	<u>\$ 641,117</u>
Total Assets	<u>\$ 6,571,967</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 1,202,948
Accrued Expenses:	
Salaries and Wages	122,123
Payroll Taxes and Other	90,750
Estimated Third-Party Payor Settlements	114,694
Current Portion of Leases Payable	150,659
Current Portion of Long-Term Debt	218,652
Total Current Liabilities	<u>\$ 1,899,826</u>
 Long-Term Liabilities	
Accrued Vacation	\$ 381,492
Leases Payable, Less Current Maturities	225,685
Long-Term Debt, Less Current Maturities	627,714
Total Long-Term Liabilities	<u>\$ 1,234,891</u>
Total Liabilities	<u>\$ 3,134,717</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 1,914,404
Restricted:	
Expendable for Special Projects and Capital Acquisitions	81,258
Nonexpendable Permanent Endowment	436,601
Unrestricted	1,004,987
Total Net Assets	<u>\$ 3,437,250</u>
 Total Liabilities and Net Assets	 <u>\$ 6,571,967</u>

See accompanying Notes to the Financial Statements

Pondera Medical Center
A Component Unit of Pondera County, Montana
Consolidate Statement of Revenues, Expenses and
Changes in Net Assets
For the Year Ended December 31, 2011

OPERATING REVENUE

Net Patient and Resident Service Revenue	\$ 11,242,355
(Net of Provision for Bad Debts of \$424,359)	287,378
Other Revenue	<u>11,529,733</u>
Total Operating Revenue	<u>\$ 11,529,733</u>

EXPENSES

Professional Care of Patients and Residents	\$ 7,286,784
General and Administrative	2,829,974
Property and Household	743,382
Dietary	626,685
PMC Eye Clinic	273,088
Depreciation and Amortization	515,046
Total Expenses	<u>\$ 12,274,959</u>
Operating Loss	<u>\$ (745,226)</u>

NON-OPERATING REVENUE (EXPENSES)

Bond Payment Funds From County	\$ 295,590
Levied Funds From County	169,530
EHR Incentive	243,250
Loss on Perpetual Trust	(13,472)
Interest Income	40,255
Grants	15,598
Interest Income	(27,918)
Loss on Sale of Equipment	(84)
Total Non-Operating Revenue	<u>\$ 722,749</u>

Excess of Expenses Over Revenue Before Capital Grants and Restricted Contributions	\$ (22,477)
Restricted Contributions	94,937
Increase in Net Assets	<u>\$ 72,460</u>

Net Assets, Beginning of Year	\$ 3,364,790
Net Assets, End of Year	<u><u>\$ 3,437,250</u></u>

See accompanying Notes to the Financial Statements

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Primary Government

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

Discretely Presented Component Units

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

Separate financial statements can be obtained by contacting Pondera Medical Center, 805 Sunset Boulevard, Conrad, Montana, 59425, and the Pondera Regional Port Authority, 20 Fourth Avenue SW, Conrad, Montana, 59425.

Pondera Medical Center

The Pondera Medical Center is a 15-bed critical access hospital with 8 swing beds and a 59-bed nursing facility located in Conrad, Montana. The Medical Center is controlled by County. The board of Trustees of the Medical Center is appointed by the County Commissioners and one of the appointees is a county commissioner. The Medical Center has a December 31, 2011, year end. See pages 45-55 for detailed footnotes related to Pondera Medical Center.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

Government-Wide Financial Statements

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting Entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. 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 fund is at least 5 percent of the corresponding total for all governmental funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

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

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

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Major Funds:

The County reports the following major governmental funds:

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

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

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

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

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

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

Fiduciary Funds

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

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

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2012, 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			
Petty cash	\$ 1,300	\$ -	\$ 1,300
<u>Cash in banks:</u>			
Demand deposits	337,983	148,326	486,309
Savings deposits	406,774	173,832	580,606
<u>Investments:</u>			
State Short-Term Investment Pool (STIP)	2,338	-	2,338
U.S. Government Securities	900,000	-	900,000
Repurchase agreements	10,925,019	-	10,925,019
Mutual Funds *	-	158,427	158,427
Total	<u>\$ 12,573,414</u>	<u>\$ 480,585</u>	<u>\$ 13,053,999</u>

*See Detail at page 32

Repurchase Agreements

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

Credit Risk

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

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

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

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

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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, 2012:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 579,229,187	A1	29
Corporate Commercial Paper	68,067,209	A1	116
Corporate Fixed Rate	23,609,565	B	214
Corporate Variable-Rate	419,480,034	A3	39
Certificates of Deposit Fixed Rate	30,064,940	A1	66
Certificates of Deposit Variable-Rate	416,232,894	A3	37
Other Asset Backed	21,507,129	BBB-	NA
U.S. Government Agency Fixed	124,991,596	A1	352
U.S. Government Agency Variable -Rate	502,707,759	A1	19
Money Market Funds (Unrated)	147,931,122	NR	1
Money Market Funds (Rated)	24,000,000	A1	1
Structured Investment Vehicles (SIV)	37,566,658	NR	6
Total Investments	<u>\$ 2,395,388,093</u>		<u>49</u>
Securities Lending Collateral Investment Pool	<u>\$ 4,930,327</u>	NR	*

“*As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of 25 days and an average weighted final maturity of 61 days for U.S. dollar

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 606 days for U.S. dollar collateral.”

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2012 the government’s bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	Primary Government <u>Balance</u>	Pondera Regional Port Authority <u>Balance</u>
Insured	\$ 1,040,524	\$ 324,588
- Collateral held by the County’s agent in the County’s name <small>(3rd party holds collateral)</small>	<u>596,123</u>	<u>-</u>
Total deposits and investments	<u>\$1,636,647</u>	<u>\$ 324,588</u>

Deposit Security

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

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

The amount of collateral held for County deposits at June 30, 2012, equaled or exceeded the amount required by State statutes.

Concentration of Credit Risk

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

	<u>% of credit risk</u>
Repurchase agreements	<u>87%</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

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, 2012 along with their related interest rates and maturity dates.

Primary Government

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
<u>Pondera Regional Port Authority</u>			
Mutual Fund			
Common Stock	N/A	N/A	
Consumer Staples (Beverages Food)	N/A	N/A	\$ 13,149
Energy	N/A	N/A	6,179
Financial Institutions	N/A	N/A	12,357
Health Care	N/A	N/A	18,061
Industries	N/A	N/A	18,219
Information Technology	N/A	N/A	18,219
Consumer Discretionary (Automobiles)	N/A	N/A	18,378
Bonds			
Corporate Bonds	N/A	N/A	14,575
Bank Loans	N/A	N/A	13,466
Cash and Cash Equivalents (Money Market Demand)	N/A	N/A	<u>25,824</u>
Total			<u>\$158,427</u>

Cash and Investment Pool

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

Investment in the Treasurer's Pools

The County Treasurer invests on behalf of most funds of the County and external participants in accordance with the County's investment policy and Montana law. The County's pools are managed by the County Treasurer. The external portion of the County's investment pools are accounted for as investment trust funds.

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

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

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2012 to support the value of the shares in the pool.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

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, 2012.

Statement of Net Assets

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$ 11,832,870
Equity of external pool participants	<u>7,829,810</u>
Total equity	<u>\$ 19,662,680</u>

Condensed Statement of Changes in Net Assets

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 35,388	\$ 555,916
Contributions to trust	7,345,851	3,755,631
Distributions paid	<u>(7,307,879)</u>	<u>(3,461,250)</u>
Net change in net assets	\$ 73,360	\$ 850,297
Net assets at beginning of year	<u>7,756,450</u>	<u>3,152,763</u>
Net assets at end of year	<u>\$ 7,829,810</u>	<u>\$ 4,003,060</u>

NOTE 3. RECEIVABLES

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

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

NOTE 4. INVENTORIES

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

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

Pondera Regional Port Authority

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

NOTE 5. CAPITAL ASSETS

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

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

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

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

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

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Adjustments/ <u>Transfers</u>	Balance <u>June 30, 2012</u>
Capital assets not being depreciated:					
Land	\$ 218,609	\$ 10,000	\$ -	\$ -	\$ 228,609
Pondera Medical Center	20,000		-	-	20,000
Construction in Progress	<u>898,307</u>	<u>118,748</u>	-	<u>(1,017,055)</u>	-
Total capital assets not being depreciated:	\$ <u>1,136,916</u>	\$ <u>128,748</u>	\$ -	\$ <u>(1,017,055)</u>	\$ <u>248,609</u>
Other capital assets:					
Buildings	\$ 3,251,020	\$ 11,569	\$ -	\$ 961,851	\$ 4,224,440
Improvements other than buildings	3,101,661	-	-	-	3,101,661
Machinery and equipment	4,638,274	269,499	(19,500)	-	4,888,273
Infrastructure	89,123	-	-	55,204	144,327
Pondera Medical Center*	<u>6,117,159</u>	<u>42,500</u>	-	-	<u>6,159,659</u>
Total other capital assets at historical cost	\$ <u>17,197,237</u>	\$ <u>323,568</u>	\$ <u>(19,500)</u>	\$ <u>1,017,055</u>	\$ <u>18,518,360</u>
Less accumulated depreciation	\$ <u>(12,562,980)</u>	\$ <u>(650,661)</u>	\$ <u>19,500</u>	\$ <u>450,445</u>	\$ <u>(12,743,696)</u>
Total	\$ <u>5,771,173</u>	\$ <u>(198,345)</u>	\$ -	\$ <u>450,445</u>	\$ <u>6,023,273</u>

*The separate audit of the Pondera Medical Center also includes the net book value of buildings as \$1,816,911. The County is also reporting a net book value of the buildings of \$480,962

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 34,882
Public safety	60,813
Public works	433,480
Public health	<u>121,486</u>
Total governmental activities depreciation expense	\$ <u>650,661</u>

Component Unit Pondera Regional Port Authority

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

	Balance <u>July 1, 2012</u>
Capital assets not being depreciated:	
Land	\$ <u>110,908</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

NOTE 6. LONG TERM DEBT OBLIGATIONS

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

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2012, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
General obligation bonds	\$ 690,000	\$ -	\$(130,000)	\$ 560,000	\$ 135,000
Compensated absences	224,124	21,487	-	245,611	151,115
Intercap loans	314,521	113,841	(93,704)	334,658	99,062
Capital leases	901,916	-	(53,881)	848,035	56,279
Other post-employment benefits *	<u>39,866</u>	<u>19,933</u>	<u>-</u>	<u>59,799</u>	<u>-</u>
Total	<u>\$ 2,170,427</u>	<u>\$ 155,261</u>	<u>\$(277,585)</u>	<u>\$ 2,048,103</u>	<u>\$ 441,456</u>

*See Note 10

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

General Obligation Bonds - The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. General obligation bonds outstanding as of June 30, 2012 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2012</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>560,000</u>

Reported in the governmental activities.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
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Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
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>\$560,000</u>	<u>\$ 42,649</u>

Intercap Loans

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

Intercap loans outstanding as of June 30, 2012 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, 2012</u>
911 Emergency Draw #1	02/26/2003	1.25-4.85%	10 yrs	02/15/2013	\$209,506	\$ 23,530
911 Emergency Draw #2	03/05/2004	1.25-4.85%	9 yrs	02/15/2013	69,799	8,503
911 Emergency Draw #3	06/25/2004	1.25-4.85%	8 yrs	02/15/2013	53,791	6,741
Heat-Ventilation-AC System Replace Draw 1	05/28/2004	1.25-4.85%	10 yrs	08/15/2014	101,656	28,028
Heat-Ventilation-AC System Replace Draw 2	06/25/2004	1.25-4.85%	9 yrs	08/15/2014	56,483	15,317
Heat-Ventilation-AC System Replace Draw 3	07/16/2004	1.25-4.85%	9 yrs	08/15/2014	45,702	12,479
Heat-Ventilation-AC System Replace Draw 4	09/03/2004	1.25-4.85%	9 yrs	08/15/2014	96,526	26,451
Heat-Ventilation-AC System Replace Draw 5	10/15/2004	1.25-4.85%	9 yrs	08/15/2014	15,487	4,186
Heat-Ventilation-AC System Replace Draw 6	10/29/2004	1.25-4.85%	9 yrs	08/15/2014	50,159	14,460
Heat-Ventilation-AC System Replace Draw 7	12/10/2004	1.25-4.85%	9 yrs	08/16/2014	68,987	19,887
Building for Senior Center	07/03/2008	1.25-4.25%	10 yrs	08/15/2018	89,550	61,889
Building for Senior Center – Remodel	08/12/2011	1.25-1.95%	15 yrs	08/15/2026	<u>113,841</u>	<u>113,187</u>
Total					<u>\$971,487</u>	<u>\$ 334,658</u>

Reported in governmental activities

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2013	\$101,762	4,183
2014	64,784	2,911
2015	40,676	2,101
2016	16,930	1,593
2017	17,490	1,381
2018	18,067	1,163
2019	12,451	937
2020	7,820	781
2021	7,975	683
2022	8,130	584
2023	8,289	482
2024	8,452	379
2025	8,616	273
2026	8,784	165
2027	<u>4,432</u>	<u>55</u>
Total	<u>\$ 334,658</u>	<u>\$ 17,672</u>

Capital Leases

The County has entered into a lease which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2012 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest rate</u>	<u>Capitalized Original Cost</u>	<u>Less: Accumulated Amortization</u>	<u>Net Value</u>	<u>Remaining Payments as of June 30, 2012</u>
8 Motor Graders	08/06/2008	4.00%	\$1,067,806	\$ 429,542	\$ 638,264	\$ 848,035
Reported in the governmental activities.						

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 56,279	\$ 36,028
2014	58,671	33,636
2015	61,164	31,143
2016	<u>671,921</u>	<u>28,543</u>
Total	<u>\$ 848,035</u>	<u>\$ 129,350</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

Compensated Absences

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

Advance Refunding of Long-Term Debt

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

NOTE 7. DEFICIT FUND BALANCES/NET ASSETS

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
Predatory Animal	\$ 26	Expenditures exceeded revenues	Future collections
Brady Lights Maintenance	<u>247</u>	Expenditures exceeded revenues	Future collections
Total	<u>\$ 273</u>		

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2012, was as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Eliminate Negative Cash Balances	General – Major Governmental	ARRA – Nonmajor Governmental	\$ 14,441
Eliminate Negative Cash Balances	General – Major Governmental	Oil & Gas - Nonmajor Governmental	11
Eliminate Negative Cash Balances	General – Major Governmental	Predatory Animal – Nonmajor Governmental	26
Eliminate Negative Cash Balances	General – Major Governmental	Brady Lights – Nonmajor Governmental	247
Eliminate Negative Cash Balances	EOP – Nonmajor Governmental	Oil & Gas – Nonmajor Governmental	4,546

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Eliminate Negative Cash Balances	State Mineral – Nonmajor Governmental	CDBG – Nonmajor Governmental	13,037
Eliminate Negative Cash Balances	State Mineral – Nonmajor Governmental	Buckle Up – Nonmajor Governmental	4,365
Eliminate Negative Cash Balances	State Mineral – Nonmajor Governmental	WIC – Nonmajor Governmental	974
Eliminate Negative Cash Balances	State Mineral – Nonmajor Governmental	Tobacco – Nonmajor Governmental	<u>4,000</u>
	Total		<u>\$ 43,810</u>

	Advances to/from other funds:		
<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
To avoid deficit cash balance	Homeland Security Grant – Nonmajor Governmental	General – Major Governmental	<u>\$ 2,163</u>

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2012:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Operating Transfer	Road – Major Governmental	General – Major Governmental	\$ 54,000
Operating Transfer	General – Major Governmental	PILT – Nonmajor Governmental	24,062
Operating Transfer	Oil & Gas P&A Grant – Nonmajor Governmental	CDBG Growth Plan – Nonmajor Governmental	434
Future Capital Purchases	Road/Bridge Equipment – Nonmajor Governmental	Road – Major Governmental	17,000
Future Capital Purchases	Road/Bridge Equipment – Nonmajor Governmental	Bridge – Nonmajor Governmental	24,000
Future Capital Purchases	Ambulance Capital Improvement – Nonmajor Governmental	Ambulance – Nonmajor Governmental	20,000
Future Capital Purchases	Public Safety Capital Improvement – Nonmajor Governmental	Public Safety (Law Enforcement) – Nonmajor Governmental	91,450
Future Capital Purchases	Junk Vehicle Capital Improvement – Nonmajor Governmental	Junk Vehicle – Nonmajor Governmental	<u>3,191</u>
	Total		<u>\$234,137</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

NOTE 9. STATE-WIDE RETIREMENT PLANS

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

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2012 for the defined benefit plans, were:

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

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

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

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

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

The County's contributions for the years ended June 30, 2010, 2011, and 2012, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2010	\$89,749	\$48,972
2011	\$91,468	\$53,267
2012	\$91,153	\$48,370

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

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

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

Annual Required Contribution (ARC)	\$ 19,933
Interest on net OPEB obligation	\$ -
Adjustment to ARC	\$ <u> -</u>
Annual OPEB cost (expense)	\$ 19,933
Contributions made	\$ <u> -</u>
Increase in net OPEB obligation	\$ 19,933
Net OPEB obligation - beginning of year	\$ <u>39,866</u>
Net OPEB obligation - end of year	\$ <u>59,799</u>

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

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

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	63
Discount rate (average anticipated rate)	1.64%
Average salary increase (Consumer Price Index)	2.80%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	
<u>Year</u>	<u>% Increase</u>
2010	3.90%
2011	5.20%
2012	5.50%
2013	6.10%
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 BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

Nonspendable Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	\$ 89,713	Inventory
Other Governmental Funds	\$ 47,805	Inventory

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 481,955	Public works
County Hospital Nursing Home	\$ 104,907	Public health
Public Safety	\$ 582,806	Public safety
Noxious Weed	\$ 1,121	Public works
DES Grant	\$ 28,437	Public safety
Other Governmental Funds	\$ 326,547	General government
	\$ 106,724	Public safety
	\$ 449,641	Public works
	\$ 44,325	Public health
	\$ 73,989	Social and economic services
	\$ 34,630	Culture and recreation
	\$ 98,969	Debt service
	\$ <u>509,609</u>	Future Capital Projects
Total	\$ <u>2,843,660</u>	

NOTE 13. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Road	\$ 18,249	Correct posting of prior year inventory balances
Bridge	18,249	Correct posting of prior year inventory balances
District Court	274	To agree prior year taxes receivable balances with the subsidiary ledger
Noxious Weed Grant	(8,153)	To correct prior year deferred revenue postings
Government-wide	450,445	To correct the accumulation of erroneous postings to depreciation expense in prior year

NOTE 14. JOINT VENTURES

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

Law Enforcement Services

The County participated in a law enforcement service agreement with the Town of Valier for the fiscal year ended June 30, 2012. County was paid \$12,250 for providing law enforcement for the fiscal year ended June 30, 2012.

The County participated in a law enforcement service agreement for dispatch services and operation of an emergency telephone system with the City of Conrad for the fiscal year ended June 30, 2012. County was paid \$12,250 for providing law enforcement for the fiscal year ended June 30, 2012.

PONDERA COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 15. SERVICES PROVIDED TO OTHER GOVERNMENTS

Pondera County provides various financial services to other governmental entities located within the County. The County serves as the billing agent, cashier and treasurer for tax and assessment collections for various taxing jurisdictions. The County also serves as a bank for such agencies as school districts, irrigation districts, rural fire districts, and other special purpose districts. The funds collected and held by the County for other entities are accounted for in agency funds. Funds collected for incorporated cities and towns are periodically remitted to those entities by the County Treasurer. The County has not recorded any service charges for the services it provides other governmental entities.

NOTE 16. RISK MANAGEMENT

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

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

Insurance Pools:

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

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

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.

PONDERA COUNTY, MONTANA
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June 30, 2012

provide general administrative services. The counties do not exercise control over the budgeting and financing of the Trust's activities.

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

NOTE 17. SUBSEQUENT EVENTS

The Montana Department of Commerce Community Development Block Grant (CDBG) awarded the County a CDBG grant in the amount of \$450,000 for the Brady County Water and Sewer District upgrades. Requests for payment and receipt of grant funds will be through the County.

PONDERA MEDICAL CENTER
A Component Unit of Pondera County, Montana
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 1: PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES:

Organization

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

The Medical Center is governed by a Board of Trustees, which has all the powers necessary to provide for the acquisition, betterment, operation, maintenance, and administration of the Medical Center. The members of the Board are recommended by the County Commissioners of Pondera County and one of the appointees is a member of the Pondera County Commissioners. Because of the lease described in Footnote 11, the Medical Center is a component unit of Pondera County.

Proprietary Fund Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patient, resident and third-party payor obligations. The Medical Center does not charge interest on past due accounts. The Medical

PONDERA MEDICAL CENTER
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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 receivable by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that may not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

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

Assets Limited as to Use

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

Capital Assets

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

Land Improvements	5 – 25 years
Buildings and improvements	9 – 50 years
Equipment	5 – 20 years

Deferred Financing Costs

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

PONDERA MEDICAL CENTER
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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 specific project, it is the Medical Center's practice to use restricted resources before unrestricted resources.

Net Assets

Net assets are presented in the following three components:

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

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

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

Net Patient and Resident Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient and resident service revenue is recognized net of contractual allowances and provision for bad debts. 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
A Component Unit of Pondera County, Montana
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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 which is the Medical Center's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

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

Advertising Costs

The Medical Center expenses advertising costs as they are incurred.

Vacation and Compensated Absences

The Medical Center's employees earn vacation/holidays/sick leave, referred to as Earned Time, at varying rates depending on years of service. Employees may accumulate Earned Time hours up to a specified maximum. Upon termination the employees will be paid the total number of hours accrued as Earned Time up to a maximum. The estimated amount of Earned Time hour's payable as termination payments is reported as an accrued liability in 2011.

Income Taxes

The Medical Center is exempt from income taxes under Section 509(a), as defined in Section 501(c)(3), of the Internal Revenue Code and organized under the laws of the State of Montana. The Medical Center has adopted the provisions of Accounting Standards Codification Topic ASC 740-10, Accounting for Uncertainty in Income Taxes, and as of December 31, 2011, the unrecognized tax benefit accrual was zero. For years prior to 2008, the Medical Center's tax returns are generally no longer subject to examination.

Risk Management

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

PONDERA MEDICAL CENTER
A Component Unit of Pondera County, Montana
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

Subsequent Events

The Medical Center has evaluated subsequent events through July 9, 2012, the date which the financial statements were available to be issued.

NOTE 2: CHARITY CARE:

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the cost associated with providing these services and supplies furnished under its charity care policy and equivalent service statistics. The estimated cost to provide charity care was \$32,828 during the year ended December 31, 2011. This amount was determined using form CMS 2-552-10 – “Hospital Uncompensated and Indigent Care Data”.

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 through the year ended December 31, 2009. The Medical Center’s classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medical Center.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Medical Center’s Medicare cost report, or rates as established by the Medicaid program. The Medical Center is reimbursed at a tentative rate with final settlement determined by the program based on the Medical Center’s final Medicaid cost report. The Medical Center’s final Medicaid settlements have been processed through the year ended December 31, 2010. The Medical Center received a final settlement for 2010 of \$62,971.

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

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Medicare program, payment for resident services is made on a prospectively determined per diem rate, which varies based on a case-mix adjusted patient classification system.

Other – The Medical Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and to 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 and provision for bad debts for the year ended December 31, 2011 is as follows:

Total Patient and Resident Service Revenue	\$ <u>13,606,902</u>
Contractual Adjustments	
Medicare	\$ (1,292,670)
Medicaid	(304,300)
Blue Cross	(110,199)
Other	<u>(233,019)</u>
Total Contractual Adjustments	\$ <u>(1,940,188)</u>
Provision for Bad Debts	\$ <u>(424,359)</u>
Net Patient and Resident Service Revenue	\$ <u><u>11,242,355</u></u>

NOTE 4: OTHER RECEIVABLES:

Bond Payment Funds from County	\$ 71,384
Bed Tax Receivable	169,531
Miscellaneous	<u>425</u>
	\$ <u><u>241,340</u></u>

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

PONDERA MEDICAL CENTER
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NOTE 5: NET CAPITAL ASSETS:

Capital asset additions, retirements, and balances for the year ended December 31, 2011 are as follows:

	Balance <u>December</u> <u>31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance <u>December 31,</u> <u>2011</u>
Capital Assets Non-Depreciable:					
Land	\$ 27,854	\$ -	\$ -	\$ -	\$ 27,854
Construction in Progress	1,515	-	-	(1,515)	-
PMC Eye Clinic Land	<u>21,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,000</u>
	<u>\$ 50,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,515)</u>	<u>\$ 48,854</u>
Capital Assets Depreciable:					
Land Improvements	\$167,880	\$ -	\$ -	\$ -	\$ 167,880
Building and Improvements	6,945,558	-	-	1,515	6,947,073
Equipment	4,125,874	853,110	(93,107)	-	4,885,877
PMC Eye Clinic	<u>126,900</u>	<u>1,313</u>	<u>-</u>	<u>-</u>	<u>128,313</u>
	<u>\$11,366,212</u>	<u>\$ 854,423</u>	<u>\$ (93,107)</u>	<u>\$ 1,515</u>	<u>\$ 12,129,043</u>
Total Capital Assets	<u>\$11,416,581</u>	<u>\$ 854,423</u>	<u>\$ (93,107)</u>	<u>\$ -</u>	<u>\$ 12,177,897</u>
Less Accumulated Depreciation for:					
Land Improvements	\$139,640	\$4,917	\$ -	\$ -	\$ 144,557
Building and Improvements	4,993,849	136,313	-	-	5,130,162
Equipment	3,450,056	363,465	(92,923)	-	3,720,598
PMC Eye Clinic	<u>2,348</u>	<u>4,356</u>	<u>-</u>	<u>-</u>	<u>6,704</u>
Total Accumulated Depreciation	<u>\$ 8,585,893</u>	<u>\$ 509,051</u>	<u>\$ (92,923)</u>	<u>\$ -</u>	<u>\$ 9,002,021</u>
Capital Assets, Net	<u>\$ 2,830,688</u>	<u>\$ 345,372</u>	<u>\$ (184)</u>	<u>\$ -</u>	<u>\$ 3,175,876</u>

NOTE 6: CASH AND DEPOSITS:

At December 31, 2011, the Medical Center had bank balances as follows:

Insured (FDIC)	\$ 282,898
Uninsured or Uncollateralized	<u>502,829</u>
Total	<u>\$ 785,727</u>
Carrying Value	<u>\$ 766,712</u>

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

PONDERA MEDICAL CENTER
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 7: DEFERRED FINANCING COSTS:

Deferred Financing Costs	\$	78,082
Accumulated Amortization		<u>(66,386)</u>
Total	\$	<u><u>11,696</u></u>

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

NOTE 8: LEASES:

In 2008 and 2009, the Medical Center entered into noncancelable leases that are classified as capital leases for equipment. The leases expire between April 2012 and April 2014 and require monthly payments, including interest. At December 31, 2011, the cost of the equipment and accumulated depreciation recorded under capital leases was as follows:

Equipment	\$	825,027
Less Accumulated Depreciation		<u>(408,353)</u>
	\$	<u><u>416,674</u></u>

Future minimum capital lease payments as of December 31, 2011 are:

Years Ending December 31,		<u>Amount</u>
2012	\$	159,944
2013		126,476
2014		50,426
2015		48,500
2016		<u>4,549</u>
Total Minimum Lease Payments	\$	389,895
Less Interest		<u>(13,551)</u>
Present Value of Net Minimum Capital Lease Payments	\$	376,344
Less Current Portion		<u>(150,659)</u>
	\$	<u><u>225,685</u></u>

PONDERA MEDICAL CENTER
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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	\$ 560,000
Note payable, at a variable interest rate, (3.25% at December 31, 2009), due in varying semi-annual installments to August 2014, secured by equipment	144,125
Note Payable, at an interest rate of 3.0%, due in monthly installments of \$763, to June 2016, secured by Anesthesia Equipment	38,494
Note Payable at an interest rate of 3.5%, due in monthly installments of \$2,639.93, to June 2015, secured by Eye Clinic Land and Building	<u>103,747</u>
	\$ 846,366
Less Current Maturities	<u>(218,652)</u>
	<u>\$ 627,714</u>

	Balance December 31, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2011</u>	Amounts Due Within <u>One Year</u>
Bonds, Notes and Leases Payable and Accrued Vacation					
Revenue Bonds	\$ 690,000	\$ -	\$ 130,000	\$ 560,000	\$ 135,000
Notes Payable	189,858	42,500	49,739	182,619	55,083
Notes Payable-Eye Clinic	128,843	-	25,096	103,747	28,569
Lease Payable	344,292	224,947	192,895	376,344	150,659
Accrued Vacation	<u>406,158</u>	<u>-</u>	<u>24,666</u>	<u>381,492</u>	<u>-</u>
Total Non-Current Liabilities	<u>\$ 1,759,151</u>	<u>\$ 267,447</u>	<u>\$ 422,396</u>	<u>\$ 1,604,202</u>	<u>\$ 369,311</u>

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

	Long-Term Debt	
Year Ending December 31,	<u>Principal</u>	<u>Interest</u>
2012	\$ 218,652	\$ 30,274
2013	221,201	22,544
2014	228,144	14,565
2015	173,831	6,280
2016	<u>4,538</u>	<u>136</u>
	<u>\$ 846,366</u>	<u>\$ 73,799</u>

PONDERA MEDICAL CENTER
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NOTES TO THE FINANCIAL STATEMENTS
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Total interest expense for the year ended December 31, 2011 is \$27,918.

NOTE 10: RESTRICTED NET ASSETS:

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

Medical Equipment	\$	46,038
Solarium		9,177
Capital Improvements		<u>26,043</u>
	\$	<u>81,258</u>

NOTE 11: COMMITMENTS AND CONTINGENCIES:

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

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

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

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

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

PONDERA MEDICAL CENTER
A Component Unit of Pondera County, Montana
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 12: CONCENTRATION OF CREDIT RISK:

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

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

NOTE 13: REGULATIONS:

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

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

**REQUIRED SUPPLEMENTAL
INFORMATION**

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2012

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 760,977	\$ 760,986	\$ 746,128	\$ (14,858)
Licenses and permits	50	50	60	10
Intergovernmental	397,011	399,511	284,064	(115,447)
Charges for services	158,836	158,836	173,518	14,682
Fines and forfeitures	35,205	35,205	36,244	1,039
Miscellaneous	19,730	19,730	9,060	(10,670)
Investment earnings	21,300	21,300	10,262	(11,038)
Amounts available for appropriation	\$ 1,393,109	\$ 1,395,618	\$ 1,259,336	\$ (136,282)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 1,113,838	\$ 1,063,583	\$ 979,167	\$ 84,416
Public safety	68,476	63,326	47,626	15,700
Public works	-	-	-	-
Public health	149,967	149,967	115,651	34,316
Social and economic services	11,300	11,300	9,849	1,451
Culture and recreation	1,800	1,800	1,014	786
Housing and community development	-	-	14,963	(14,963)
Debt service - principal	18,645	18,645	8,847	9,798
Debt service - interest	2,964	2,964	1,972	992
Capital outlay	152,000	209,905	118,636	91,269
Total charges to appropriations	\$ 1,518,990	\$ 1,521,490	\$ 1,297,725	\$ 223,765
OTHER FINANCING SOURCES (USES)				
Proceeds of general long term debt	\$ 150,000	\$ 150,000	\$ 113,841	\$ (36,159)
Proceeds from the sale of general capital asset disposition	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(119,025)	(119,025)	(78,062)	40,963
Total other financing sources (uses)	\$ 30,975	\$ 30,975	\$ 35,779	\$ 4,804
Net change in fund balance			(2,610)	
Fund balance - beginning of the year			657,401	
Restatements			-	
Fund balance - beginning of the year - restated			657,401	
Fund balance - end of the year			654,791	

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2012

	<u>Road</u>			VARIANCE
	<u>BUDGETED AMOUNTS</u>	<u>ACTUAL</u>	<u>AMOUNTS</u>	<u>WITH FINAL</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>(BUDGETARY</u>	<u>BUDGET</u>
		<u>See Note A</u>		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 380,370	\$ 380,370	\$ 369,947	\$ (10,423)
Licenses and permits	-	-	-	-
Intergovernmental	195,611	195,611	256,964	61,353
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	10,100	10,100	7,458	(2,642)
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 586,081</u>	<u>\$ 586,081</u>	<u>\$ 634,369</u>	<u>\$ 48,288</u>

CHARGES TO APPROPRIATIONS (OUTFLOWS):

General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	707,099	707,099	547,200	159,899
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	40,563	40,563	40,411	152
Debt service - interest	28,823	28,823	28,819	4
Capital outlay	5,000	5,000	-	5,000
Total charges to appropriations	<u>\$ 781,485</u>	<u>\$ 781,485</u>	<u>\$ 616,430</u>	<u>\$ 165,055</u>

OTHER FINANCING SOURCES (USES)

Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -
Proceeds from the sale of general capital asset disposition	-	-	-	-
Transfers in	54,000	54,000	54,000	-
Transfers out	(17,000)	(17,000)	(17,000)	-
Total other financing sources (uses)	<u>\$ 37,000</u>	<u>\$ 37,000</u>	<u>\$ 37,000</u>	<u>\$ -</u>

Net change in fund balance

\$ 54,939

Fund balance - beginning of the year

\$ 498,480

Restatements

18,249

Fund balance - beginning of the year - restated

\$ 516,729

Fund balance - end of the year

\$ 571,668

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2012

	County Hospital and Nursing Home			VARIANCE WITH FINAL BUDGET
	BUDGETED AMOUNTS ORIGINAL	FINAL	ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 97,365	\$ 97,366	\$ 96,324	\$ (1,042)
Licenses and permits	-	-	-	-
Intergovernmental	18,134	18,134	21,076	2,942
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	225,000	448,373	448,372	(1)
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 340,499</u>	<u>\$ 563,873</u>	<u>\$ 565,772</u>	<u>\$ 1,899</u>

CHARGES TO APPROPRIATIONS (OUTFLOWS):

General government	\$ -	\$ -	\$ -	-
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	285,000	508,373	462,597	45,776
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	69,775	69,775	46,356	23,419
Debt service - interest	4,591	4,591	3,033	1,558
Capital outlay	-	-	42,500	(42,500)
Total charges to appropriations	<u>\$ 359,366</u>	<u>\$ 582,739</u>	<u>\$ 554,486</u>	<u>\$ 28,253</u>

OTHER FINANCING SOURCES (USES)

Proceeds of general long term debt	\$ -	\$ -	\$ -	-
Proceeds from the sale of general capital asset disposition	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Net change in fund balance

\$ 11,286

Fund balance - beginning of the year

\$ 93,621

Restatements

-

Fund balance - beginning of the year - restated

\$ 93,621

Fund balance - end of the year

\$ 104,907

Pondera County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2012

	Public Safety			
	BUDGETED AMOUNTS	ACTUAL AMOUNTS	BUDGETED AMOUNTS	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 643,607	\$ 643,612	\$ 644,451	\$ 839
Licenses and permits	-	-	-	-
Intergovernmental	84,157	84,157	106,437	22,280
Charges for services	102,390	102,390	95,268	(7,122)
Fines and forfeitures	-	-	-	-
Miscellaneous	7,022	7,022	2,610	(4,412)
Investment earnings	-	-	-	-
Amounts available for appropriation	\$ 837,176	\$ 837,181	\$ 848,766	\$ 11,585
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	-	-	-	-
Public safety	950,747	950,747	695,346	255,401
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	-	-	-	-
Total charges to appropriations	\$ 950,747	\$ 950,747	\$ 695,346	\$ 255,401
OTHER FINANCING SOURCES (USES)				
Proceeds of general long term debt	-	-	-	-
Proceeds from the sale of general capital asset disposition	-	-	200	200
Transfers in	-	-	-	-
Transfers out	(91,450)	(91,450)	(91,450)	-
Total other financing sources (uses)	\$ (91,450)	\$ (91,450)	\$ (91,250)	\$ 200
Net change in fund balance	\$	\$	\$ 62,170	\$
Fund balance - beginning of the year	\$	\$	520,636	\$
Restatements	-	-	-	-
Fund balance - beginning of the year - restated	\$	\$	520,636	\$
Fund balance - end of the year	\$	\$	582,806	\$

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2012

	Noxious Weed Grant				VARIANCE WITH FINAL BUDGET
	BUDGETED AMOUNTS		ACTUAL	AMOUNTS (BUDGETARY BASIS) See Note A	
	ORIGINAL	FINAL	AMOUNTS		
RESOURCES (INFLOWS):					
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	-
Licenses and permits	-	-	-	-	-
Intergovernmental	9,786	9,786	9,790	9,790	4
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Investment earnings	-	-	-	-	-
Amounts available for appropriation	<u>\$ 9,786</u>	<u>\$ 9,786</u>	<u>\$ 9,790</u>	<u>\$ 9,790</u>	<u>4</u>

CHARGES TO APPROPRIATIONS (OUTFLOWS):

General government	\$ -	\$ -	\$ -	\$ -	-
Public safety	-	-	-	-	-
Public works	60,133	60,133	2,478	2,478	57,655
Public health	-	-	-	-	-
Social and economic services	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Housing and community development	-	-	-	-	-
Debt service - principal	-	-	-	-	-
Debt service - interest	-	-	-	-	-
Capital outlay	-	-	7,312	7,312	(7,312)
Total charges to appropriations	<u>\$ 60,133</u>	<u>\$ 60,133</u>	<u>\$ 9,790</u>	<u>\$ 9,790</u>	<u>50,343</u>

OTHER FINANCING SOURCES (USES)

Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -	-
Proceeds from the sale of general capital asset disposition	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

Net change in fund balance

Fund balance - beginning of the year	\$ 9,274
Restatements	(8,153)
Fund balance - beginning of the year - restated	\$ 1,121
Fund balance - end of the year	<u><u>\$ 1,121</u></u>

Pondera County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2012

	DES Grants				VARIANCE WITH FINAL BUDGET
	BUDGETED AMOUNTS		ACTUAL		
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A		
RESOURCES (INFLOWS):					
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	-
Licenses and permits	-	-	-	-	-
Intergovernmental	34,207	34,207	33,351	(856)	(856)
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Investment earnings	-	-	-	-	-
Amounts available for appropriation	<u>\$ 34,207</u>	<u>\$ 34,207</u>	<u>\$ 33,351</u>	<u>\$ (856)</u>	<u>(856)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):					
General government	-	-	-	-	-
Public safety	116,923	116,923	31,572	85,351	85,351
Public works	-	-	-	-	-
Public health	-	-	-	-	-
Social and economic services	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Housing and community development	-	-	-	-	-
Debt service - principal	-	-	-	-	-
Debt service - interest	-	-	-	-	-
Capital outlay	-	-	112	(112)	(112)
Total charges to appropriations	<u>\$ 116,923</u>	<u>\$ 116,923</u>	<u>\$ 31,684</u>	<u>\$ (112)</u>	<u>(112)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of general long term debt	-	-	-	-	-
Proceeds from the sale of general capital asset disposition	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Net change in fund balance			<u>1,667</u>		
Fund balance - beginning of the year			26,770		
Restatements			-		
Fund balance - beginning of the year - restated			<u>26,770</u>		
Fund balance - end of the year			<u><u>28,437</u></u>		

Pondera County, Montana
 Budgetary Comparison Schedule
 Budget-to-GAAP Reconciliation

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

	<u>General</u>	<u>Road</u>	<u>County Hospital and Nursing Home</u>	<u>Public Safety</u>	<u>Noxious Weed Grant</u>	<u>DES Grants</u>
Sources/Inflows of resources						
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,259,336	\$ 634,369	\$ 565,772	\$ 848,766	\$ 9,790	\$ 33,351
Combined funds (GASBS 54) revenues	193,722					
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 1,453,058	\$ 634,369	\$ 565,772	\$ 848,766	\$ 9,790	\$ 33,351
Uses/Outflows of resources						
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,297,725	\$ 616,430	\$ 554,486	\$ 695,346	\$ 9,790	\$ 31,684
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 1,297,725	\$ 616,430	\$ 554,486	\$ 695,346	\$ 9,790	\$ 31,684

Pondera County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2012

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

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

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

Board of County Commissioners
Pondera County
Conrad, Montana

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pondera County, Montana, as of and for the year ended June 30, 2012, which collectively comprise the Pondera County's basic financial statements and have issued our report thereon dated June 21, 2013. We did not audit the Pondera Medical Center (a component unit). That audit was performed by 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.

Internal Control Over Financial Reporting

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

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

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

or detected and corrected on a timely basis We consider the deficiency described below to be a material weakness as item 12-2.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below as item 12-1 to be a significant deficiency.

12-1 Justice Court – Internal Controls

Condition:

As noted in the prior year, the Justice Court:

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

Criteria:

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

Effect:

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

Recommendation:

We recommend the following:

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

Auditee's Response:

Unless the county wants to give me another employee, we will always have the same problem. Judge Brown was the person to bring this to your attention, and the problem is in the FY13, not the audit year.

12-2 Potential Uncollected Accounts Receivable – Port Authority

Condition:

The Port Authority makes loans to businesses in the community and requires the loans to be paid off in future years. Of the loans provided over the years, the Port Authority is reporting balances for loans receivable for business that were in default or had gone to bankruptcy were not written down or written off.

Criteria:

Receivables that are determined to be uncollected should be written down when the impairment is determined. Generally, receivables have allowances accounts established to account for the potential amounts which may not be collectible.

Effect:

The Port Authority's loans receivables are overstated by \$147,260 due to the uncollectability of those receivables.

Cause:

The Port Authority is not following generally accepted accounting principles when receivables are determined to be uncollectible.

Recommendation:

We recommend the Port authority review the loans receivable, establish an allowance account for doubtful accounts and write down loans which will not be collected.

Auditee's Response:

We are working to correct the issue by reviewing each of the loan receivables and determining which one could be paid in the future and which ones will not be collected. The Dollar Store loan has been written off our books since our meeting with Tom. The other notes that are uncollected: Moritz Four, G & D Harware, and Mike Gage, will be set up in an allowance account showing them as doubtful accounts.

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 instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described below as items 12-3 and 12-4.

12-3 Budgeted Cash Reserves

Condition:

During the budget process the county adopted a budget for the Ambulance Fund in the amount of \$33,259 and also adopted the anticipated cash reserve amount to be \$33,259. Budgeted cash reserves of the Ambulances fund exceeded one-third of appropriations, which is contrary to State Law.

Criteria:

MCA 7-6-4034, The county may during the determining of the final budget establish a reserve to meet expenditures made from the fund during the months of July to November of the next fiscal year. This cash reserve for a county fund may not exceed one-third of the total amount appropriated and authorized to be spent from the fund during the current fiscal year.

Effect:

Non-compliance with the one-third of appropriations cash reserve requirement of State law. Budget cash reserve were exceeded by \$22,173

Cause:

The County erroneously including the appropriation amount as the cash reserve amount.

Recommendation:

We recommend the County comply with the one-third of appropriation requirement found in MCA 7-6-4034.

Auditee's Response:

The error in the amount budgeted for Ambulance Fund was due to entry error into the wrong account. Pondera County will comply with the one-third of appropriation to cash reserves requirement found in MCA 7-6-4034.

12-4 Deposits of Public Funds

Condition:

The Port Authority maintains investments with T. Rowe Price that consist of stocks and bonds which are not allowable investments under Montana Law.

Criteria:

Montana Code Annotated indicates the county commissioners may deposit public money not necessary for immediate use in a savings or time deposit with any of these authorized financial institutions or in a repurchase agreement or obligations of the United States or registered warrants of entities located in the same county.

Effect:

Illegal investments in the amount of \$158,428 are maintained by the Port Authority.

Recommendation:

We recommend the investments be sold and only invest in allowable investments as specified by Montana Code Annotated.

Auditee's Response:

These investments were made by EDC long before the two entities were associated so we didn't really think about the changes that would be necessary once the 501 (c) 3 was associated with the government agency. I will contact our agent with T Rowe Price and ask them to assist us in making the required changes to bring us into compliance with Montana State law.

Pondera County's response to the findings identified in our audit is described in the Auditee's Response above. We did not audit Pondera County's response, and accordingly, we express no opinion on it.

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

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

June 21, 2013

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

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of County Commissioners
Pondera County
Conrad, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Pondera Regional Port Authority Financial Reporting	Implemented
Justice Court – Internal Controls	Repeated

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

June 21, 2013