



Management's Discussion and Analysis and
Basic Financial Statements
June 30, 2014 and 2013

**Public Hospital District for
Beaverhead County
d/b/a Barrett Hospital & HealthCare**

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare

Table of Contents
June 30, 2014 and 2013

Section I

Independent Auditor's Report.....	1
Management's Discussion and Analysis Barrett Hospital & HealthCare.....	4
Basic Financial Statements	
Balance Sheets.....	9
Statements of Revenues, Expenses and Changes in Net Position.....	10
Statements of Cash Flows	11
Notes to Financial Statements	13
Supplementary Information	
Combining Schedules of Assets	30
Combining Schedules of Liabilities and Net Position	31
Combining Schedules of Revenues, Expenses and Changes in Net Position.....	32
Schedules of Net Patient Service Revenue.....	33
Schedules of Other Revenue	34
Schedules of Expenses	35
Operational and Financial Highlights	37

Section II

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Independent Auditor's Report on Compliance for Each Major Program; and Report on Internal Control over Compliance Required by OMB Circular A-133	40
Schedule of Expenditures of Federal Awards	43
Notes to Schedule of Expenditures of Federal Awards	44
Schedule of Findings and Questioned Costs	45
Summary Schedule of Prior Year Findings.....	50

Section III

Independent Auditor's Report on Debt Agreement Covenants	51
Independent Auditor's Report on Regulatory Agreement	52

Section I



Independent Auditor's Report

The Board of Trustees
Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Dillon, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 contain 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare as of June 30, 2014 and 2013, and the results of its operations, changes in net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 8 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The combining information; schedules of net patient service revenue, other revenue and expenses; and operational and financial highlights on pages 30 to 37 are presented for purposes of additional analysis and are not a required part of the financial statements. The 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 financial statements.

The supplementary information on pages 30 to 37 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We also have previously audited the financial statements of the Hospital as of and for the years ended June 30, 2012, 2011, 2010 and 2009, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements. We expressed unmodified opinions on those financial statements. Those audits were conducted for the purposes of forming an opinion on the financial statements as a whole. Certain information in the operational and financial highlights on page 37 was derived from, and relates directly to the underlying accounting and other records used to prepare the June 30, 2012, 2011, 2010, and 2009 financial statements. The supplementary information on pages 30 to 37 and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 30 to 37 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole or to the basic financial statements from which the information has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2014 on our consideration of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's internal control over financial reporting and compliance.

Eide Bailly LLP

Billings, Montana
December 17, 2014

Management's Discussion and Analysis Barrett Hospital & HealthCare

Our discussion and analysis for Barrett Hospital & HealthCare – GASB 34 financial performance provides an overview of Barrett Hospital & HealthCare's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Hospital's financial statements, which begin on page 9.

Financial Highlights

- The Hospital's net position decreased in 2014 by (\$140,359) or (0.63%) and increased in 2013 by \$1,247,916 or 5.89%.
- The Hospital reported an operating loss of (\$162,948) in 2014 and operating income of \$1,158,164 in 2013. Net operating income in 2014 decreased by \$1,321,112 or 114.07%. The 2013 operating gain was an increase of \$142,482 or 14.03%.
- Nonoperating income increased by \$928,756 in 2014 compared to 2013. Nonoperating income decreased by \$228,602 in 2013 compared to 2012.

Using This Annual Report

The Hospital's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital including resources held by the Hospital but restricted for specific purposes by contributors, grantors or enabling legislation.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows (page 11). The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did the cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet on page 9. Table 1 summarizes the assets, liabilities and net position for 2014, 2013 and 2012.

Table 1: Assets, Liabilities and Deferred Inflows and Net Position

	2014	2013	2012 (Restated)
Assets:			
Current Assets	\$ 9,432,461	\$ 9,327,575	\$ 8,960,039
Noncurrent Cash and Investments	9,397,603	7,941,100	6,176,755
Capital Assets	39,232,185	39,857,264	40,469,141
Other Assets	113,214	225,407	536,873
Total Assets	\$ 58,175,463	\$ 57,351,346	\$ 56,142,808
Liabilities:			
Long-term debt outstanding	\$ 29,925,645	\$ 30,724,521	\$ 26,810,020
Other current and noncurrent liabilities	5,951,940	4,188,588	8,142,467
Total Liabilities and deferred inflows	\$ 35,877,585	\$ 34,913,109	\$ 34,952,487
Net Position:			
Invested in capital, net of long term debt	\$ 8,425,899	\$ 8,054,012	\$ 12,215,356
Unrestricted	13,156,070	13,516,167	7,840,422
Restricted	715,909	868,058	1,134,543
Total net position	\$ 22,297,878	\$ 22,438,237	\$ 21,190,321
Total liabilities, deferred and net position	\$58,175,463	\$57,351,346	\$56,142,808

Operating Results and Changes in the Hospital's Net Position

In 2014 the Hospital's net position decreased by (\$140,359) or (0.63%), as shown in Table 2. This decrease is made up of different components. There was an increase in net position for 2013 of \$1,247,916 or 5.89%. The operating results are detailed on page ten of this report.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012 (Restated)
Operating Revenues:			
Net patient service revenues	\$ 28,727,210	\$ 29,811,578	\$ 26,058,345
Electronic Health Record Incentive Payments	234,684	319,203	235,000
Other operating revenue	568,376	399,113	483,174
Total Operating Revenues	\$ 29,530,270	\$ 30,529,894	\$ 26,776,519
Operating Expenses:			
Salaries and benefits	\$ 17,331,158	\$ 17,024,333	\$ 15,827,596
Medical supplies & drugs	3,212,832	3,129,370	2,820,176
Depreciation and amortization	2,179,484	2,085,741	941,768
Other operating expenses	6,969,744	7,132,286	6,171,297
Total Operating Expenses	\$ 29,693,218	\$ 29,371,730	\$ 25,760,837
Operating Income (Loss)	\$ (162,948)	\$ 1,158,164	\$ 1,015,682
Nonoperating Revenues and Expenses			
County levy	\$ 55,137	\$ 57,339	\$ 58,254
Investment income & Unrealized Gain/(Loss) on investments	691,427	284,230	164,994
Grants and contributions	692,556	397,056	100,023
Grant expenditures to subrecipients	(467,273)	(264,204)	-
Mortgage subsidy	449,957	696,697	-
Gain/(Loss) on sale of equipment	100	390	(1,092,964)
Demolition costs	-	(160,000)	-
Interest expense	(1,592,555)	(2,103,860)	(101,062)
Other nonoperating revenues and expenses, net	(684)	(7,739)	(734)
Total Other Income	\$ (171,335)	\$ (1,100,091)	\$ (871,489)
Excess of Revenues over (less than) Expenses before Capital Grants and Restricted Contributions	\$ (334,283)	\$ 58,073	\$ 144,193
Capital Grants and Restricted Contributions	\$ 193,924	\$ 1,189,843	\$ 287,896
Change in Net Position	\$ (140,359)	\$ 1,247,916	\$ 432,089
Net Position, Beginning of the Year	\$ 22,438,237	\$ 21,190,321	\$ 20,758,232
Net Position end of year	\$ 22,297,878	\$ 22,438,237	\$ 21,190,321

Operating Income

The first component of the overall change in the Hospital's net position is its operating income – generally, the difference between net patient service revenues and the expenses incurred to perform those services. In the past three years, the Hospital has reported income from operations. The Hospital operates as a district hospital with a portion of its costs subsidized by property tax revenues, making the facility more affordable for the County's lower income residents.

The primary components of the operation results for 2014 are:

- A decrease in net patient service revenue of (\$1,084,368) or (3.63%) in 2014.
- Increases in salary and benefits for the hospital's employees of \$306,825 or 1.80% in 2014.
- Bad debt and charity care as a percent of net patient service revenue decreased to 6.33% in 2014.

The primary components of the operation results for 2013 are:

- An increase in net patient service revenue of \$3,753,233 or 14.40% in 2013.
- Increases in salary and benefits for the hospital's employees of \$1,196,737 or 7.56% in 2013.
- Bad debt and charity care continue to be high – 7.01% of net patient service revenue. This reflects the continued difficult economic conditions.
- 2013 was the first year of operation in the new hospital facility – resulting in significantly higher interest expense and depreciation.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. Major components of the Hospital's costs are expenses for medical supplies and prescription drugs. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix. All other expenses are subject to inflationary increases and some like utilities are subject to usage increases.

Nonoperating Revenues and Expenses

Nonoperating income consists primarily of county levies, contributions, mortgage subsidy, interest expense and investment earnings.

Grants, Contributions, and Endowments

The Hospital receives contributions and some grants from various state and federal agencies for specific programs. These are discussed in detail in Note 1 to the financial statements.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses, discussed earlier. Cash flows also consist of capital and capital related financing activities, such as capital asset purchases, repayment of long-term debt and proceeds from long-term debt. Additionally there is investing activity.

Capital Assets and Debt Administration

At the end of 2014, the Hospital had approximately \$39 million invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2014, the Hospital purchased new capital assets costing \$1,618,913. In 2013, \$1,529,061 of capital assets were acquired.

Debt

The Hospital's long-term debt is detailed in Note 7 to the financial statements. At year-end, the Hospital had \$30,806,286 in building loans and equipment loans outstanding. No new debt was incurred in 2014; however, a new capital lease in the amount of \$157,774 was incurred. In 2014 payments on debt and capital leases totaled \$1,154,740.

Other Economic Factors

We are not aware of any anticipated significant changes to the local economy that would have an adverse effect on our Hospital. Uncertainty in health insurance reimbursement as the Affordable Care Act is fully implemented and changing payment models with emphasis on payment for continuum of care and wellness may affect net reimbursement. Proceeds from the Medicare program are currently experiencing a 2% decrease due to the budget sequestration cuts.

Contacting the Hospital's Financial Management

This financial report is designated to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives.

If you have questions about this report or need additional financial information contact Barrett Hospital & HealthCare Chief Financial Officer's Office at Barrett Hospital & HealthCare, 600 MT Highway 91 South, Dillon, MT 59725.



Basic Financial Statements
June 30, 2014 and 2013

**Public Hospital District for
Beaverhead County
d/b/a Barrett Hospital & HealthCare**

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,963,663	\$ 3,047,048
Short-term investments	546,570	543,908
Receivables		
Patient, net of estimated uncollectibles of \$2,331,000 in 2014 and \$2,275,000 in 2013	5,140,431	4,456,398
Estimated third-party payor settlements	641,920	268,000
Promises to give, net of estimated uncollectibles	95,545	137,803
Other	164,231	93,928
Supplies	567,001	557,148
Prepaid expenses	313,100	223,342
	<u>9,432,461</u>	<u>9,327,575</u>
Noncurrent Cash and Investments		
Designated by Board for capital improvements	6,351,057	5,697,080
Held by Trustee under mortgage agreements	2,824,605	2,067,492
Other long-term investments	221,941	176,528
	<u>9,397,603</u>	<u>7,941,100</u>
Capital Assets		
Capital assets not being depreciated	1,736,791	2,379,128
Depreciable capital assets, net of accumulated depreciation	37,495,394	37,478,136
	<u>39,232,185</u>	<u>39,857,264</u>
Other Assets		
Promises to give, net of estimated uncollectibles	32,334	134,587
Long-term receivables	38,338	51,737
Deposits	42,542	39,083
	<u>113,214</u>	<u>225,407</u>
Total other assets	<u>113,214</u>	<u>225,407</u>
	<u>\$ 58,175,463</u>	<u>\$ 57,351,346</u>

See Notes to Financial Statements

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare

Balance Sheets
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflow of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 880,641	\$ 1,078,731
Accounts payable	1,686,067	582,229
Accrued expenses		
Compensated absences	649,060	645,805
Salaries and wages	432,616	367,827
Employee benefit plans	362,303	361,455
Payroll taxes and other	302,210	416,076
Interest	347	1,397
Current estimated liability to beneficiaries	184	420
Total current liabilities	4,313,428	3,453,940
Long-Term Debt, Less Current Maturities	29,925,645	30,724,521
Other Noncurrent Liabilities		
Estimated liability to beneficiaries, less current portion	966	2,821
Compensated absences	566,550	473,147
	567,516	475,968
Total liabilities	34,806,589	34,654,429
Deferred Inflow of Resources		
Electronic health records incentive payment	1,070,996	258,680
Total liabilities and deferred inflow of resources	35,877,585	34,913,109
Net Position		
Net investment in capital assets	8,425,899	8,054,012
Restricted		
Expendable	690,348	844,315
Nonexpendable endowment	25,561	23,743
Unrestricted	13,156,070	13,516,167
Total net position	22,297,878	22,438,237
	\$ 58,175,463	\$ 57,351,346

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$1,359,679 in 2014 and \$1,405,536 in 2013)	\$ 28,727,210	\$ 29,811,578
Electronic health record incentive payments	234,684	319,203
Other revenue	568,376	399,113
Total operating revenues	29,530,270	30,529,894
Operating Expenses		
Salaries	14,063,207	13,651,245
Employee benefits	3,267,951	3,373,088
Supplies	3,212,832	3,129,370
Depreciation	2,179,484	2,085,741
Purchased services	2,147,199	2,209,478
Physician fees	830,171	623,088
Lease expenses	715,479	686,488
Repairs and maintenance	608,830	558,752
Utilities	530,222	483,220
Insurance	487,830	487,806
Management contract	410,021	394,760
Other professional fees	323,184	603,585
Mortgage insurance premiums and financing	174,761	215,733
Marketing and recruiting	154,148	175,859
Outside education	136,265	187,671
Dues, books and subscriptions	111,407	112,046
Bed taxes	80,550	92,700
Travel, mileage, meals and lodging	58,467	65,106
Foundation programs	42,448	34,268
Other	158,762	201,726
Total operating expenses	29,693,218	29,371,730
Operating Income (Loss)	(162,948)	1,158,164
Non-operating Revenues (Expenses)		
Grants and contributions	692,556	397,056
Grant expenditures to subrecipients	(467,273)	(264,204)
Property taxes	55,137	57,339
Interest expense	(1,592,555)	(2,103,860)
Investment income	691,427	284,230
Mortgage subsidy	449,957	696,697
Net medical office building rent	(2,502)	(7,859)
Demolition costs	-	(160,000)
Gain on sale and disposal of capital assets	100	390
Change in value of split-interest agreements	1,818	120
Total non-operating revenues (expenses)	(171,335)	(1,100,091)
Revenues in Excess of (Less than) Expenses Before Capital Grants and Restricted Contributions	(334,283)	58,073
Capital Grants and Restricted Contributions	193,924	1,189,843
Change in Net Position	(140,359)	1,247,916
Net Position, Beginning of the Year	22,438,237	21,190,321
Net Position, End of Year	\$ 22,297,878	\$ 22,438,237

See Notes to Financial Statements

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Cash received from patient services	\$ 27,923,928	\$ 31,398,541
Cash payments to employees for services	(16,539,580)	(16,541,918)
Cash payments to suppliers for goods and services	(9,122,623)	(11,094,802)
Other receipts and payments, net	501,467	457,113
Net Cash from Operating Activities	2,763,192	4,218,934
Noncapital Financing Activities		
Property taxes, noncapital grants and contributions	891,931	869,781
Grant expenditures to subrecipients	(467,273)	(264,204)
Proceeds from mortgage subsidy	449,957	696,697
Net medical office building rent, excluding depreciation and interest	72,375	69,217
Net Cash from Noncapital Financing Activities	946,990	1,371,491
Capital and Capital Related Financing Activities		
Proceeds from issuance of long-term debt	-	4,753,400
Repayment of long-term debt	(1,154,740)	(1,211,853)
Payment of interest on long-term debt	(1,603,974)	(2,127,441)
Capital grants and contributions	193,924	1,189,843
Proceeds from sale of capital assets	100	390
Payment for demolition of capital assets	-	(160,000)
Purchase of capital assets	(1,461,139)	(4,754,548)
Net Cash used for Capital and Capital Related Financing Activities	(4,025,829)	(2,310,209)
Investing Activities		
Purchases of investments	(253,192)	(1,932,582)
Proceeds from sale and maturities of investments	28,370	258,270
Interest and dividends received	219,005	114,402
Net Cash used for Investing Activities	(5,817)	(1,559,910)
Net Change in Cash and Cash Equivalents	(321,464)	1,720,306
Cash and Cash Equivalents at Beginning of Year	5,326,905	3,606,599
Cash and Cash Equivalents at End of Year	\$ 5,005,441	\$ 5,326,905

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,963,663	\$ 3,047,048
Designated by Board for capital improvements Held by Trustee under mortgage agreements	217,173	212,365
	2,824,605	2,067,492
Total cash and cash equivalents	\$ 5,005,441	\$ 5,326,905
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income (loss)	\$ (162,948)	\$ 1,158,164
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	2,179,484	2,085,741
Changes in assets and liabilities		
Receivables	(740,937)	1,374,003
Estimated third-party payor settlements	(373,920)	82,000
Supplies	(9,853)	107
Prepaid expenses	(89,758)	(114,934)
Deposits	(3,459)	(12,291)
Accounts payable	1,103,838	(847,011)
Accrued expenses	48,429	234,475
Deferred inflow of resources	812,316	258,680
	\$ 2,763,192	\$ 4,218,934
Net Cash from Operating Activities		
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activity		
Equipment financed through capital lease arrangement	\$ 157,774	\$ 7,920

Note 1 - Organization and Significant Accounting Policies

Organization

Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare (Hospital) is a 25-bed acute care hospital located in Dillon, Montana. The Hospital is operated by the Public Hospital District for Beaverhead County (County), a public hospital district organized and operating under the laws of the State of Montana. The Hospital is not subject to federal income taxes.

Because of the nature and significance of the relationship of Barrett Hospital Foundation, Inc. (Foundation) with the Hospital, the accounts of the Foundation have been included in the 2014 and 2013 financial statements. The Foundation was formed to perform or carry out charitable and educational purposes, which include providing services and conducting programs in support of the Hospital, and to provide financial assistance and hold assets in support of the Hospital.

During 2009, Barrett Hospital Development Corporation (Development) was formed to lease land and borrow money to finance, construct and maintain a new hospital building. The Hospital is the sole member of Development and Development's governing body consists of the Trustees of the Hospital. The accounts of Development have been included in the 2014 and 2013 financial statements. Development is exempt from federal taxes under section 501(c)(3) of the Internal Revenue Code.

All material intercompany transactions and balances have been eliminated.

Blended Component Units

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Foundation and Development have been determined to be component units and are presented as blended component units in the Hospital's financial statements.

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, such as property taxes, investment income, and interest on capital assets-related debt are included in non-operating revenues and expenses. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

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.

Short-Term Investments and Investment Income

Short-term investments include certificates of deposit with an original maturity of three to twelve months and are recorded at historical cost. Interest income is recorded when earned.

Patient Receivables

Patient receivables are uncollateralized patient and third party payor obligations. Patient receivables, excluding amounts due from third-party payors, are due within 28 days from the invoice date. Patients are offered a 5% discount if full payment is received within the 28 days. Unpaid patient receivables, excluding amounts due from third-party payors, with invoice dates over 56 days old that have not received any payments or contact from the patient are considered delinquent and may be remitted to a collection agency. Payment arrangements can be made with the business office to finance the balance due for up to six months with minimum monthly payments of \$50. Accounts requiring longer than six months financing are remitted to an external accounts receivable management agency.

Payments of patient receivables are allocated to the specific invoices identified on the patient's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate. The Hospital's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from 2013 to 2014. The Hospital has not significantly changed its charity care or uninsured discount policies during fiscal years 2014 and 2013.

Supplies

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

Designated by Board for Capital Improvements

Designated by Board for capital improvements assets are set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Long-Term Receivables

Long-term receivables consist of physician incentive contract and employee education assistance receivables. These receivables are periodically forgiven based upon length of service and other contract provisions. Management reviews all long-term receivables periodically and estimates a portion, if any, of the balance that will not be collected or earned under the contract provisions. There was no allowance as of June 30, 2014 and 2013.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	5 – 20 years
Buildings and improvements	10 – 40 years
Equipment	3 – 20 years

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended June 30, 2014 and 2013.

Income Taxes

The Hospital is a governmental subdivision of Beaverhead County, which is exempt from federal income taxes under section 501(A) of the Internal Revenue Code. The Foundation and Development are tax-exempt organizations pursuant to Section 501 (c) (3) of the Internal Revenue Code. The Hospital, Foundation and Development believe that they have appropriate support for any uncertain tax positions that are material to the financial statements. The Hospital, Foundation and Development will recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense, if incurred. The Hospital, Foundation and Development are no longer subject to federal tax examinations by tax authorities for the years before 2011.

Property Taxes

The County assesses a 3-mill levy on the taxpayers to pay for general operations of the Hospital. The Hospital also receives funds from the County for certain principal and interest payments. The funds were used as follows:

	2014	2013
Used to support operations	\$ 55,128	\$ 55,911
Levied for bond principal	-	1,010
Levied for bond interest	9	418
Nonoperating revenue	\$ 55,137	\$ 57,339

Compensated Absences

The Hospital has a paid time off (PTO) policy, which incorporates compensated absences for holidays and vacations. Employees earn PTO at varying rates depending on years of service and may accumulate PTO up to a specified maximum. Expense and the related liability are recognized as benefits when accrued. PTO is computed using regular pay rates in effect at the balance sheet date, plus an additional amount for compensation related payments such as social security and Medicare taxes computed using rates in effect at the time.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred outflows of resources reported in the financial statements are unearned Electronic Health Record Incentive (EHR) payments revenue.

Net Position

Net position is presented in the following components:

Net Investment in Capital Assets – consists of capital assets, net of accumulated depreciation and is reduced by the balance of any outstanding debt obligations used to finance the purchase or construction of those assets.

Restricted, Expendable – is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital.

Restricted, Nonexpendable Endowment – consists of the principal portion of permanent endowments.

Unrestricted – is the remaining net position that does not meet the definition of “Net Investment in Capital Assets,” “Restricted, Expendable,” or “Restricted, Nonexpendable.”

Operating Revenues and Expenses

The Hospital’s statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from the exchange transactions associated with providing health care services – the Hospital’s principal activity. Nonexchange 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.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, 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.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Hospital does not pursue collection, the amounts are not reported as patient service revenue. The amounts of charges foregone for services provided were approximately \$457,000 and \$685,000 for the years ended June 30, 2014 and 2013, respectively. Total direct and indirect costs related to these foregone charges were approximately \$346,000 and \$505,000 at June 30, 2014 and 2013, based on an average ratio of cost to gross charges.

Mortgage Subsidy

Mortgage subsidy, included in non-operating revenues, represents a federal subsidy received related to interest paid on Build America Bonds.

Advertising Costs

The Hospital expenses advertising costs as they are incurred.

Electronic Health Record (EHR) Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology. To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Hospital will recognize Medicare EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments. As the entire Medicare EHR incentive payment is received in a lump sum for critical access hospitals and the Hospital must annually attest to increasingly stringent meaningful use criteria, the Medicare EHR incentive payment is first recognized as a deferred inflow of resources with a ratable recognition of revenue over a specified time period. Amounts recognized represent management's best estimates for payments ultimately expected to be received from Medicare and Medicaid based on estimated discharges, charity care and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

During the years ended June 30, 2014 and 2013, the Hospital recorded \$189,684 and \$178,203, respectively, related to the Medicare program, and \$45,000 and \$141,000, respectively, related to the Medicaid program, in other operating revenue for meaningful use incentives. The Hospital has unavailable revenue, a deferred inflow of resources, related to the EHR incentive payments of \$1,070,996 and \$258,680 remaining at June 30, 2014 and 2013.

Risk Management

The Hospital is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; 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.

Reclassifications

Reclassifications have been made to the June 30, 2013 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Subsequent Events

The Hospital has evaluated subsequent events through December 17, 2014, the date which the financial statements were available to be issued.

Note 2 - Promises to Give

Promises to give consist of:

	2014	2013
Less than one year	\$ 102,437	\$ 151,949
One to five years	37,861	148,765
	140,298	300,714
Less discounts to net present value (3%)	(1,278)	(5,532)
Less allowance for uncollectible promises to give	(11,141)	(22,792)
Net promises to give	\$ 127,879	\$ 272,390

Note 3 - Net Patient Service Revenue

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

Medicare: – The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare intermediary. Certain services are subject to cost limits or fee schedules. The Hospital'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 Hospital. The Hospital's Medicare Cost Reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2012.

Medicaid: – Inpatient acute care services, other inpatient services, outpatient services, and outpatient capital costs related to Medicaid program beneficiaries are paid based on the lower of customary charges or allowable cost as determined through the Hospital's Medicaid Cost Report, or rates as established by the Medicaid program. The Hospital is reimbursed at a tentative rate with final settlement determined by the program based on the Hospital's final Medicaid Cost Report. The Hospital's Medicaid cost reports have been settled by the Medicaid program through June 30, 2012.

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.

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

Net revenue from the Medicare and Medicaid programs accounted for approximately 46% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2014 and approximately 45% and 6%, respectively, for the year ended June 30, 2013.

Laws and regulations governing 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. The net service revenue for the years ended June 30, 2014 and 2013 increased by approximately \$137,000 and \$150,000, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of patient service revenue and contractual adjustments is as follows:

	2014	2013
Total patient service revenue	\$ 38,162,731	\$ 38,903,035
Contractual adjustments and provision for bad debts		
Medicare	(5,148,700)	(4,680,464)
Medicaid	(796,003)	(726,156)
Other	(2,131,139)	(2,279,301)
Provision for bad debts	(1,359,679)	(1,405,536)
Total contractual adjustments and provision for bad debts	(9,435,521)	(9,091,457)
Net patient service revenue	\$ 28,727,210	\$ 29,811,578

Note 4 - Deposits, Investments, and Investment Income

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the Hospital's deposits may not be returned to it. Montana statutes require that deposits in excess of the amount insured by the federal deposit insurance corporation or the national credit union administration are secured by eligible collateral having a market value equal to at least 50% of the amount of the deposits in excess of the amount insured. All deposits are in compliance with state law. The Hospital's deposits consist of bank checking and savings accounts and are recorded at historical cost. The carrying amount of deposits and investments are included in the Hospital's balance sheets as follows:

	2014	2013
Carrying Amount		
Deposits	\$ 5,048,419	\$ 5,326,905
Investments	6,859,417	6,205,151
	\$ 11,907,836	\$ 11,532,056
Included in the Following Balance Sheet Captions:		
Cash and cash equivalents	\$ 1,963,663	\$ 3,047,048
Short-term investments	546,570	543,908
Noncurrent cash and investments-designated by Board	6,351,057	5,697,080
Noncurrent cash and investments-held by Trustee	2,824,605	2,067,492
Noncurrent cash and investments-other long-term investments	221,941	176,528
	\$ 11,907,836	\$ 11,532,056

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Notes to Financial Statements
June 30, 2014 and 2013

Investments are reported at fair value and include the following investments and maturities at June 30, 2014 and 2013:

	Carrying Amount	Investments Maturities in Years			
		Less Than 1	1-5	6-10	10+
June 30, 2014					
Certificates of Deposit	\$ 1,984,802	\$ 1,852,141	\$ 122,228	\$ 10,433	\$ -
Common Stock	65,011	65,011	-	-	-
Mutual Funds	4,300,787	4,300,787	-	-	-
Fed Home Loan Bank	52,744	-	-	52,744	-
Fed Home Loan Mortgage Corp	79,357	-	-	-	79,357
Fed Farm Credit Banks	191,883	-	-	-	191,883
Other Government Bonds	27,535	-	-	-	27,535
Corporate Bonds	51,396	-	-	-	51,396
Unit Trusts	105,902	105,902	-	-	-
	<u>\$ 6,859,417</u>	<u>\$ 6,323,841</u>	<u>\$ 122,228</u>	<u>\$ 63,177</u>	<u>\$ 350,171</u>
June 30, 2013					
Certificates of Deposit	\$ 2,024,814	\$ 1,796,970	\$ 217,709	\$ 10,135	\$ -
Common Stock	34,587	34,587	-	-	-
Mutual Funds	3,677,714	3,677,714	-	-	-
Fed Home Loan Bank	52,418	-	-	52,418	-
Fed Home Loan Mortgage Corp	131,438	-	-	-	131,438
Fed Farm Credit Banks	182,881	-	-	-	182,881
Corporate Bonds	51,700	-	-	-	51,700
Unit Trusts	49,599	49,599	-	-	-
	<u>\$ 6,205,151</u>	<u>\$ 5,558,870</u>	<u>\$ 217,709</u>	<u>\$ 62,553</u>	<u>\$ 366,019</u>

Interest Rate Risk

The Hospital has a general investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

Credit Risk

State statutes place limits on the types of investments in which the Hospital may invest. As of June 30, 2014 and 2013, the Hospital was compliant with the state statutes with regard to credit risk.

Concentration of Credit Risk

The Hospital places no limit on the amount it may invest in any one issuer.

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Notes to Financial Statements
June 30, 2014 and 2013

Investment income consists of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Interest and dividend income	\$ 219,005	\$ 114,402
Unrealized gains on investments	466,014	148,551
Realized gains from sale of investments	6,408	21,277
	\$ 691,427	\$ 284,230

Note 5 - Leases

The Hospital leases certain equipment and property under noncancelable long-term lease agreements. Certain leases have been recorded as capital leases and others as operating leases. Total lease expense in June 30, 2014 and 2013 for all operating leases was \$715,479 and \$686,714.

Minimum future lease payments for the operating leases are as follows:

Years Ending June 30,	Amount
2015	\$ 648,941
2016	260,619
2017	131,480
2018	62,400
2019	41,424
Total minimum lease payments	\$ 1,144,864

The capital leased assets consist of:

	2014	2013
Major movable equipment	\$ 235,961	\$ 78,187
Less accumulated amortization	(25,614)	(18,755)
	\$ 210,347	\$ 59,432

Minimum future lease payments for the capital leases are as follows:

Years Ending June 30,	Amount
2015	\$ 72,422
2016	72,422
2017	41,902
	186,746
Less interest	(6,321)
Present value of minimum lease payments - Note 7	\$ 180,425

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Notes to Financial Statements
June 30, 2014 and 2013

Note 6 - Capital Assets

A summary of capital assets at June 30, 2014 and 2013 is as follows:

	Balance June 30, 2013	Additions	Transfers and Retirements	Balance June 30, 2014
Capital Assets not Being Depreciated				
Land	\$ 1,703,553	\$ -	\$ -	\$ 1,703,553
Construction in progress	675,575	47,343	(689,680)	33,238
Total capital assets not being depreciated	<u>2,379,128</u>	<u>\$ 47,343</u>	<u>\$ (689,680)</u>	<u>1,736,791</u>
Capital Assets Being Depreciated				
Land improvements	756,980	\$ 10,199	\$ 282,209	1,049,388
Buildings and improvements	34,239,961	89,678	-	34,329,639
Equipment	9,931,904	1,471,693	407,471	11,811,068
Total capital assets being depreciated	<u>44,928,845</u>	<u>\$ 1,571,570</u>	<u>\$ 689,680</u>	<u>47,190,095</u>
Less Accumulated Depreciation for				
Land improvements	154,740	\$ 68,509	\$ -	223,249
Buildings and improvements	2,738,095	895,704	-	3,633,799
Equipment	4,557,874	1,279,779	-	5,837,653
Total accumulated depreciation	<u>7,450,709</u>	<u>\$ 2,243,992</u>	<u>\$ -</u>	<u>9,694,701</u>
Net capital assets being depreciated	<u>37,478,136</u>			<u>37,495,394</u>
Capital Assets, Net	<u>\$ 39,857,264</u>			<u>\$ 39,232,185</u>
	Balance June 30, 2012	Additions	Transfers and Retirements	Balance June 30, 2013
Capital Assets not Being Depreciated				
Land	\$ 1,703,553	\$ -	\$ -	\$ 1,703,553
Construction in progress	-	675,575	-	675,575
Total capital assets not being depreciated	<u>1,703,553</u>	<u>\$ 675,575</u>	<u>\$ -</u>	<u>2,379,128</u>
Capital Assets Being Depreciated				
Land improvements	661,301	\$ 95,679	\$ -	756,980
Buildings and improvements	33,754,825	417,752	67,384	34,239,961
Equipment	9,659,233	340,055	(67,384)	9,931,904
Total capital assets being depreciated	<u>44,075,359</u>	<u>\$ 853,486</u>	<u>\$ -</u>	<u>44,928,845</u>
Less Accumulated Depreciation for				
Land improvements	121,807	\$ 32,933	\$ -	154,740
Buildings and improvements	1,849,683	888,412	-	2,738,095
Equipment	3,338,281	1,219,593	-	4,557,874
Total accumulated depreciation	<u>5,309,771</u>	<u>\$ 2,140,938</u>	<u>\$ -</u>	<u>7,450,709</u>
Net capital assets being depreciated	<u>38,765,588</u>			<u>37,478,136</u>
Capital Assets, Net	<u>\$ 40,469,141</u>			<u>\$ 39,857,264</u>

Note 7 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt is as follows:

	June 30, 2013	Increases	Decreases	June 30, 2014	Due within One Year
Mortgage and					
Notes Payable	\$ 31,749,496	\$ -	\$ (1,123,636)	\$ 30,625,860	\$ 812,302
Capital Leases	53,756	157,774	(31,104)	180,426	68,339
	<u>\$ 31,803,252</u>	<u>\$ 157,774</u>	<u>\$ (1,154,740)</u>	<u>\$ 30,806,286</u>	<u>\$ 880,641</u>
	June 30, 2012	Increases	Decreases	June 30, 2013	Due within One Year
Mortgage and					
Notes Payable	\$ 28,196,157	\$ 4,753,400	\$ (1,200,061)	\$ 31,749,496	\$ 1,065,025
Capital Leases	57,628	7,920	(11,792)	53,756	13,706
	<u>\$ 28,253,785</u>	<u>\$ 4,761,320</u>	<u>\$ (1,211,853)</u>	<u>\$ 31,803,252</u>	<u>\$ 1,078,731</u>

Long-term debt consists of:

	2014	2013
Mortgage payable, due in monthly installments of \$195,508, including principal and interest at 5.11%, until May 2037, secured by building (A)	\$ 30,475,309	\$ 31,162,801
5.45% note payable, due in monthly installments of \$19,204 including interest, to October 2014, secured by building	75,769	295,529
5.45% note payable, due in monthly installments of \$3,916 including interest, to October 2014, secured by equipment	74,783	291,166
Capitalized lease obligations, Note 5	180,425	53,756
	<u>30,806,286</u>	<u>31,803,252</u>
Less current maturities	<u>(880,641)</u>	<u>(1,078,731)</u>
	<u>\$ 29,925,645</u>	<u>\$ 30,724,521</u>

(A) The mortgage agreement is insured by the U.S. Department of Housing and Urban Development and contains various restrictive covenants, including a requirement to establish a Mortgage Reserve Fund. The balance in the Mortgage Reserve Fund as of June 30, 2014 and 2013 was \$943,882 and \$470,199, respectively and is included in amounts held by trustee under mortgage agreements in the balance sheets.

Long-term debt maturities are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 880,641	\$ 1,419,341	\$ 2,299,982
2016	828,481	1,507,899	2,336,380
2017	839,417	1,466,443	2,305,860
2018	839,468	1,424,491	2,263,959
2019	883,383	1,380,575	2,263,958
2020-2024	5,160,406	6,159,386	11,319,792
2025-2029	6,659,023	4,660,769	11,319,792
2030-2034	8,592,849	2,726,943	11,319,792
2035-2037	6,122,618	480,595	6,603,213
	<u>\$ 30,806,286</u>	<u>\$ 21,226,442</u>	<u>\$ 52,032,728</u>

Note 8 - Net Medical Office Building Rent

	<u>2014</u>	<u>2013</u>
Rent income	\$ 95,291	\$ 91,193
Less expenses		
Interest	(10,369)	(21,879)
Depreciation	(64,508)	(55,197)
Repairs and maintenance	(18,329)	(17,146)
Taxes	(4,587)	(4,830)
Net medical office building rent	<u>\$ (2,502)</u>	<u>\$ (7,859)</u>

Note 9 - Pension Plan

The Hospital has a deferred compensation plan under which employees may elect to become participants upon employment. Employees may contribute any percentage of their total wage up to Internal Revenue Service (IRS) limits per year. The Hospital contributes the greater of \$25 per month or two percent of gross wages on behalf of all enrolled employees with two years' service and 1,000 paid hours in the prior twelve months. The Hospital also matches the employee's contributions for all that meet service requirements, between 2% and 5% of the employee's gross salary depending on length of service. Total employer pension plan expense for the years ended June 30, 2014 and 2013 was \$528,170 and \$478,177 respectively.

Note 10 - Management Services Agreement

The Hospital has a management services agreement with Health Tech Management Services, a hospital management corporation (Manager). The Manager supervises and assists with the management and operations of the Hospital. The Manager is responsible for selecting and employing the chief executive officer of the Hospital. Total management fee expense for the years ended June 30, 2014 and 2013, was \$410,021 and \$394,760, respectively.

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Notes to Financial Statements
June 30, 2014 and 2013

Note 11 - Condensed Combining Information

The following summarizes combining information for the Hospital, Foundation and Development, which has been presented as a blended component unit, as of and for the year ended June 30, 2014:

	Hospital	Foundation	Development	Eliminations	Total
Balance Sheets					
Current assets	\$ 8,563,305	\$ 664,850	\$ 207,274	\$ (2,968)	\$ 9,432,461
Capital assets	6,526,041	1,208	32,704,936	-	39,232,185
Other assets	10,727,842	254,275	2,824,605	(4,295,905)	9,510,817
Total assets	\$ 25,817,188	\$ 920,333	\$ 35,736,815	\$ (4,298,873)	\$ 58,175,463
Current liabilities	3,646,279	6,686	663,431	(2,968)	4,313,428
Other non-current liabilities and deferred inflow of resources	1,749,633	966	29,813,558	-	31,564,157
Total liabilities and deferred inflow of resources	5,395,912	7,652	30,476,989	(2,968)	35,877,585
Net investment in capital assets	6,195,064	1,208	2,229,627	-	8,425,899
Restricted - expendable	-	690,348	-	-	690,348
Restricted - nonexpendable endowment	-	25,561	-	-	25,561
Unrestricted	14,226,212	195,564	3,030,199	(4,295,905)	13,156,070
Total net position	20,421,276	912,681	5,259,826	(4,295,905)	22,297,878
Total liabilities, deferred inflow of resources and net position	\$ 25,817,188	\$ 920,333	\$ 35,736,815	\$ (4,298,873)	\$ 58,175,463
Revenues, Expenses, and Changes in Net Position					
Operating revenues	\$ 29,611,082	\$ -	\$ 2,298,000	\$ (2,378,812)	\$ 29,530,270
Operating expenses	30,544,238	516,587	1,399,238	(2,766,845)	29,693,218
Operating income (loss)	(933,156)	(516,587)	898,762	388,033	(162,948)
Non-operating revenues (expenses)	880,117	72,953	(1,124,405)	-	(171,335)
Capital grants and restricted contributions	-	186,924	271,784	(264,784)	193,924
Related party transfers	-	123,249	298,000	(421,249)	-
Change in net position	(53,039)	(133,461)	344,141	(298,000)	(140,359)
Net position, beginning of the year	20,474,315	1,046,142	4,915,685	(3,997,905)	22,438,237
Net position, end of year	\$ 20,421,276	\$ 912,681	\$ 5,259,826	\$ (4,295,905)	\$ 22,297,878
Cash Flows					
Net cash from (used for) operating activities	\$ 844,733	\$ (382,976)	\$ 2,036,651	\$ 264,784	\$ 2,763,192
Net cash from (used for) noncapital financing activities	317,406	179,627	449,957	-	946,990
Net cash from (used for) capital and related financing activities	(1,905,081)	186,924	(2,042,888)	(264,784)	(4,025,829)
Net cash from (used for) investing activities	(295,351)	(10,570)	300,104	-	(5,817)
Net change in cash and cash equivalents	(1,038,293)	(26,995)	743,824	-	(321,464)
Cash and cash equivalents at beginning of year	2,852,177	389,595	2,085,133	-	5,326,905
Cash and cash equivalents at end of year	\$ 1,813,884	\$ 362,600	\$ 2,828,957	\$ -	\$ 5,005,441

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare

Notes to Financial Statements
June 30, 2014 and 2013

The following summarizes combining information for the Hospital, Foundation and Development, which has been presented as a blended component unit, as of and for the year ended June 30, 2013:

	Hospital	Foundation	Development	Eliminations	Total
Balance Sheets					
Current assets	\$ 8,452,940	\$ 739,156	\$ 136,410	\$ (931)	\$ 9,327,575
Capital assets	5,978,567	1,848	33,876,849	-	39,857,264
Other assets	9,785,805	311,115	2,067,492	(3,997,905)	8,166,507
Total assets	\$ 24,217,312	\$ 1,052,119	\$ 36,080,751	\$ (3,998,836)	\$ 57,351,346
Current liabilities	2,493,354	3,156	958,361	(931)	3,453,940
Other non-current liabilities and deferred inflow of resources	1,249,643	2,821	30,206,705	-	31,459,169
Total liabilities and deferred inflow of resources	3,742,997	5,977	31,165,066	(931)	34,913,109
Net investment in capital assets	5,338,116	1,848	2,714,048	-	8,054,012
Restricted - expendable	-	844,315	-	-	844,315
Restricted - nonexpendable endowment	-	23,743	-	-	23,743
Unrestricted	15,136,199	176,236	2,201,637	(3,997,905)	13,516,167
Total net position	20,474,315	1,046,142	4,915,685	(3,997,905)	22,438,237
Total liabilities, deferred inflow of resources and net position	\$ 24,217,312	\$ 1,052,119	\$ 36,080,751	\$ (3,998,836)	\$ 57,351,346
Revenues, Expenses, and Changes in Net Position					
Operating revenues	\$ 30,590,262	\$ -	\$ 2,300,004	\$ (2,360,372)	\$ 30,529,894
Operating expenses	30,224,610	1,597,568	1,407,933	(3,858,381)	29,371,730
Operating income (loss)	365,652	(1,597,568)	892,071	1,498,009	1,158,164
Non-operating revenues (expenses)	172,870	71,712	(1,344,673)	-	(1,100,091)
Capital grants and restricted contributions	3,500	1,166,432	1,415,552	(1,395,641)	1,189,843
Related party transfers	-	102,368	(1,029,554)	927,186	-
Change in net position	542,022	(257,056)	(66,604)	1,029,554	1,247,916
Net position, beginning of the year	19,932,293	1,303,198	4,982,289	(5,027,459)	21,190,321
Net position, end of year	\$ 20,474,315	\$ 1,046,142	\$ 4,915,685	\$ (3,997,905)	\$ 22,438,237
Cash Flows					
Net cash from (used for) operating activities	\$ 2,300,591	\$ (1,500,800)	\$ 2,023,502	\$ 1,395,641	\$ 4,218,934
Net cash from (used for) noncapital financing activities	192,817	481,977	696,697	-	1,371,491
Net cash from (used for) capital and related financing activities	(1,646,818)	1,166,822	(434,572)	(1,395,641)	(2,310,209)
Net cash from (used for) investing activities	(489,424)	(42,121)	(1,028,365)	-	(1,559,910)
Net change in cash and cash equivalents	357,166	105,878	1,257,262	-	1,720,306
Cash and cash equivalents at beginning of year	2,495,011	283,717	827,871	-	3,606,599
Cash and cash equivalents at end of year	\$ 2,852,177	\$ 389,595	\$ 2,085,133	\$ -	\$ 5,326,905

Note 12 - Restricted Net Position

The Hospital has received support from donors that have limited the use of the donated assets for specified purposes. The composition of these restricted expendable assets at June 30, 2014 and 2013 is as follows:

	2014	2013
Restricted-Expendable		
Restricted by donors for promises to give the proceeds which have been restricted by donors for:		
New Barrett Hospital & Healthcare facility	\$ 138,688	\$ 269,271
Hospice	200	1,178
Medical scholarship	259,751	195,552
Hospice	85,314	83,076
SW MT mammography program	80,479	89,686
Home health care	50,861	46,651
Barrett Hospital equipment fund	29,798	20,500
New Barrett Hospital & Healthcare facility	27,955	123,999
Memorial scholarship	12,974	12,624
Other	4,328	1,778
	\$ 690,348	\$ 844,315
 Restricted-Nonexpendable Endowment		
Endowment funds	\$ 25,561	\$ 23,743

Note 13 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2014 and 2013 was as follows:

	2014	2013
Medicare	43%	34%
Medicaid	5%	4%
Insurance and other third-party payors	32%	28%
Patients	20%	34%
	100%	100%

Note 14 - Contingencies

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. 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. No liability has been recognized for uninsured claims.

Workers' Compensation

The Hospital is a member of the Montana Hospital Association Workers' Compensation Reciprocal and WC Trust (Trust), a self-insurer pursuant to Montana Code Annotated Sections 39-71-2101 through 39-71-2109 of the Montana Workers' Compensation and Occupational Disease Acts. The Trust covers potential liability for workers' compensation and occupational disease to the employees and dependents of deceased employees of all members of the Trust. The Hospital is jointly and severally liable with the other members for the full amount of all known and unknown claims.

Litigations, Claims and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims and disputes in process will not be material to the financial position, operations or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient and resident services.



Supplementary Information
June 30, 2014 and 2013

**Public Hospital District for
Beaverhead County
d/b/a Barrett Hospital &
HealthCare**

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Combining Schedules of Assets
June 30, 2014 and 2013

	2014					2013				
	Hospital	Foundation	Development	Eliminations	Total	Hospital	Foundation	Development	Eliminations	Total
Assets										
Current Assets										
Cash and cash equivalents	\$ 1,596,711	\$ 362,600	\$ 4,352	\$ -	\$ 1,963,663	\$ 2,639,812	\$ 389,595	\$ 17,641	\$ -	\$ 3,047,048
Short-term investments	344,127	202,443	-	-	546,570	342,368	201,540	-	-	543,908
Receivables										
Patient, net of estimated uncollectibles	5,140,431	-	-	-	5,140,431	4,456,398	-	-	-	4,456,398
Estimated third-party payor settlements	641,920	-	-	-	641,920	268,000	-	-	-	268,000
Promises to give, net	-	95,545	-	-	95,545	-	137,803	-	-	137,803
Other	98,463	4,262	64,474	(2,968)	164,231	84,641	10,218	-	(931)	93,928
Supplies	567,001	-	-	-	567,001	557,148	-	-	-	557,148
Prepaid expenses	174,652	-	138,448	-	313,100	104,573	-	118,769	-	223,342
Total current assets	8,563,305	664,850	207,274	(2,968)	9,432,461	8,452,940	739,156	136,410	(931)	9,327,575
Noncurrent Cash and Investments										
Designated by Board for capital improvements	6,351,057	-	-	-	6,351,057	5,697,080	-	-	-	5,697,080
Held by Trustee under mortgage agreements	-	-	2,824,605	-	2,824,605	-	-	2,067,492	-	2,067,492
Other long-term investments	-	221,941	-	-	221,941	-	176,528	-	-	176,528
Total noncurrent cash and investments	6,351,057	221,941	2,824,605	-	9,397,603	5,697,080	176,528	2,067,492	-	7,941,100
Capital Assets										
Capital assets not being depreciated	286,187	-	1,450,604	-	1,736,791	686,830	-	1,692,298	-	2,379,128
Depreciable capital assets, net	6,239,854	1,208	31,254,332	-	37,495,394	5,291,737	1,848	32,184,551	-	37,478,136
Total capital assets	6,526,041	1,208	32,704,936	-	39,232,185	5,978,567	1,848	33,876,849	-	39,857,264
Other Assets										
Promises to give, net	-	32,334	-	-	32,334	-	134,587	-	-	134,587
Long-term receivables	38,338	-	-	-	38,338	51,737	-	-	-	51,737
Interest in Development Corporation	4,295,905	-	-	(4,295,905)	-	3,997,905	-	-	(3,997,905)	-
Deposits	42,542	-	-	-	42,542	39,083	-	-	-	39,083
Total other assets	4,376,785	32,334	-	(4,295,905)	113,214	4,088,725	134,587	-	(3,997,905)	225,407
Total Assets	\$ 25,817,188	\$ 920,333	\$ 35,736,815	\$ (4,298,873)	\$ 58,175,463	\$ 24,217,312	\$ 1,052,119	\$ 36,080,751	\$ (3,998,836)	\$ 57,351,346

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Combining Schedules of Liabilities and Net Position
June 30, 2014 and 2013

	2014					2013				
	Hospital	Foundation	Development	Eliminations	Total	Hospital	Foundation	Development	Eliminations	Total
Liabilities, Deferred Inflow of Resources and Net Position										
Current Liabilities										
Current maturities of long-term debt	\$ 218,890	\$ -	\$ 661,751	\$ -	\$ 880,641	\$ 122,635	\$ -	\$ 956,096	\$ -	\$ 1,078,731
Accounts payable	1,680,853	6,502	1,680	(2,968)	1,686,067	578,159	2,736	2,265	(931)	582,229
Accrued expenses										
Compensated absences	649,060	-	-	-	649,060	645,805	-	-	-	645,805
Salaries and wages	432,616	-	-	-	432,616	367,827	-	-	-	367,827
Employee benefit plans	362,303	-	-	-	362,303	361,455	-	-	-	361,455
Payroll taxes and other	302,210	-	-	-	302,210	416,076	-	-	-	416,076
Interest	347	-	-	-	347	1,397	-	-	-	1,397
Deferred revenue	-	-	-	-	-	0	-	-	-	-
Current estimated liability to beneficiaries	-	184	-	-	184	-	420	-	-	420
Total current liabilities	<u>3,646,279</u>	<u>6,686</u>	<u>663,431</u>	<u>(2,968)</u>	<u>4,313,428</u>	<u>2,493,354</u>	<u>3,156</u>	<u>958,361</u>	<u>(931)</u>	<u>3,453,940</u>
Long-Term Debt, Less current maturities	<u>112,087</u>	<u>-</u>	<u>29,813,558</u>	<u>-</u>	<u>29,925,645</u>	<u>517,816</u>	<u>-</u>	<u>30,206,705</u>	<u>-</u>	<u>30,724,521</u>
Other Noncurrent Liabilities										
Estimated liability to beneficiaries, less current portion	-	966	-	-	966	-	2,821	-	-	2,821
Compensated absences	566,550	-	-	-	566,550	473,147	-	-	-	473,147
	<u>566,550</u>	<u>966</u>	<u>-</u>	<u>-</u>	<u>567,516</u>	<u>473,147</u>	<u>2,821</u>	<u>-</u>	<u>-</u>	<u>475,968</u>
Total liabilities	<u>4,324,916</u>	<u>7,652</u>	<u>30,476,989</u>	<u>(2,968)</u>	<u>34,806,589</u>	<u>3,484,317</u>	<u>5,977</u>	<u>31,165,066</u>	<u>(931)</u>	<u>34,654,429</u>
Deferred Inflow of Resources										
Electronic health records incentive payment	<u>1,070,996</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,070,996</u>	<u>258,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>258,680</u>
Total liabilities and deferred inflow of resources	<u>5,395,912</u>	<u>7,652</u>	<u>30,476,989</u>	<u>(2,968)</u>	<u>35,877,585</u>	<u>3,742,997</u>	<u>5,977</u>	<u>31,165,066</u>	<u>(931)</u>	<u>34,913,109</u>
Net Position										
Net investment in capital assets	6,195,064	1,208	2,229,627	-	8,425,899	5,338,116	1,848	2,714,048	-	8,054,012
Restricted										
Expendable	-	690,348	-	-	690,348	-	844,315	-	-	844,315
Nonexpendable endowment	-	25,561	-	-	25,561	-	23,743	-	-	23,743
Unrestricted	<u>14,226,212</u>	<u>195,564</u>	<u>3,030,199</u>	<u>(4,295,905)</u>	<u>13,156,070</u>	<u>15,136,199</u>	<u>176,236</u>	<u>2,201,637</u>	<u>(3,997,905)</u>	<u>13,516,167</u>
Total net position	<u>20,421,276</u>	<u>912,681</u>	<u>5,259,826</u>	<u>(4,295,905)</u>	<u>22,297,878</u>	<u>20,474,315</u>	<u>1,046,142</u>	<u>4,915,685</u>	<u>(3,997,905)</u>	<u>22,438,237</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 25,817,188</u>	<u>\$ 920,333</u>	<u>\$ 35,736,815</u>	<u>\$ (4,298,873)</u>	<u>\$ 58,175,463</u>	<u>\$ 24,217,312</u>	<u>\$ 1,052,119</u>	<u>\$ 36,080,751</u>	<u>\$ (3,998,836)</u>	<u>\$ 57,351,346</u>

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Combining Schedules of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014					2013				
	Hospital	Foundation	Development	Eliminations	Total	Hospital	Foundation	Development	Eliminations	Total
Operating Revenues										
Net patient service revenue	\$ 28,747,197	\$ -	\$ -	\$ (19,987)	\$ 28,727,210	\$ 29,826,803	\$ -	\$ -	\$ (15,225)	\$ 29,811,578
Electronic health record incentive payments	234,684	-	-	-	234,684	319,203	-	-	-	319,203
Other revenue	629,201	-	2,298,000	(2,358,825)	568,376	444,256	-	2,300,004	(2,345,147)	399,113
Total operating revenues	29,611,082	-	2,298,000	(2,378,812)	29,530,270	30,590,262	-	2,300,004	(2,360,372)	30,529,894
Operating Expenses										
Salaries	14,062,207	83,566	-	(82,566)	14,063,207	13,651,245	64,708	-	(64,708)	13,651,245
Employee benefits	3,267,951	18,472	-	(18,472)	3,267,951	3,373,088	16,331	-	(16,331)	3,373,088
Supplies	3,207,104	6,227	-	(499)	3,212,832	3,122,596	8,578	-	(1,804)	3,129,370
Depreciation	956,217	640	1,222,627	-	2,179,484	892,518	1,023	1,192,200	-	2,085,741
Purchased services	2,147,199	2,647	-	(2,647)	2,147,199	2,209,478	-	-	-	2,209,478
Physician fees	830,171	-	-	-	830,171	623,088	-	-	-	623,088
Lease expenses	3,013,479	6,000	-	(2,304,000)	715,479	2,986,492	6,000	-	(2,306,004)	686,488
Repairs and maintenance	606,980	-	1,850	-	608,830	558,752	-	-	-	558,752
Utilities	530,822	-	-	(600)	530,222	483,821	-	-	(601)	483,220
Insurance	487,830	-	-	-	487,830	487,806	-	-	-	487,806
Management contract	410,021	-	-	-	410,021	394,760	-	-	-	394,760
Other professional fees	323,184	-	-	-	323,184	603,585	-	-	-	603,585
Mortgage insurance premiums and financing	-	-	174,761	-	174,761	-	-	215,733	-	215,733
Marketing and recruiting	154,148	8,517	-	(8,517)	154,148	175,199	7,075	-	(6,415)	175,859
Outside education	136,265	2,118	-	(2,118)	136,265	186,942	2,186	-	(1,457)	187,671
Dues, books and subscriptions	111,522	-	-	(115)	111,407	115,015	-	-	(2,969)	112,046
Bed taxes	80,550	-	-	-	80,550	92,700	-	-	-	92,700
Travel, mileage, meals and lodging	60,182	-	-	(1,715)	58,467	65,799	-	-	(693)	65,106
Foundation programs	-	388,044	-	(345,596)	42,448	-	1,491,667	-	(1,457,399)	34,268
Other	158,406	356	-	-	158,762	201,726	-	-	-	201,726
Total operating expenses	30,544,238	516,587	1,399,238	(2,766,845)	29,693,218	30,224,610	1,597,568	1,407,933	(3,858,381)	29,371,730
Operating Income (Loss)	(933,156)	(516,587)	898,762	388,033	(162,948)	365,652	(1,597,568)	892,071	1,498,009	1,158,164
Non-operating Revenues (Expenses)										
Grants and contributions	657,167	35,389	-	-	692,556	330,465	66,591	-	-	397,056
Grant expenditures to subrecipients	(467,273)	-	-	-	(467,273)	(264,204)	-	-	-	(264,204)
Property taxes	55,137	-	-	-	55,137	57,339	-	-	-	57,339
Interest expense	(16,089)	-	(1,576,466)	-	(1,592,555)	(61,301)	-	(2,042,559)	-	(2,103,860)
Investment income	653,577	35,746	2,104	-	691,427	278,430	4,611	1,189	-	284,230
Mortgage subsidy	-	-	449,957	-	449,957	-	-	696,697	-	696,697
Net medical office building rent	(2,502)	-	-	-	(2,502)	(7,859)	-	-	-	(7,859)
Demolition costs	-	-	-	-	-	(160,000)	-	-	-	(160,000)
Gain on sale and disposal of capital assets	100	-	-	-	100	-	390	-	-	390
Change in value of split-interest agreements	-	1,818	-	-	1,818	-	120	-	-	120
Total non-operating revenues (expenses)	880,117	72,953	(1,124,405)	-	(171,335)	172,870	71,712	(1,344,673)	-	(1,100,091)
Revenues in Excess of (Less than) Expenses before Capital Grants and Restricted Contributions	(53,039)	(443,634)	(225,643)	388,033	(334,283)	538,522	(1,525,856)	(452,602)	1,498,009	58,073
Capital Grants and Restricted Contributions	-	186,924	271,784	(264,784)	193,924	3,500	1,166,432	1,415,552	(1,395,641)	1,189,843
Related Party Transfers	-	123,249	298,000	(421,249)	-	-	102,368	(1,029,554)	927,186	-
Change in Net Position	(53,039)	(133,461)	344,141	(298,000)	(140,359)	542,022	(257,056)	(66,604)	1,029,554	1,247,916
Net Position, Beginning of the Year	20,474,315	1,046,142	4,915,685	(3,997,905)	22,438,237	19,932,293	1,303,198	4,982,289	(5,027,459)	21,190,321
Net Position, End of Year	\$ 20,421,276	\$ 912,681	\$ 5,259,826	\$ (4,295,905)	\$ 22,297,878	\$ 20,474,315	\$ 1,046,142	\$ 4,915,685	\$ (3,997,905)	\$ 22,438,237

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Schedules of Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

	2014			2013		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Patient Service Revenue						
Routine services						
Adults and pediatrics	\$ 1,292,082	\$ 777,766	\$ 2,069,848	\$ 1,561,496	\$ 1,204,636	\$ 2,766,132
Swing bed	262,080	-	262,080	194,766	-	194,766
	<u>1,554,162</u>	<u>777,766</u>	<u>2,331,928</u>	<u>1,756,262</u>	<u>1,204,636</u>	<u>2,960,898</u>
Ancillary services						
Clinic	-	5,028,040	5,028,040	-	4,945,728	4,945,728
Pharmacy	917,600	3,574,375	4,491,975	1,187,551	2,492,546	3,680,097
Emergency room	414,937	3,733,647	4,148,584	548,731	3,851,870	4,400,601
Laboratory	412,647	3,728,393	4,141,040	596,720	4,118,051	4,714,771
Operating room	827,634	3,059,445	3,887,079	1,032,971	3,127,901	4,160,872
CT scanner	146,123	2,942,808	3,088,931	145,081	3,469,213	3,614,294
MRI	56,690	1,869,271	1,925,961	43,488	1,521,501	1,564,989
Radiology	71,633	1,621,555	1,693,188	81,994	1,443,216	1,525,210
Cardiopulmonary	347,559	1,324,749	1,672,308	470,675	1,372,527	1,843,202
Physical therapy	93,857	931,646	1,025,503	117,091	1,057,328	1,174,419
Ultrasound	28,011	780,452	808,463	42,087	773,929	816,016
Implant devices	623,529	153,531	777,060	513,095	181,062	694,157
Anesthesiology	196,988	551,885	748,873	241,158	590,507	831,665
Home health	-	623,851	623,851	-	391,208	391,208
Hospice	36,426	569,159	605,585	39,293	454,238	493,531
Hospitalist	468,944	67,214	536,158	647,257	13,258	660,515
Labor and delivery	422,170	15,832	438,002	463,083	17,135	480,218
Occupational therapy	48,809	290,437	339,246	30,162	314,001	344,163
Nuclear medicine	-	125,867	125,867	-	83,739	83,739
Cardiac rehab	64	58,064	58,128	-	46,817	46,817
Central service supplies/sterile processing	25,089	24,762	49,851	60,244	36,431	96,675
Other patient services	2,452	35,577	38,029	2,625	36,289	38,914
Dietary	3,856	12,492	16,348	1,952	11,014	12,966
Physician Practice	-	11,373	11,373	-	5,242	5,242
Speech therapy	5,139	3,547	8,686	5,423	2,143	7,566
	<u>5,150,157</u>	<u>31,137,972</u>	<u>36,288,129</u>	<u>6,270,681</u>	<u>30,356,894</u>	<u>36,627,575</u>
	<u>\$ 6,704,319</u>	<u>\$ 31,915,738</u>	<u>38,620,057</u>	<u>\$ 8,026,943</u>	<u>\$ 31,561,530</u>	<u>39,588,473</u>
Charity care			(457,326)			(685,438)
Total patient service revenue			<u>38,162,731</u>			<u>38,903,035</u>
Contractual Adjustments						
Medicare			(5,148,700)			(4,680,464)
Medicaid			(796,003)			(726,156)
Other			(2,131,139)			(2,279,301)
Total contractual adjustments			<u>(8,075,842)</u>			<u>(7,685,921)</u>
Provision for Bad Debts			(1,359,679)			(1,405,536)
Net Patient Service Revenue			<u>\$ 28,727,210</u>			<u>\$ 29,811,578</u>

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Schedules of Other Revenue
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Other Revenue		
Grants	\$ 256,672	\$ 83,475
Cafeteria	125,353	127,354
Interest income	4,701	3,694
Miscellaneous	<u>181,650</u>	<u>184,590</u>
Total other revenue	<u><u>\$ 568,376</u></u>	<u><u>\$ 399,113</u></u>

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Schedules of Expenses
Years Ended June 30, 2014 and 2013

	2014			2013 Total
	Salaries and Benefits	Supplies and Other	Total	
Professional Care of Patients				
Clinic	\$ 2,977,334	\$ 1,183,460	\$ 4,160,794	\$ 3,905,092
Pharmacy	504,322	1,322,972	1,827,294	1,411,306
Emergency room	1,364,264	258,670	1,622,934	1,452,667
Laboratory	770,169	653,075	1,423,244	1,545,082
Adults and pediatrics	1,104,603	81,639	1,186,242	1,515,955
Radiology	393,654	397,334	790,988	686,432
Medical records	495,148	244,481	739,629	836,671
Operating room	356,623	372,586	729,209	988,597
Physical therapy	404,751	142,141	546,892	554,268
Nursing administration	405,743	95,322	501,065	275,996
Hospitalist	491,410	5,100	496,510	500,844
MRI	50,610	389,648	440,258	401,240
Implant devices	-	428,200	428,200	419,424
Anesthesiology	242,688	164,401	407,089	412,888
Central service supplies	170,876	152,265	323,141	341,971
Cardiopulmonary	195,578	121,765	317,343	399,721
Ambulatory surgery	295,329	316	295,645	292,420
Home health	259,279	27,217	286,496	212,278
CT scanner	121,303	144,755	266,058	301,539
Hospice	149,317	70,428	219,745	192,372
Occupational therapy	92,956	58,137	151,093	161,976
Ultrasound	77,446	64,613	142,059	207,925
Nuclear medicine	14,889	106,370	121,259	88,734
Medical staff	44,050	43,593	87,643	62,951
Labor and delivery	42,407	37,752	80,159	63,446
Other patient services	37,662	24,639	62,301	60,901
Scope procedures	41,497	13,904	55,401	50,089
Physician practice	39,894	11,092	50,986	33,042
Cardiac rehab	37,793	603	38,396	37,027
Recovery room	29,443	7,540	36,983	24,674
Community health	-	12,132	12,132	8,087
Speech therapy	-	7,810	7,810	7,055
	<u>11,211,038</u>	<u>6,643,960</u>	<u>17,854,998</u>	<u>17,452,670</u>

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Schedules of Expenses
Years Ended June 30, 2014 and 2013

	2014			2013 Total
	Salaries and Benefits	Supplies and Other	Total	
General and Administrative				
Employee benefits	3,259,180	-	3,259,180	3,373,088
Administration	543,860	1,648,845	2,192,705	1,169,078
Patient accounting	663,126	306,050	969,176	1,138,028
Management services	388,283	369,061	757,344	664,896
Fiscal services	304,538	306,435	610,973	2,855,891
Quality assurance	221,644	68,378	290,022	305,117
Board of Trustees	-	14,762	14,762	6,644
Grants	-	1,495	1,495	9,397
	<u>5,380,631</u>	<u>2,715,026</u>	<u>8,095,657</u>	<u>9,522,139</u>
Depreciation	-	2,179,484	2,179,484	893,541
Property and Household				
Operation of plant	223,406	516,266	739,672	698,791
Housekeeping	149,094	50,354	199,448	198,948
Operation of medical office				
Building	64,369	70,562	134,931	129,787
Laundry and linen	64,349	19,826	84,175	74,973
	<u>501,218</u>	<u>657,008</u>	<u>1,158,226</u>	<u>1,102,499</u>
Dietary	<u>238,271</u>	<u>166,582</u>	<u>404,853</u>	<u>400,881</u>
Total expenses	<u>\$ 17,331,158</u>	<u>\$ 12,362,060</u>	<u>\$ 29,693,218</u>	<u>\$ 29,371,730</u>

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Operational and Financial Highlights
Years Ended June 30, 2014, 2013, 2012, 2011, 2010 and 2009

	2014	2013	2012	2011	2010	2009
Operational						
Patient Service Revenue						
Routine services	\$ 2,331,928	\$ 2,960,898	\$ 2,405,663	\$ 2,174,641	\$ 1,636,294	\$ 1,689,216
Ancillary services						
Inpatient	5,150,157	6,270,681	6,066,282	5,896,067	5,231,893	5,296,090
Outpatient	31,137,972	30,356,894	27,573,412	24,475,056	20,338,008	19,449,213
Charity care	(457,326)	(685,438)	(412,049)	(522,320)	(363,501)	(260,234)
Contractual adjustments	(8,075,842)	(7,685,921)	(7,332,376)	(6,728,658)	(5,379,157)	(5,566,367)
Provision for bad debts	(1,359,679)	(1,405,536)	(2,242,587)	(1,049,290)	(1,192,290)	(1,253,371)
Net Patient Service Revenue	28,727,210	29,811,578	26,058,345	24,245,496	20,271,247	19,354,547
Other Revenue	803,060	718,316	718,174	152,588	115,718	136,613
Total Revenue	29,530,270	30,529,894	26,776,519	24,398,084	20,386,965	19,491,160
Expenses						
Salaries and benefits	17,331,158	17,024,333	15,827,596	13,871,718	12,222,355	10,647,053
Cost of drugs, food, supplies and other	10,182,576	10,261,656	8,991,473	7,440,260	6,800,678	6,402,742
Depreciation	2,179,484	2,085,741	941,768	931,136	880,348	886,574
Total Expenses	29,693,218	29,371,730	25,760,837	22,243,114	19,903,381	17,936,369
Operating Income (Loss)	\$ (162,948)	\$ 1,158,164	\$ 1,015,682	\$ 2,154,970	\$ 483,584	\$ 1,554,791
Financial						
Percentage of contractual adjustments to gross patient service revenue	21.2%	19.8%	20.6%	21.0%	20.0%	21.3%
Percentage of salaries and benefits to total expenses	58.4%	58.0%	61.4%	62.4%	61.4%	59.4%
Days net revenue in net patient receivables	65.31	54.56	78.82	63.60	62.68	76.82
Current ratio	2.19	2.70	1.16	1.36	2.12	2.25
Long-term debt to equity ratio	134.2%	136.9%	126.5%	46.0%	8.2%	6.6%
Operating margin	(0.55%)	3.79%	3.79%	8.83%	2.37%	7.98%

Section II



**Independent Auditor's 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 Trustees
Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Dillon, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare, which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's internal control. Accordingly, we do not express an opinion on the effectiveness of the Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding and questioned costs as items 2014-A and 2014-B, which we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's. Accordingly, this communication is not suitable for any other purpose.



Billings, Montana
December 17, 2014



Independent Auditor’s Report on Compliance for Each Major Program; and Report on Internal Control over Compliance Required by OMB Circular A-133

Board of Trustees
Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Dillon, Montana

Report on Compliance for Each Major Federal Program

We have audited Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare’s major federal programs for the year ended June 30, 2014. Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare’s major federal programs are identified in the summary of independent auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for each of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare’s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare’s compliance.

Opinion on Each Major Federal Program

In our opinion, Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002. Our opinion on each federal program is not modified with respect to these matters.

Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings, as items 2014-001 and 2014-002, which we consider to be significant deficiencies.

Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Eide Sallee LLP

Billings, Montana
December 17, 2014

Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

<u>Grantor/Pass-Through Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
<u>U.S Department of Housing and Urban Development</u>			
Direct Program			
Mortgage Insurance for Hospitals	14.128	093-13004	<u>\$ 31,162,801</u>
<u>Department of Health and Human Services</u>			
Direct Program			
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912		605,604
Pass-through - Mineral Regional Health Center Health Care Innovation Awards	93.610		<u>79,200</u>
Total Department of Health and Human Services			<u>684,804</u>
Total			<u><u>\$ 31,847,605</u></u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient.

Note B – Subrecipients of Grant Awards

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare provided awards to subrecipients as follows:

	CFDA Number	Total
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	\$ 467,273

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over the major program:	
Material weakness identified	No
Significant deficiencies not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for the major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a):	Yes

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Mortgage Insurance for Hospitals	14.128
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

Part II: Findings Related to the Financial Statements

2014-A – Year Ended June 30, 2014:

Significant Deficiency – Auditor Preparation of Annual Financial Statements and Schedule of Expenditures of Federal Awards

Statement of Condition: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare does not have the necessary staff resources to prepare the full set of financial statements, the schedule of expenditures of federal awards and the related financial statement disclosures and provide an internal control structure to properly prevent and detect related misstatements.

Criteria: – Internal control over financial reporting was reviewed with AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*.

Effect of Condition: – The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management, in the financial statements. This deficiency may cause misstatements to the financial statements and/or the schedule of expenditures of federal awards, which would not be prevented or detected by the Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare's internal control.

Cause: – The deficiency is due to resource constraints and expertise of staff responsible for financial statement reporting and identification of and reporting of federal awards.

Recommendation: – We recommend that Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare periodically assess the accounting staffing and duties and that the Board review the capabilities and resources required to prepare a complete set of financial statements and the related financial statement disclosures. In addition, we recommend management review each federal award for reporting requirements to ensure the schedule of expenditures of federal awards is properly prepared.

Response: – Given the size of our Organization, we do not think it would be cost effective to completely eliminate the financial statement preparation deficiency at this time. We will review all future federal awards to ensure each is identified and included in the schedule of expenditures of federal awards.

2014-B – Year Ended June 30, 2014:

Significant Deficiency – Segregation of Duties

Statement of Condition: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: – Based on a review of AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*, proper segregation of duties is required to have adequate internal control over financial reporting. A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Effect of Condition: – The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. This deficiency may cause misstatements of the financial statements, which would not be prevented or detected, and recorded by the Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare’s internal control.

Cause: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare’s size and budget constraints limit the number of personnel and do not facilitate the segregation of duties necessary to adequately separate procedures.

Recommendation: – We recommend that Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare periodically assess the accounting staffing and duties and that the Board continue to be actively involved in and knowledgeable about the operations of the organization.

Response: – Given the size of our Organization, we do not think it would be cost effective to completely eliminate this deficiency at this time, but will monitor the current operations and procedures.

Part III: Federal Award Findings and Questioned Costs

2014-001 **Department of Health and Human Services**
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care
Provider Quality Improvement Program-
CFDA No. 93.912

Significant Deficiency in Internal Control over Compliance and Compliance – Subrecipient Monitoring – Notifications to Subrecipients

Statement of Condition: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare did not provide notification to the subrecipients of the grant, identifying the Federal award information such as the CFDA title and number and award name and the applicable compliance requirements.

Criteria: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare, as a pass-through entity related to this Federal award, assumes certain responsibilities under Section 400(d) of OMB Circular A-133, including informing subrecipients of the CFDA title and number, award name and number, award year and name of the federal agency. In addition, advise subrecipients of the requirements imposed on them by federal laws, regulations, the provisions of grant agreements and possible audit requirements.

Questioned Costs: – None

Effect of Condition: – The lack of informing the subrecipients of the federal laws, regulations, and the provisions of the grant agreement, increases the risk of noncompliance by the subrecipients.

Cause: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare appears to have been unaware of the pass-through entity responsibilities related to this federal award.

Recommendation: – We recommend that Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare review section 400(d) of OMB Circular A-133 which outlines the responsibilities placed on pass-through entities and immediately notify the subrecipients of the applicable federal award information.

Response: – We will review the responsibilities outlined in the above mentioned section of OMB Circular A-133 and notify the subrecipients of the applicable federal award information and requirements.

2014-002 **Department of Health and Human Services**
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care
Provider Quality Improvement Program-
CFDA No. 93.912

Significant Deficiency in Internal Control over Compliance and Compliance – Subrecipient Monitoring – Procurement/Suspension/Debarment / Equipment and Real Property Management

Statement of Condition: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare does not have an internal control system in place to monitor subrecipients compliance with requirements related to procurement policies and procedures, and related to suspension and debarment and doing business with suspended or debarred subcontractors and compliance with A-102 Common Rule and OMB Circular A-110 that requires that equipment be used in the program for which it was acquired or, when appropriate other Federal programs. Equipment records shall be maintained, a physical inventory of equipment is taken at least once every 2 years and reconciled to the equipment records, an appropriate control system is used to safeguard equipment, and equipment is adequately maintained. When equipment with a fair market value of \$5,000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to proportion the amount the current fair market value. Proper sales procedures are to be used that provide for competition to the extent practicable and result in the highest possible return.

Criteria: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare, as a pass-through entity related to this Federal award, is responsible for monitoring the subrecipients compliance with laws, regulations and provisions of the grant agreement, including the subrecipients compliance with requirements related to procurement policies and procedures, and related to suspension and debarment and doing business with suspended or debarred subcontractors and equipment management.

Questioned Costs: – None

Effect of Condition: – The lack of monitoring subrecipients compliance with requirements related to procurement policies and procedures, and related to suspension and debarment and doing business with suspended or debarred subcontractors and equipment management increases the risk of noncompliance by the subrecipients.

Cause: – Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare appears to have been unaware of the pass-through entity responsibilities related monitoring subrecipients compliance with requirements related to procurement policies and procedures, and related to suspension and debarment and doing business with suspended or debarred subcontractors and equipment management.

Recommendation: – We recommend that Public Hospital District for Beaverhead County d/b/a Barrett Hospital & Healthcare review section 400(d) of OMB Circular A-133 which outlines the responsibilities placed on pass-through entities and adopt procedures to monitor the subrecipients compliance with requirements related to procurement policies and procedures, and related to suspension and debarment and doing business with suspended or debarred subcontractors and requirements related to equipment management, including compliance with A-102 Common Rule and OMB Circular A-110.

Response: – We will review the responsibilities outlined in the above mentioned section of OMB Circular A-133 and notify the subrecipients of their responsibility to be in compliance requirements related to procurement policies and procedures, and related to suspension and debarment and doing business with suspended or debarred subcontractors and requirements related to equipment management, including compliance with A-102 Common Rule and OMB Circular A-110. In addition, we will adopt procedures to monitor the subrecipients' compliance.

No findings reported in the prior year.

Section III



Independent Auditor's Report on Debt Agreement Covenants

The Board of Trustees
Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Dillon, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare as of June 30, 2014 and the related statements revenues, expenses, changes in net position, and cash flows for the year then ended, and have issued our report thereon dated December 17, 2014.

In connection with our audit, nothing came to our attention that caused us to believe that Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare failed to comply with the terms, covenants, provisions, or conditions of the Regulatory Agreement, dated October 28, 2010, with the Department of Housing and Urban Development, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Regulatory Agreement, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Trustees, Management of Public Hospital District for Beaverhead County d/b/a Barrett Hospital & HealthCare, and the Department of Housing and Urban Development, is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Billings, Montana
December 17, 2014



Independent Auditor's Report on Regulatory Agreement

The Board of Trustees
Public Hospital District for Beaverhead County
d/b/a Barrett Hospital & HealthCare
Dillon, Montana

RE: Regulatory Agreement, U.S. Department of Housing and Urban Development, Federal Housing Administration

In accordance with Section 30 of the Regulatory Agreement with the U.S. Department of Housing and Urban Development dated October 28, 2010, we have calculated the amount required in Mortgage Reserve Fund as of June 30, 2014 to be \$882,646 and the actual balance in Mortgage Reserve Fund as of June 30, 2014 to be \$943,882. In addition, we have calculated as of and for the year ended June 30, 2014, the Debt Service Coverage Ratio, the Current Ratio, the Average Payment Period, and Equity Financing Ratio, as such terms are defined in the Regulatory Agreement. The calculated Debt Service Coverage Ratio is 1.36, the calculated Current Ratio is 2.19, the calculated Average Payment Period is 60.98 days and the calculated Equity Financing Ratio is .341.

Eide Bailly LLP

Billings, Montana
December 17, 2014