

ACTION FOR EASTERN MONTANA
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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DECEMBER 31, 2010 AND 2009**

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditors' Report on Financial Statements	3 - 4
Statements of Financial Position	5
Statements of Activities	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 13
Schedules of Functional Expenses	14 - 15
Schedules of Expenditures of Federal Awards	16 - 17
Notes to Schedule of Expenditures of Federal Awards	18
Independent Auditors' 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	19 - 20
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	21 - 23
Schedule of Findings and Questioned Costs	24 - 28

INDEPENDENT AUDITORS' REPORT

Board of Directors
Action for Eastern Montana
Glendive, Montana 59330

We have audited the accompanying statements of financial position of Action for Eastern Montana (AEM) (a nonprofit corporation) as of December 31, 2010 and 2009 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of AEM's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AEM as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2011 on our consideration of AEM's internal control over financial reporting and on 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of AEM taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

HAMILTON CONSULTING GROUP, PLLP

May 17, 2011

**ACTION FOR EASTERN MONTANA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

ASSETS:	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents	\$ 1,446,167	\$ 1,743,350
Grants Receivable	377,884	307,950
Other Assets	183,605	125,313
Land, Buildings, and Equipment	1,634,458	1,681,172
	<hr/>	<hr/>
Total Assets	<u>\$ 3,642,114</u>	<u>\$ 3,857,785</u>
LIABILITIES AND NET ASSETS:		
Liabilities		
Accrued Payroll Taxes and Benefits	\$ 119,099	\$ 79,596
Accrued Expenses	287,228	505,345
Accrued Vacation and Sick Leave	131,688	110,552
Deferred Revenue	239,021	427,252
Long-Term Debt	308,898	326,071
	<hr/>	<hr/>
Total Liabilities	1,085,934	1,448,816
Net Assets		
Unrestricted	2,556,180	2,408,969
	<hr/>	<hr/>
Total Net Assets	2,556,180	2,408,969
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 3,642,114</u>	<u>\$ 3,857,785</u>

See Accompanying Notes to Financial Statements

**ACTION FOR EASTERN MONTANA
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Revenues, Gains, and Other Support:		
Grants Awarded	\$ 5,835,731	\$ 5,890,872
Investment Income	14,152	25,231
Other Income	652,722	752,015
	<hr/>	<hr/>
Total Revenues, Gains, and Other Support	6,502,605	6,668,118
	<hr/>	<hr/>
Expenses and Losses:		
Program		
Head Start	1,025,587	1,115,025
Community Service Block Grant Home	410,541	615,268
Summer Youth Training	—	300,000
WIA Youth	107,480	293,317
WIA Youth	324,052	207,693
Weatherization	1,710,313	1,266,259
Low Income Energy Assistance	154,729	217,638
Aging	1,517,205	1,657,099
Section 8	106,775	108,341
Emergency Homeless/RHED	152,714	110,600
Management and General	845,998	518,710
Investment Losses	—	61
	<hr/>	<hr/>
Total Expenses	6,355,394	6,410,011
	<hr/>	<hr/>
Change in Net Assets	147,211	258,107
Net Assets at Beginning of Year, as previously reported	2,408,969	2,167,503
Prior Period Adjustments (Note 11)	—	(16,641)
	<hr/>	<hr/>
Net Assets at Beginning of Year, as restated	2,408,969	2,150,862
	<hr/>	<hr/>
Net Assets at End of Year	<u>\$ 2,556,180</u>	<u>\$ 2,408,969</u>

See Accompanying Notes to Financial Statements

**ACTION FOR EASTERN MONTANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 147,211	\$ 258,107
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
(Increase) Decrease		
Accounts Receivable	—	21,908
Grants Receivable	(69,934)	(141,541)
Other Assets	(26,714)	(32,622)
Increase (Decrease)		
Payroll Taxes and Benefits Payable	39,503	32,683
Accrued Expenses	(218,117)	233,571
Accrued Vacation and Sick Leave	21,136	7,528
Deferred Revenue	(188,231)	(3,281)
Depreciation	169,333	142,725
	<hr/>	<hr/>
Net Cash Provided (Used) By Operations	(125,813)	519,078
	<hr/>	<hr/>
Cash Flows From Investing Activities:		
Proceeds from Sale of Equipment	12,300	—
Purchase of Buildings and Equipment	(134,919)	(523,581)
Investment in Partnership	(31,578)	(50,770)
	<hr/>	<hr/>
Net Cash Used By Investing Activities	(154,197)	(574,351)
	<hr/>	<hr/>
Cash Flows From Financing Activities:		
Proceeds from Short-Term Borrowings	—	95,623
Proceeds from Long-Term Borrowings	—	97,019
Cash Payments on Mortgage Notes Payable	(17,173)	(112,434)
	<hr/>	<hr/>
Net Cash Provided (Used) by Financing Activities	(17,173)	80,208
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	(297,183)	24,935
Cash and Cash Equivalents at Beginning of Year	1,743,350	1,718,415
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	<u>\$ 1,446,167</u>	<u>\$ 1,743,350</u>
Supplemental Disclosure		
Interest Paid	\$ 19,174	\$ 18,197
Interest Income Received	\$ 14,152	\$ 25,231

See Accompanying Notes to Financial Statements

**ACTION FOR EASTERN MONTANA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Action for Eastern Montana was organized to help the people of Eastern Montana to mobilize their resources to combat poverty by eliminating the underlying causes of poverty, by improving human performance, motivation and productivity and by bettering the conditions under which people of Eastern Montana live, learn and work.

The board of directors exercise oversight responsibility for all of the programs presented on the Statement of Activities.

Action for Eastern Montana receives a significant portion of its revenue from grants/contracts from government agencies; thus, Action for Eastern Montana is subject to possible cutbacks due to changes in funding priorities. During the years ended December 31, 2010 and 2009, Action for Eastern Montana received approximately 90% and 88%, respectively, of its gross public support from such grants/contracts.

Basis of Accounting

The financial statements of Action for Eastern Montana have been prepared on the accrual basis of accounting.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, Action for Eastern Montana is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. No permanently or temporarily restricted assets were held during the years ended June 30, 2010 and 2009, and accordingly, these statements do not reflect any activity related to these classes of net assets.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporary restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and other equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**ACTION FOR EASTERN MONTANA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Action for Eastern Montana is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

In June 2006, the Financial Accounting Standards Board (FASB) issued standards addressing the accounting for uncertainties in income taxes recognized in an entity's financial statements and prescribing a threshold of more-likely-than-not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. The determination of tax exempt status is considered to be a tax position with respect to these standards.

The Company's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence. It is the opinion of management that the Company has no uncertain tax positions.

With few exceptions, the Company is no longer subject to examinations by federal and state tax authorities for years before 2007.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Revenue

Action for Eastern Montana records a restricted grant award as a deferred revenue until it is expended for the purpose of the grant, at which time it becomes unconditional and is recognized as revenue. For financial reporting purposes, deferred revenues represent unearned revenues which correspond with cash advances received for grant contracts. Deferred revenue as of December 31, 2010 and 2009 is \$239,021 and \$427,252, respectively.

**ACTION FOR EASTERN MONTANA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of a non-federally funded insured repurchase agreement held by the Stockman Bank of Glendive, Montana. The deposits are fully collateralized with securities held by the pledging financial institution's trust department in the Organization's name as of December 31, 2010 and 2009.

For the purpose of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

3. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost at date of purchase, or fair market at date of donation. Management's policy is to capitalize property and equipment over \$5,000. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Major betterments are capitalized and depreciated. Maintenance and repairs which do not significantly improve or extend the life of the respective assets are expensed currently. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statement of activity. Property and equipment transactions are outlined as follows:

	<u>Balance</u> <u>1/01/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/10</u>
Machinery & Equipment	\$ 326,659	\$ 14,852	\$ -	\$ 341,511
Vehicles	597,319	91,401	(106,344)	582,376
Land and Buildings	1,662,201	16,366	-	1,678,567
Improvements	5,160	-	-	5,160
Acc. Depreciation	(910,167)	(169,333)	106,344	(973,156)
Totals	<u>\$ 1,681,172</u>	<u>\$ (46,714)</u>	<u>\$ -</u>	<u>\$ 1,634,458</u>

4. OTHER INCOME

Other income on the statement of activity consisted of the following for the year ended December 31, 2010 and 2009:

<u>Description</u>	<u>2010</u>	<u>2009</u>
Aging Carryover Funds	\$ 129,788	\$ 131,071
Energy Share and Fuel Assistance Payments	315,716	413,070
Program Activities	84,134	99,501
Miscellaneous Income (Reimbursements)	123,084	108,373
	<u>\$ 652,722</u>	<u>\$ 752,015</u>

**ACTION FOR EASTERN MONTANA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

5. EMPLOYEE BENEFITS

Action for Eastern Montana has a 401(K) pension plan. The agency provides a 2 for 1 matching contribution to employees up to a maximum of 4% for all eligible employees. Eligible employees are those who have one year of service, worked at least 700 hours and are 21 years of age.

Action for Eastern Montana provides group health insurance to all permanent and seasonal employees who work 700 hours per year and 24 hours per week, or more.

During the years ended December 31, 2010 and 2009, Action for Eastern Montana paid \$364,903 and \$329,482, respectively, in employee benefits.

6. ANNUAL LEAVE

Annual leave is earned by full-time employees at the following rates:

<u>Years of Service</u>	<u>Annual Leave Earned</u>
0 - 5	4.64 hours per two weeks
5 - 15	5.52 hours per two weeks
16 - 20	6.40 hours per two weeks
21+	7.36 hours per two weeks

Eligible part-time employees earn leave in proportion to the hours they work. Upon termination, employees who have completed at least 6 months of service, may be paid for accrued annual leave up to a maximum of 240 hours. Annual leave payable as of December 31, 2010 and 2009, is \$131,688 and \$110,552, respectively.

**ACTION FOR EASTERN MONTANA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

7. LONG-TERM DEBT

	<u>2010</u>	<u>2009</u>
Real estate mortgage payable to Stockman Bank of Glendive. Payable in monthly installments of \$1,145, including variable interest which was 6.42% at December 31, 2010 and 2009, respectively. Matures 12/01/22.	\$ 116,476	\$ 120,354
Real estate mortgage payable to Stockman Bank of Glendive. Payable in monthly installments of \$922, including variable interest which was 7.32% at December 31, 2010 and 2009, respectively. Matures 2/10/14.	31,132	39,588
Real estate mortgage payable to Stockman Bank of Glendive. Payable in monthly installments of \$715, including variable interest which was 6.35% on December 31, 2010 and 2009, respectively. Matures 7/01/29.	93,442	95,999
Real estate mortgage payable to USDA-RD Community Program. Payable in monthly installments of \$442, including interest at 4.375%. Matures 6/18/44.	67,848	70,130
Total	<u>\$ 308,898</u>	<u>\$ 326,071</u>
Maturity Schedule		
2011	\$ 18,883	\$ 16,738
2012	19,857	19,251
2013	21,147	20,608
2014	22,523	22,061
2015	14,735	15,054
2016 and thereafter	211,753	232,359
	<u>\$ 308,898</u>	<u>\$ 326,071</u>

8. INVESTMENT IN PARTNERSHIP

As of December 31, 2009, Action for Eastern Montana had invested a total of \$90,002 for a general partnership interest in Makoshika Estates Limited Partnership. The purpose of the Partnership is to provide housing for low income senior citizens. In 2010, an additional \$31,573 was provided to the Partnership to pay for additional expenses making the investment in this partnership \$121,580. The Partnership also shows recourse debt of \$133,208 and \$77,926 as of December 31, 2010 and 2009, allocable to Action for Eastern Montana. The investment is reported at cost and included under Other Assets.

**ACTION FOR EASTERN MONTANA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

8. INVESTMENT IN PARTNERSHIP

In 2009, Action for Eastern Montana was awarded a HOME grant in the amount of \$300,000. Action then distributed this money to Makoshika Estates to assist in the construction of the low income housing project. Action for Eastern Montana accounted for the transaction as grant income with a corresponding program expense. Makoshika Estates is accounting for the transaction as a loan payable to Action for Eastern Montana with principle and interest due in 2029. Upon receipt of the loan payments, Action for Eastern Montana will account for the principle and interest as program revenue and will use that income to establish a revolving loan fund to be used for low income housing projects.

9. OPERATING LEASES

Action for Eastern Montana has entered into several contracts to lease office space at various locations around the state on a month by month basis, these leases are automatically renewable every year. Total payments under the operating leases for the years ended December 31, 2010 and 2009 were \$65,989 and \$58,593, respectively. Future leases payments are \$34,128 per year.

10. MINERAL RIGHTS

Action for Eastern Montana received \$283 and \$197 in 2010 and 2009 respectively in royalty income from mineral rights donated to them in 1998. No value has been placed on these mineral rights as management considers the value to be immaterial to the financial statements.

11. PRIOR PERIOD ADJUSTMENT

An error was discovered in the 2009 financial statements, whereby a vehicle was incorrectly recorded twice. Due to this error, fixed assets, accumulated depreciation and net assets were overstated in the prior year. Correction of the error resulted in a decrease in net assets of \$16,641.

12. SUBSEQUENT EVENTS

Action for Eastern Montana recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed as of December 31, 2010, including the estimates inherent in the process of preparing financial statements. Subsequent events that provide evidence about conditions that did not exist as of December 31, 2010 but arose after that date and prior to the financial statements are available to be issued are not recognized in these financial statements. Action for Eastern Montana evaluates subsequent events through the date the financial statements are available to be issued which is the date of the auditors' report.

**ACTION FOR EASTERN MONTANA
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010**

	<u>Head Start</u>	<u>Community Services Block Grant</u>	<u>Summer Youth Training</u>	<u>WIA Youth</u>	<u>Weatherization</u>
Salaries	\$ 554,331	\$ 121,567	\$ 85,236	\$ 233,493	\$ 478,286
Payroll Taxes	93,429	13,598	12,270	30,818	106,834
Employee Benefits	117,523	9,299	5,079	27,088	104,655
Close out Costs	-	-	3,056	652	8,786
Contracted Services	704	5,138	-	-	107,140
Travel	-	70,511	823	9,593	87,213
Other Costs	55,922	103,553	28	2,768	57,295
Rent	12,786	5,599	-	-	9,473
Supplies	34,902	38,595	-	1,780	78,918
Telephone and Utilities	33,446	8,618	69	163	2,377
Training	24,450	3,508	-	-	-
Support Services	-	2,953	876	17,355	113,665
Insurance	-	10,252	-	-	14,553
Transportation	1,185	2,787	43	342	58,582
Meals	65,721	6,729	-	-	-
Maintenance and Repairs	31,188	7,834	-	-	-
Materials	-	-	-	-	482,536
Interest	-	-	-	-	-
Depreciation	-	-	-	-	-
Totals	<u>\$ 1,025,587</u>	<u>\$ 410,541</u>	<u>\$ 107,480</u>	<u>\$ 324,052</u>	<u>\$ 1,710,313</u>

