

COLSTRIP MEDICAL DISTRICT

**ROSEBUD COUNTY
COLSTRIP, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Board of Trustees
Colstrip Medical District
Rosebud County
Colstrip, MT 59323

TABLE OF CONTENTS

	Page No
TABLE OF CONTENTS	1
ORGANIZATION - BOARD OF TRUSTEES AND OFFICIALS	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 6
INDEPENDENT AUDITOR'S REPORT	7 - 8
BASIC FINANCIAL STATEMENTS:	
Statement of Fund Net Position - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	10
Statement of Cash Flow - Proprietary Funds	11
Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position	12
Notes to the Financial Statements	13 - 18
INDEPENDENT AUDITOR'S REPORTS:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards"	19 - 20
Schedule of Findings and Questioned Costs	21

Board of Trustees
Colstrip Medical District
Rosebud County
Colstrip, MT 59323

ORGANIZATION

BOARD OF TRUSTEES

Donna McCulloch	Chair
Ken Rux	Vice Chair
Cathy Frank	Trustee
Tom Crippen	Trustee
Sabrina Nieman	Trustee

OFFICIALS

John Poole	Administrator
Sue Palm	Office Supervisor

**COLSTRIP MEDICAL CENTER
COLSTRIP, MONTANA**

**MANAGEMENT'S DISCUSSION
AND
ANALYSIS**

YEAR ENDED JUNE 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), which established new requirements and a new reporting model for the annual financial reports of state and local governments. The objective of the statement is to "enhance the understandability and usefulness of the general purpose financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors." This section is an element of the new reporting model that Colstrip Hospital District is required to present as part of its annual financial report.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which is also contained in this CAFR.

FINANCIAL HIGHLIGHTS

The District paid the seventh installment on a ten year General Obligation Bond which was used to fund the 10,000 square foot addition to the facility in 2007. The original principal and interest balance was \$2,167,269. The balance outstanding including principal and interest is \$654,780 which will be paid off in July 2017.

The Operations of the clinic were generally unchanged from June 2013. For the month of June 2014 Colstrip Medical Center had a gain (after depreciation expense and District Income) of \$373,475.

Total Patient Revenues for June 2014 totaled \$141,774 which is less than the fixed budget by \$11,703 (8%). Total Operating Expenses of \$182,252 was less than the fixed budget by \$6,183 (4%), resulting in a Net Loss Before Depreciation and District Income of \$63,643 which is greater than fixed budget by \$8,633.

Year to Date Total Operating Revenue is \$1,411,770 which is less than the fixed budget by \$214,541 (13%). Yearly Operating Expenses were \$2,284,743 which is less than the fixed budget by \$131,148 (6%). The YTD Loss Before Depreciation and District Income is \$743,513 which is \$83,393 greater than budget.

(June this year verses June last year):

For the month of June, Revenues are \$28,590 greater than June of last year. Expenses are \$37,679 less than last June.

For the year, Total Operating Revenues (net of contractual and bad debt) is \$52,412 greater than this time last year. Expenses are \$71,867 greater year over year. Patient encounters are 33 greater than last year.

During FY 2014, Cash on hand increased \$3,113 to \$227,658. District Cash increased \$231,845 to \$796,100. Accounts Receivable decreased \$1,386 to \$259,957.

The District Fixed Assets were increased \$76,220. The lot north of the clinic was purchased (\$22,190) to avoid future land lock or sale. Several pieces of equipment were requiring replacement due to end of usable life and cost of repairs was exceeding cost of purchase: Autoclave (\$3,885), BP Machine (\$3,784), Dell Virtual Server (\$42,510) and Hematology Analyzer (\$38,851).

NET ASSETS**Enterprise Fund Activities**

	<u>2014</u>	<u>2013</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
Current Assets	1,472,075	1,257,803	214,272	17.04%
Capital Assets, net	<u>2,392,896</u>	<u>2,432,365</u>	<u>(39,469)</u>	<u>-1.62%</u>
Total Assets	3,864,971	3,690,168	174,803	4.74%
Current Liabilities	118,326	154,120	(35,794)	-23.22%
Long Term Liabilities	<u>610,000</u>	<u>800,000</u>	<u>(190,000)</u>	<u>-23.75%</u>
Total Liabilities	728,326	954,120	(225,794)	-23.67%
Net Postion:				
Invested in Capital Assets				
Net of Related Debt	1,782,896	1,632,365	150,531	9.22%
Unrestricted	<u>1,353,749</u>	<u>1,103,683</u>	<u>250,066</u>	<u>22.66%</u>
Total Net Position	3,136,645	2,736,048	400,597	14.64%

CHANGES IN NET ASSETS**Revenues**

Program Revenues:

Charges for Services	1,371,857	1,342,342	29,515	2.20%
Billings Services	39,129	35,462	3,667	10.34%
Miscellaneous	784	2,346	(1,562)	-66.58%

Non-Operating Revenues:

Taxes/Assessments	1,297,798	994,269	303,529	30.53%
Investment Earnings	<u>4,441</u>	<u>8,680</u>	<u>(4,239)</u>	<u>-48.84%</u>
Total Revenues	2,714,009	2,383,099	31,620	1.33%

Program Expenses

Salaries & Benefits	1,500,076	1,449,114	(50,962)	-3.52%
Purchased Services	267,124	244,682	(22,442)	-9.17%
Medical Supplies & Expenses	110,812	105,897	(4,915)	-4.64%
Non-Medical Supplies & Expenses	16,679	12,219	(4,460)	-36.50%
Insurance	53,998	61,058	7,060	11.56%
Bad Debts	25,417	47,383	21,966	46.36%
Depreciation	158,866	154,301	(4,565)	-2.96%
Debt Service Interest Expense	28,669	34,969	6,300	18.02%
Maintenance/Utilities	65,720	70,710	4,990	7.06%
Administrative/Miscellaneous	<u>86,051</u>	<u>79,522</u>	<u>(6,529)</u>	<u>-8.21%</u>
Total Expenses	2,313,412	2,259,855	(53,557)	-2.37%

Change in Net Assets

400,597	123,244
---------	---------

STROM & ASSOCIATES, PC
P.O. Box 1980
Billings, Montana 59103

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Colstrip Medical District
Rosebud County
Colstrip, MT 59323

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Colstrip Medical District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District'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 and the aggregate remaining fund information of Colstrip Medical District as of June 30, 2014, and the respective changes in financial position and cash flows 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 on pages 3 through 6 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 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 inquires 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 October 24, 2014 on our consideration of the Colstrip Medical District'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 Colstrip Medical District's internal control over financial reporting and compliance.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
October 24, 2014

Colstrip Medical District
Rosebud County
Colstrip, Montana

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2014

	<u>Enterprise Fund</u>
Current Assets:	
Cash	975,410
Taxes/Assessments Receivable	505
Accounts Receivable, Net	199,957
Inventory	56,047
Prepaid Expense	<u>24,531</u>
Total Current Assets:	<u>1,256,450</u>
Restricted Assets:	
Restricted Cash	<u>215,625</u>
Total Restricted Assets	<u>215,625</u>
Noncurrent Assets:	
Land	173,419
Other Capital Assets (Net)	<u>2,219,477</u>
Total Noncurrent Assets:	<u>2,392,896</u>
Total Assets:	<u>3,864,971</u>
Current Liabilities:	
Accounts Payable	<u>118,326</u>
Total Current Liabilities:	<u>118,326</u>
Non-current Liabilities:	
Bonds Payable	<u>610,000</u>
Total Non-current Liabilities:	<u>610,000</u>
Total Liabilities:	<u>728,326</u>
Net Position	
Net Invested in capital assets	1,782,896
Unrestricted	<u>1,353,749</u>
Total Net Position	<u>3,136,645</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Colstrip Medical District
 Rosebud County
 Colstrip, Montana

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 for the Fiscal Year Ended June 30, 2014

	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Charges for Services	1,371,857
Billing Services	39,129
Miscellaneous	<u>784</u>
Total Operating Revenues	<u>1,411,770</u>
OPERATING EXPENSES:	
Salaries & Benefits	1,500,076
Purchased Services	267,124
Medical Supplies & Expenses	110,812
Non-Medical Supplies & Expenses	16,679
Insurance	53,998
Bad Debts	25,417
Depreciation	158,866
Maintenance/Utilities	65,720
Administrative Expense	<u>86,051</u>
Total Operating Expenses	<u>2,284,743</u>
TOTAL OPERATING INCOME (LOSS)	<u>(872,973)</u>
NON-OPERATING REVENUE(EXPENSES)	
Taxes/Assessments	1,297,798
Investment Earnings	4,441
Debt Service Interest Expense	<u>(28,669)</u>
Total Non-operating Revenue(Expenses)	<u>1,273,570</u>
CHANGE IN NET POSTION	<u>400,597</u>
TOTAL NET POSITION, BEGINNING	<u>2,736,048</u>
TOTAL NET POSITION, ENDING	<u>3,136,645</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Colstrip Medical District
 Rosebud County
 Colstrip, Montana

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 for the Fiscal Year Ended June 30, 2014

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATIONS:	
Cash Received From Customers	1,345,839
Cash Received From Ambulance Billings	39,129
Cash Paid for Salaries & Benefits	(1,500,076)
Cash Paid for Purchased Services	(322,887)
Cash Paid to Suppliers	<u>(314,743)</u>
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES:	<u>(752,738)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest/Investment Earnings	4,441
NET CASH PROVIDED(USED) BY INVESTING ACTIVITIES:	<u>4,441</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash Received from Taxes/Assessments	<u>1,298,603</u>
CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES:	<u>1,298,603</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Capital Assets	(119,397)
Principal on Bonds, Notes, and Lease Obligations	(190,000)
Interest Paid on Bonds, Notes and Lease Obligations	<u>(28,669)</u>
NET CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:	<u>(338,066)</u>
NET INCREASE (DECREASE) IN CASH	212,240
CASH BALANCE JULY 1, 2013	<u>978,795</u>
CASH BALANCE JUNE 30, 2014	<u>1,191,035</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	(872,973)
Adjustments to Reconcile Operating Income to net cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase)Decrease in Accounts Receivable	(26,802)
(Increase)Decrease in Inventory	313
(Increase)Decrease in Prepaid Expenses	(1,765)
Increase(Decrease) in Accounts/Other Payables	(35,794)
Bad Debt Expense	25,417
Depreciation Expense	<u>158,866</u>
Total Adjustments	<u>120,235</u>
Net Cash Provided by Operating Activities	<u>(752,738)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Colstrip Medical District
Rosebud County
Colstrip, Montana

STATEMENT OF FIDUCIARY NET POSITION
As of June 30, 2014

	<u>Agency Fund</u>
Assets	
Accounts Receivable	<u>139,232</u>
Total Assets	<u>139,232</u>
Liabilities	
Due to Ambulance	<u>139,232</u>
Total Liabilities	<u>139,232</u>
Net Postion	
Held in Trust for Ambulance	<u>-</u>
Total Net Postion	<u>-</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Board of Trustees
Colstrip Medical District
Rosebud County
Colstrip, MT 59323

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.a REPORTING ENTITY

The basic financial statements of the Colstrip Medical District have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the District adopted the following

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the District.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The District has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the District assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. The District does not have pension plan cost. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement has no effect on the financial statements.

Colstrip Medical District was established by order of the District Court of the Montana Thirteenth Judicial District in June 1993 in accordance with Montana Code Annotated, Section 7-34-2201. The District is controlled by an elected Board of Trustees, and the financial statements include all operations of the District under the control of the Board. The budget is adopted as a management tool only; it is not a statutory requirement, so budget and actual financial statements are not shown as supplemental information in these financial statements.

The District provides medical care to patients of the District. Patients are charged fees according to services provided and are either paid by patients and/or submitted for payment to patient insurance companies, Medicaid and Medicare for payment and/or negotiated adjustment. The District raises additional revenue through property taxes levied and collected by Rosebud County. The cash received is maintained and invested by the County Treasurer. County Commissioners have a legal right to review and approve the budget adopted by the District. Management policies and daily operations of the District is the sole responsibility of the Board of Trustees. The County does not significantly influence the operations of the District.

The criteria for including organizations as component units within the District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the District. Based on those criteria this district has no component units.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1.b BASIS OF PRESENTATION AND ACCOUNTING

1.b1 Proprietary Funds:

Enterprise Fund – This fund is used to account for medical services provided to the patients of the District. Enterprise activities are similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. All assets and liabilities associated with the proprietary fund's activities are included on its balance sheet.

1.b2 Fiduciary Funds:

Agency Fund – This fund is used to account for billing of ambulance services collected by the District in a trustee capacity or as an agent for Rosebud County.

1.b3 Basis of Accounting:

Proprietary, trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property assessments are recognized in the fiscal year for which the taxes are levied. Revenue from donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for medical services. Operating expenses for enterprise funds and 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 nonoperating revenues and expenses. Resources received for capital acquisition or construction are reported as separate items.

1.c1 Net Position:

Statement of Net Position includes the following: Net Investments in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets. Unrestricted – The difference between the assets and liabilities that is not reported in Net Investments in Capital Assets.

1.c2 Cash and Investments:

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows the District to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Information regarding the collateral and security for cash held at the County is not available to the District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Rosebud County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1.c3 Assessments/Receivables:

Assessments are collected by the County Treasurer who credits to the District funds their respective share of the collections. The assessments are collectible in two installments, which become delinquent after November 30 and May 31. Assessments are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds of any such auction.

Accounts receivable represent patient billings due as of June 30, 2014 and are reported net of allowance accounts. The District has an allowance for contract adjustments of \$20,000 and an allowance for doubtful accounts of \$40,000. The allowance for contract adjustments is for the estimated amount of patient insurances and Medicare/Medicaid adjustments made to the original billing.

1.c4 Inventories:

The medical and office supplies on hand as of June 30, 2014 are stated in an inventory account at lower of cost or market and are valued on a first-in, first-out basis. The costs of inventory are expensed when purchased. An adjustment is made annually to inventory and expense accounts as required under the consumption basis of accounting for inventories.

1.c5 Capital Assets:

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The District considers capital assets to be items in excess of \$500 if purchased prior to June 30, 2008 and \$1,500 if purchased after June 30, 2008, with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Buildings	15 - 30 years
Improvements other than buildings	30 years
Machinery and Equipment	3 - 15 years

1.c6 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Approximately 60% of District's year end cash resources are held and managed by the Rosebud County treasurer. These funds are combined with cash resources of other governmental entities within Rosebud County to form a pool of cash and cash equivalents. The pooled cash at the County consists primarily of demand accounts and STIP and are carried at fair value. Approximately 40% of District year end cash resources are managed by the District and held at a local bank consisting primarily of demand accounts and certificates of deposit. All of the deposits were held at a local bank and covered by federal deposit insurance corporation (FDIC).

At June 30, 2014 the carrying amount of deposits at local banks and the County was \$1,191,035.

The composition of Cash on June 30, 2014 consists of the following:

Petty Cash	\$ 225
Demand Accounts	227,433
Rosebud County Pool	796,100
CD's	<u>167,277</u>
Total	<u>\$ 1,191,035</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Assets – Proceeds from debt and funds set aside for payment of bond principal and interest are classified as restricted assets since their use is limited by applicable bond indentures and are held by the county treasurer for that purpose.

NOTE 3. ASSESSMENTS / ACCOUNTS RECEIVABLE

Net assessments/accounts receivable as of June 30, 2014 are summarized as follows:

Accounts Receivable	\$ 259,957
Allowance for Contract Adjustments	(20,000)
Allowance for Doubtful Accounts	<u>(40,000)</u>
Accounts Receivable (Net)	<u>\$ 199,957</u>
Assessments Receivable	<u>\$ 505</u>
Total Receivables	<u>\$ 201,462</u>

The allowance for contract adjustments is for the estimated amount of insurance adjustments made to the original billings resulting in what they will ultimately pay Colstrip Medical District. Assessments receivable represent the uncollected tax assessments due as of June 30, 2014.

Assessments are collected by the Rosebud County Treasurer who credits to District funds their respective share of the collections. The assessments are collectible in two installments, which become delinquent after November 30 and May 31. Assessments are liens upon the property being assessed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds of any such auction. The taxable value, upon which the assessments are based, was \$86,054,000. The District levies for the period ended June 30, 2014 were as follows:

	<u>Mill Levy</u>
District	9.11
Bond Repayment	<u>2.35</u>
Total	<u>11.46</u>

NOTE 4. CAPITAL ASSETS

The value and changes to the capital assets for June 30, 2014 are as follows:

	CAPITAL ASSETS			
	Balance <u>July 1, 2013</u>	Additions	Deletions	Balance <u>June 30, 2014</u>
COST:				
Non-Depreciable:				
Land	\$ 151,229	\$ 22,190	\$ 0	\$ 173,419
Depreciable:				
Imp. – Other than Bldg.	\$ 56,405	\$ 0	\$ 0	\$ 56,405
Building & Bldg. Imp.	3,350,686	8,175	0	3,358,861
Machinery & Equip.	<u>837,675</u>	<u>89,032</u>	<u>(4,985)</u>	<u>921,722</u>
Total	<u>\$ 4,244,766</u>	<u>\$ 97,207</u>	<u>\$(4,985)</u>	<u>\$ 4,336,988</u>
ACCUMULATED DEPRECIATION:				
Land Improvements	\$ (33,426)	\$ (2,370)	\$ 0	\$ (35,796)
Building	(1,230,633)	(117,611)	0	(1,348,244)
Major Equipment	<u>(699,571)</u>	<u>(38,885)</u>	<u>(4,985)</u>	<u>(733,471)</u>
Total	<u>\$(1,963,630)</u>	<u>\$(158,866)</u>	<u>\$(4,985)</u>	<u>\$(2,117,511)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5. RISK MANAGEMENT

The District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) professional liability, i.e. errors and omissions; and c) environmental damage. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage and professional liabilities. The District has no coverage for potential losses from environmental damages. As the District does not have any employees, employee liabilities are transferred to contracted firms. Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

The District's contracts with the Deaconess Billings Clinic (DBC) and Human Resource Management (HRM) require that the District maintain a minimum coverage of \$1,000,000 per medical incident and \$3,000,000 annual aggregate insurance. DBC and HRM are responsible for maintaining worker's compensation insurance for their employees.

NOTE 6. CHANGES IN LONG TERM DEBT

6.a COLSTRIP MEDICAL DISTRICT BONDS

In December 2006, the District has issued General Obligation Hospital Bond Series 2006, and the bonds were sold to D.A. Davidson & Co. for construction of an addition to the District's existing building in the amount of \$1,750,000. The maturity date of the Bond is July 1, 2017.

The District will levy assessments on all property in the District so that the assessments will raise sufficient funds to provide for the payment of principal and interest on the bond. The 2006 Bond is a tax-exempt issuance. During fiscal year 2014, the District made interest payments of \$28,669 and principal payments of \$190,000.

These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Issue Date</u>	<u>Original Term</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Retired</u>	<u>Amount Outstanding June 30, 2014</u>
12/06	6.5 Years	\$ 1,750,000	3.5 - 4%	\$ 1,140,000	\$ 610,000

The repayment schedule includes interest of \$ 45,780.

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:	<u>Principal</u>	<u>Interest</u>
2015	\$ 0	\$ 11,009
2016	195,000	19,558
2017	205,000	11,381
2018	<u>210,000</u>	<u>3,832</u>
Totals	<u>\$ 610,000</u>	<u>\$ 45,780</u>

6.b CHANGES IN LONG TERM DEBT

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Bonds Payable	\$ 800,000	\$ 0	\$ 190,000	\$ 610,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7 OTHER POST-EMPLOYMENT BENEFITS

The District has no employees. All personnel are contracted from either Deaconess Billings Clinic or Human Resource Management. As such, the District has no "other postemployment benefit (OPEB) liability."

NOTE 8. CONTRACTED SERVICES

The District contracts the operations of the District owned Medical Center with Deaconess Billings Clinic (DBC) and Human Resource Management, Inc. (HRM). The contracts state that the Doctors, Physician's Assistants and Administrator shall be employees of DBC, staff will be employees of HRM and that all functions of hiring, firing, setting personnel policies, evaluating, etc., will be controlled by and the responsibility of DBC and HRM. DBC places the management of the District in the hands of John Poole, Administrator. The District guarantees the payment of all costs associated with the operation of the clinic plus an agreed upon percentage of the administrator and staff's total wages and associated benefits.

Monthly financial statements of the Medical Center operations and budget are reviewed by the District's Trustees. The contract may be terminated within thirty days by either party.

The District also contracts with Deaconess Billings Clinic (DBC) for two full-time physicians and two licensed mid-level practitioners. The District reimburses Deaconess Billings Clinic for all related salaries and benefits plus an additional administrative fee.

NOTE 9. INTERLOCAL AGREEMENTS:

The Colstrip Medical District (CMD) has an interlocal agreement with the Colstrip School District No. 19 (School District) to share services, facilities and equipment on a case-by-case basis for the mutual benefit of the public, for events such as sports physicals, Colstrip Medical Clinic Foundation 3 on 3 basketball tournament, Health Screenings, CHAMP's camp, to name a few. Through this agreement, the CMD Administrator and the Superintendent may consent or commit the manpower and equipment to assist the other entity for an agreed upon project. However, when any project is undertaken through this agreement in which the estimate of cost, including hourly equipment rate, fuel, and manpower may reasonably exceed \$2,500, such project must receive the approval of the governing bodies of both entities.

STROM & ASSOCIATES, PC
P.O. Box 1980
Billings, Montana 59103

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*

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Colstrip Medical District
Rosebud County
Colstrip, MT 59323

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Colstrip Medical District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Colstrip Medical District's basic financial statements and have issued our report thereon dated October 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Colstrip Medical District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Colstrip Medical District'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 on 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.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
October 24, 2014

STROM & ASSOCIATES, PC
P.O. Box 1980
Billings, Montana 59103

SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations.