

TRI-CITY INTERLOCAL EQUIPMENT POOL
GLACIER, PONDERA AND TOOLE COUNTIES, MONTANA

Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

TRI-CITY INTERLOCAL EQUIPMENT POOL
GLACIER, PONDERA AND TOOLE COUNTIES, MONTANA

Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-4
Independent Auditor's Report	5-6
Financial Statements	
Statement of Net Position – Proprietary Fund Types	7
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund Types	8
Statement of Cash Flows – Proprietary Fund Types	9
Notes to Financial Statements	10-16
Independent Auditor's Report on Compliance and 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	17-18

TRI-CITY INTERLOCAL EQUIPMENT POOL
GLACIER, PONDERA, AND TOOLE COUNTIES, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

BOARD Members

Larry J. Bonderud
Doug Embody
Teri Ruff
Cindy J. Doane

Chairperson
Vice-Chairman
Treasurer
Secretary

Representative

Wendy Judish
Ron Widhalm
Drew Lesnick
Richard Anderson
Craig Rude
Timothy Curtiss
Jim Suta
Don R. Lee
Loren Skartved

City of Conrad
City of Conrad
City of Conrad
City of Conrad
City of Cut Bank
City of Cut Bank
City of Cut Bank
City of Shelby
City of Shelby

TRI-CITY INTERLOCAL

Management's Discussion and Analysis

Fiscal Year 2013-2014 The Tri-City Interlocal is a unique organization that involves the cities of Conrad, Cut Bank and Shelby, Montana. The Interlocal was established in order to purchase equipment the three entities could utilize, but were unable to purchase on their own without this Interlocal agreement. The equipment is then rented back to each of the three entities as they have the need for them. The rent received is then utilized as revenue for the Interlocal. Because each entity has a vested interest in the equipment the pride of ownership is reflected in the care given during use. Upon approval of the Interlocal the equipment may be rented to other governmental agencies on an emergency basis.

The equipment is stored in a warehouse in the City of Shelby as it is the half way point for the three cities. As any maintenance or repair is necessary to the equipment the City that has current possession of the item does the work with the Interlocal paying for any needed parts. The Interlocal does not have any employees.

The Interlocal consisted of the following officers for the Fiscal Year 2013-2014:
Chairman-Larry Bonderud (Mayor of Shelby)
Vice-Chairman-Doug Embody (Mayor of Cut Bank)
Treasurer-Teri Ruff (Finance Officer of City of Shelby)
Secretary-Cindy Doane (Councilperson of Shelby)

Each community had two Councilpersons as Representatives for the Fiscal Year 2013-2014:
Ron Widhalm-City of Conrad
Drew Lesnik-City of Conrad
Timothy Curtiss-City of Cut Bank
Craig Rude-City of Cut Bank
Don Lee-City of Shelby
Cindy Doane-City of Shelby

Each community had their City Superintendents as Representatives for the Fiscal Year 2013-2014:
Richard Anderson-City of Conrad
Jim Suta-City of Cut Bank
Loren Skartved-City of Shelby

The Mayors from each community were also included on the board for the Fiscal Year 2013-2014:
Wendy Judish-Mayor of Conrad
Doug Embody-Mayor of Cut Bank
Larry Bonderud-Mayor of Shelby

Overview of the Financial Statements:

The Tri-city Interlocal operates on a Full Accrual basis. The Treasurer handles the monthly and annual reporting process. The Interlocal has been audited since Fiscal Year 2002-2003. It was recommended that all three communities utilize the same auditor individually and that the Tri-City Interlocal utilize the same auditor for the Interlocal audit as well. To date, the audits have been positive with minor concerns which have been addressed. A GASB conversion is not necessary due to the organization of the Interlocal. It would not accomplish a purpose.

The financial position of the Tri-City Interlocal continues to improve. The valuable service and savings it provides to its' member entities is not reflected in these financial statements but is significant.

The entity experienced no change in credit ratings or debt limitation during the fiscal year.

Business-type Activities :

The rental of the jointly owned equipment is mainly to the City's that have shared in the costs to purchase it. Upon an emergency situation, some of the equipment has been rented to entities outside of the Interlocal to assist them through a problem.

Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana
MD & A Comparisons
June 30, 2014

Table 1 - Net Position

	Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 95,865	\$ 86,272	\$ 9,593
Capital assets	413,173	482,279	(69,106)
Total assets	<u>\$ 509,038</u>	<u>\$ 568,551</u>	<u>\$ (59,513)</u>
Long-term debt outstanding	\$ 108,286	\$ 143,125	\$ (34,839)
Total liabilities	<u>\$ 108,286</u>	<u>\$ 143,125</u>	<u>\$ (34,839)</u>
Net investment in capital assets	\$ 304,887	\$ 339,154	\$ (34,267)
Unrestricted (deficit)	95,865	86,272	9,593
Total net position	<u><u>\$ 400,752</u></u>	<u><u>\$ 425,426</u></u>	<u><u>\$ (24,674)</u></u>

Table 2 - Changes in Net Position

	Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Revenues			
<i>Program revenues (by major source):</i>			
Charges for services	\$ 76,488	\$ 76,507	\$ (19)
<i>General revenues (by major source):</i>			
Miscellaneous	-	-	-
Interest/investment earnings	485	874	(389)
Total revenues	<u>\$ 76,973</u>	<u>\$ 77,381</u>	<u>\$ (408)</u>
Program expenses			
Equipment Pool	\$ 101,647	\$ 109,286	\$ (7,639)
Total expenses	<u>\$ 101,647</u>	<u>\$ 109,286</u>	<u>\$ (7,639)</u>
Excess (deficiency) before special items and transfers	(24,674)	(31,905)	7,231
Increase (decrease) in net position	<u><u>\$ (24,674)</u></u>	<u><u>\$ (31,905)</u></u>	<u><u>\$ 7,231</u></u>

Financial Position:

The financial responsibilities for the Interlocal rotate between the three Cities with the Financial Officer of Clerk/Treasurer performing the duties. If you have questions regarding this report contact City of Shelby, Teri Ruff, Finance Officer, 112 1st St S., Shelby, MT 59474.

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Representatives
Tri-City Interlocal Equipment Pool
Glacier, Pondera and Toole Counties
Shelby, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Interlocal's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position and, thereof for the year 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015 on our consideration of the Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana's internal control over financial reporting and compliance.

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

June 15, 2015

Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities
ASSETS	
Current assets:	
Cash and investments	\$ <u>95,865</u>
Total current assets	\$ <u>95,865</u>
Noncurrent assets:	
Capital assets - land	\$ 10,010
Capital assets - depreciable, net	<u>403,163</u>
Total noncurrent assets	\$ <u>413,173</u>
Total assets	\$ <u>509,038</u>
LIABILITIES	
Current liabilities:	
Current portion of long-term capital liabilities	\$ <u>35,522</u>
Total current liabilities	\$ <u>35,522</u>
Noncurrent liabilities:	
Noncurrent portion of long-term capital liabilities	\$ <u>72,764</u>
Total noncurrent liabilities	\$ <u>72,764</u>
Total liabilities	\$ <u>108,286</u>
NET POSITION	
Net investment in capital assets	\$ 304,887
Unrestricted	<u>95,865</u>
Total net position	\$ <u>400,752</u>
Total liabilities and net position	\$ <u>509,038</u>

See accompanying Notes to the Financial Statements

Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

		<u>Business-Type Activities</u>
		<u>Non-major Enterprise</u>
OPERATING REVENUES		
Contributions from cities	\$	60,000
Equipment rentals		16,141
Miscellaneous revenues		347
Total operating revenues	\$	<u>76,488</u>
OPERATING EXPENSES		
Purchased services	\$	15,901
Administration		15,296
Depreciation		69,106
Total operating expenses	\$	<u>100,303</u>
Operating income (loss)	\$	<u>(23,815)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue	\$	485
Debt service interest expense		(1,344)
Total non-operating revenues (expenses)	\$	<u>(859)</u>
Income (loss) before contributions and transfers	\$	<u>(24,674)</u>
Change in net position	\$	<u>(24,674)</u>
Net Position - Beginning of the year	\$	425,426
Net Position - End of the year	\$	<u><u>400,752</u></u>

See accompanying Notes to the Financial Statements

Tri-City Interlocal, Glacier, Pondera and Toole Counties, Montana
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Cash received from providing services	\$ 16,141
Cash received from Contributions	60,000
Cash received from miscellaneous sources	347
Cash payments to for general and administration	(15,296)
Cash payments for professional services	(15,901)
Net cash provided (used) by operating activities	<u>\$ 45,291</u>
Cash flows from capital and related financing activities:	
Principal paid on debt	\$ (34,839)
Interest paid on debt	(1,344)
Net cash provided (used) by capital and related financing activities	<u>\$ (36,183)</u>
Cash flows from investing activities:	
Interest on investments	\$ 485
Net cash provided (used) by investing activities	<u>\$ 485</u>
Net increase (decrease) in cash and cash equivalents	\$ 9,593
Cash and cash equivalents at beginning	86,272
Restatements - Includes beginning restricted cash	
Cash and cash equivalents at end	<u><u>\$ 95,865</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (23,815)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	69,106
Net cash provided (used) by operating activities	<u><u>\$ 45,291</u></u>

See accompanying notes to the financial statements

TRI-CITY INTERLOCAL EQUIPMENT POOL
GLACIER, PONDERA, AND TOOLE COUNTIES, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interlocal complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Financial Reporting Entity

In determining the financial reporting entity, the Interlocal complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the Interlocal appointed a voting majority of the component units' board; the Interlocal is either able to impose its' will on the unit or a financial benefit or burden relationship exists.

Primary Government

Tri-City Interlocal Equipment Pool is a joint venture of the Cities of Cut Bank, Shelby, and Conrad, and is governed by an appointed nine-member Board of Representatives. The Interlocal is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent form the State and other local governments. Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) and ongoing financial responsibility.

The accompanying general-purpose financial statements include all funds, account groups, agencies, boards, commissions, and authorities which meet the criteria of Statement No. 14 for inclusion in the Interlocal's financial report. These criteria include financial accountability.

TRI-CITY INTERLOCAL EQUIPMENT POOL
GLACIER, PONDERA, AND TOOLE COUNTIES, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Basis of Presentation, Measurement Focus and Basis of Accounting.

Measurement Focus and Basis of Accounting

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Interlocal's policy to use restricted resources first, then unrestricted resources as they are needed.

Major Funds:

The Interlocal reports the following major proprietary fund:

Enterprise Fund - Used to account for those operations that are financed and operated in a manner similar to private business or where the Board of Representatives has decided that the determination of revenues earned, costs incurred and/or net income is appropriate for management accountability. Since the Interlocal contains only one fund, that fund is a major fund.

TRI-CITY INTERLOCAL EQUIPMENT POOL
 GLACIER, PONDERA, AND TOOLE COUNTIES, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2014, are as follows:

		<u>Primary Government</u>
Cash in banks:		
Demand deposits	\$	12,985
Time deposits		80,760
<u>Investments:</u>		
State Short-Term Investment Pool (STIP)		2,120
Total	\$	<u><u>95,865</u></u>

Credit Risk

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

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

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

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

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

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

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

TRI-CITY INTERLOCAL EQUIPMENT POOL
 GLACIER, PONDERA, AND TOOLE COUNTIES, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

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

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

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2014:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1	30
Corporate Commercial Paper	138,958,389	A1	39
Corporate Variable-Rate	658,894,083	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable-Rate	391,996,239	A1+	32
Other Asset Backed	38,440,281	NR	NA
U.S. Government Agency Fixed	75,003,275	A1+	194
U.S. Government Agency Variable -Rate	200,003,406	A1+	31
Money Market Funds (Unrated)	133,439,814	NR	1
Money Market Funds (Rated)	<u>21,000,000</u>	A1+	<u>1</u>
Total Investments	<u>\$ 2,535,153,167</u>		<u>43</u>
Securities Lending Collateral Investment Pool	<u>\$ 1,861,748</u>	NR	*

“*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.”

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2014 the government's bank balance of \$93,745 was fully insured by FDIC.

TRI-CITY INTERLOCAL EQUIPMENT POOL
 GLACIER, PONDERA, AND TOOLE COUNTIES, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Cash equivalents

For purposes of the statement of cash flows, the enterprise and internal services funds consider all funds (including restricted assets) held in the Interlocal's cash management pool to be cash equivalents.

NOTE 3. INVENTORIES

The cost of inventories are recorded as an expenditure when purchased.

NOTE 4. CAPITAL ASSETS

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

Buildings	20-50 years
Equipment & Machinery	5-20 years
Improvements Other Than Buildings	10-50 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Interlocal has included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in business-type capital assets was as follows:

Business-type activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 10,010	\$ -	\$ 10,010
Total capital assets not being depreciated	<u>\$ 10,010</u>	<u>\$ -</u>	<u>\$ 10,010</u>
Other capital assets:			
Buildings	\$ 139,699	\$ -	\$ 139,699
Machinery and equipment	<u>1,310,254</u>	<u>-</u>	<u>1,310,254</u>
Total other capital assets at historical cost	\$ 1,449,953	\$ -	\$ 1,449,953
Less: accumulated depreciation	\$ (977,684)	\$ (69,106)	\$ (1,046,790)
Total	<u>\$ 482,279</u>	<u>\$ (69,106)</u>	<u>\$ 413,173</u>

TRI-CITY INTERLOCAL EQUIPMENT POOL
 GLACIER, PONDERA, AND TOOLE COUNTIES, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 5. LONG TERM DEBT OBLIGATIONS

In the financial statements, outstanding debt is reported as liabilities.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Business-type Activities:

	<u>Balance</u>	<u>Deletions</u>	<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2014</u>	<u>One Year</u>
Intercap loans	\$ 143,125	\$ (34,839)	\$ 108,286	\$ 35,522

Intercap Loans

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

Intercap loans outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
Sewer Jet Truck	01/22/10	1-1.95%	7yrs	02/15/17	\$ 244,000	\$ 108,286

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>		<u>Principal</u>		<u>Interest</u>
2015	\$	35,522	\$	1,243
2016		36,218		797
2017		36,546		342
Total	\$	<u>108,286</u>	\$	<u>2,382</u>

NOTE 6. RISK MANAGEMENT

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

TRI-CITY INTERLOCAL EQUIPMENT POOL
GLACIER, PONDERA, AND TOOLE COUNTIES, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Insurance Policies:

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

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

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

**INDEPENDENT AUDITOR'S REPORT ON 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 Representatives
Tri-City Interlocal Equipment Pool
Glacier, Pondera and Toole Counties
Shelby, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Tri-City Interlocal Equipment Pool's basic financial statements and have issued our report thereon dated June 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-City Interlocal Equipment Pool, Glacier, Pondera and Toole Counties, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-City Interlocal Equipment Pool's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial 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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tri-City Interlocal Equipment Pool'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*.

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 entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 15, 2015