

TOOLE COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

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

TOOLE COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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TOOLE COUNTY, MONTANA

**ORGANIZATION**

Fiscal year Ended June 30, 2014

**BOARD OF COUNTY COMMISSIONERS**

Ben Ober	Chairperson
Allan Underdal	Commissioner
Deb Brandon	Commissioner

**COUNTY OFFICIALS**

Merle Raph	County Attorney
Boyd Jackson	Treasurer/Assessor/Superintendent of Schools
Treva Nelson	Clerk and Recorder
Sandra Peers	Clerk of District Court
Sherrie Murphy	Justice of the Peace
Donna Whitt	Sheriff
Dan Whitted	Coroner

**MANAGEMENT DISCUSSION AND ANALYSIS  
TOOLE COUNTY  
FISCAL YEAR 2013-2014**

As management of Toole County, Shelby, Montana, we are providing this narrative overview and analysis of the financial statements found in the annual report to augment the understanding of the county's financial performance.

**FINANCIAL HIGHLIGHTS**

Our Oil and Gas Production (HB748) increased from last year. We received \$878,039 this fiscal year compared to \$843,982 from last fiscal year.

- An Apgar Ambulance was purchased.
- 2 Graders were purchased for the Road Dept.
- STC Rural Fire purchased an F-350 Fire Truck.
- A 2014 F-350 was purchased for the Weed Department.
- The 911 Dispatch Center located at the Sheriff's Office was remodeled.
- The Stonegarden grant continued on in this fiscal year. This is a grant awarded to the Sheriff's Department to patrol the northern border, where Toole County meets Canada.

Using this annual financial report, this discussion and analysis is intended to serve as an introduction to the county's basic financial statements, which are comprised of three components:

- 1) Government-Wide Financial Statements
- 2) Fund Financial Statements
- 3) Notes to the Financial Statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Statement of Net Assets and the Statement of Activities:** The statement of Net Assets and the Statement of Activities convey details about the County as a whole and about its activities. These statements included all assets and liabilities of the County using the full accrual basis of accounting. All of the current year's revenues and expenses are received or paid.

These two statements report the county's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure an indicator of whether its financial position is improving or deteriorating. Other factors to consider are changes in the property tax base and the condition of infrastructure in the county.

Toole County used fund accounting to guarantee and demonstrate compliance with financial-related requirements. A "fund" is a grouping of related accounts that is used to maintain control and accountability over resources that have been designated for specific activities or objectives. Toole county Funds are divided into three categories: Governmental Funds, Fiduciary Funds, and Enterprise Funds.

**MANAGEMENT DISCUSSION AND ANALYSIS  
TOOLE COUNTY  
FISCAL YEAR 2013-2014**

**Governmental Funds:** Most of the county's fundamental services are reported in governmental funds, which details the flow of money into and out of the funds and the balances left at year end available for future expenditures. These funds are reported using an accounting method called modified accrual accounting, which measure cash and all other financial assets that can readily be converted to government operations and essential services it provides. Governmental fund information helps to determine whether there are adequate financial resources available to finance future county services.

The variance between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the governmental-wide financial statements because the resources of those funds are not available to support the Toole County's inherent functions. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Governmental revenues received for fiscal year 2014 was \$8,507,651. The total expenditures in fiscal year 2014 in the Governmental fund were \$7,924,660.

**FY14 GENERAL FUND BUDGET**

Over the course of the year, the budget was modified slightly. The ending expenditure budget was \$3,084,475. Over the course of the year, the actual incurred expenditures only amounted to \$2,839,838. The revenue budget was \$2,016,783, with actual revenues received being \$3,454,698, which exceeded the budget.

**CAPITAL ASSETS**

Toole County's total Capital Assets for Governmental and Business-type Activities was at \$20,602,448 in 2014. Land remained basically the same.

**LONG-TERM DEBT**

At the year-end of fiscal year 2014, Toole County had outstanding debt of \$2,811,528. Total liabilities was at \$8,348,257 with the total net position for Governmental Activities and Business-type Activities at \$22,560,252.

**MANAGEMENT DISCUSSION AND ANALYSIS  
TOOLE COUNTY  
FISCAL YEAR 2013-2014**

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	Change	<u>FY14</u>	<u>FY13</u>	Change
			<u>Inc (Dec)</u>			<u>Inc (Dec)</u>
Current and other assets	\$ 6,966,323	\$ 6,472,331	\$ 493,992	\$ 3,339,738	\$ 5,004,832	\$ (1,665,094)
Capital assets	9,083,693	8,754,114	329,579	11,518,755	12,430,029	(911,274)
Total assets	<u>\$ 16,050,016</u>	<u>\$ 15,226,445</u>	<u>\$ 823,571</u>	<u>\$ 14,858,493</u>	<u>\$ 17,434,861</u>	<u>\$ (2,576,368)</u>
Long-term debt outstanding	\$ 2,608,789	\$ 2,298,656	\$ 310,133	\$ 202,739	\$ 225,475	\$ (22,736)
Other liabilities	159,351	351,904	(192,553)	5,377,378	5,893,089	(515,711)
Total liabilities	<u>\$ 2,768,140</u>	<u>\$ 2,650,560</u>	<u>\$ 117,580</u>	<u>\$ 5,580,117</u>	<u>\$ 6,118,564</u>	<u>\$ (538,447)</u>
Net investments in capital assets	\$ 7,866,878	\$ 7,382,599	\$ 484,279	\$ 7,016,513	\$ 7,425,368	\$ (408,855)
Restricted	4,887,823	5,506,713	(618,890)	336,317	337,490	(1,173)
Unrestricted (deficit)	527,175	(313,427)	840,602	1,925,546	3,553,439	(1,627,893)
Total net position	<u>\$ 13,281,876</u>	<u>\$ 12,575,885</u>	<u>\$ 705,991</u>	<u>\$ 9,278,376</u>	<u>\$ 11,316,297</u>	<u>\$ (2,037,921)</u>

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	Change	<u>FY14</u>	<u>FY13</u>	Change
			<u>Inc (Dec)</u>			<u>Inc (Dec)</u>
<b>Revenues</b>						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 825,724	\$ 1,369,964	\$ (544,240)	\$ 12,592,056	\$ 14,722,190	\$ (2,130,134)
Operating grants and contributions	961,268	670,072	291,196	-	-	-
Capital grants and contributions	3,756	52,478	(48,722)	1,608	1,808,607	(1,806,999)
<i>General revenues (by major source):</i>						
Property taxes for general purposes	4,068,020	2,964,319	1,103,701	62,735	81,744	(19,009)
Liquor tax apportionment	10,534	10,421	113	-	-	-
Video poker apportionment	1,550	1,200	350	-	-	-
Miscellaneous	553,627	106,916	446,711	8,884	1,006	7,878
Interest/investment earnings	118,741	(366,255)	484,996	659	(2,952)	3,611
PILT	63,890	43,489	20,401	-	-	-
Montana oil and gas production tax	586,462	656,222	(69,760)	4,596	9,705	(5,109)
State entitlement	629,352	586,590	42,762	9,999	9,319	680
Grants and entitlements not restricted to specific programs	684,727	715,800	(31,073)	-	303	(303)
Total revenues	<u>\$ 8,507,651</u>	<u>\$ 6,811,216</u>	<u>\$ 1,696,435</u>	<u>\$ 12,680,944</u>	<u>\$ 16,629,922</u>	<u>\$ (3,948,978)</u>
<b>Program expenses</b>						
General government	\$ 2,332,036	\$ 2,212,456	\$ 119,580			
Public safety	1,889,404	1,862,856	26,548			
Public works	1,928,698	1,690,539	238,159			
Public health	373,044	364,248	8,796			
Social and economic services	416,173	407,882	8,291			
Culture and recreation	404,207	403,774	433			
Housing and community development	379,670	329,511	50,159			
Conservation of natural resources	33,790	24,529	9,261			
Debt service - interest	24,908	29,988	(5,080)			
Comprehensive liability insurance	142,730	153,055	(10,325)			
Marias Medical Center				\$ 14,321,978	\$ 282,465	\$ 14,039,513
Airport Commission				382,430	14,812,976	(14,430,546)
Total expenses	<u>\$ 7,924,660</u>	<u>\$ 7,478,838</u>	<u>\$ 445,822</u>	<u>\$ 14,704,408</u>	<u>\$ 15,095,441</u>	<u>\$ (391,033)</u>
Excess (deficiency) before special items and transfers	582,991	(667,622)	1,250,613	(2,023,464)	1,534,481	(3,557,945)
<b>Increase (decrease) in net position</b>	<u>\$ 582,991</u>	<u>\$ (667,622)</u>	<u>\$ 1,250,613</u>	<u>\$ (2,023,464)</u>	<u>\$ 1,534,481</u>	<u>\$ (3,557,945)</u>

**MANAGEMENT DISCUSSION AND ANALYSIS  
TOOLE COUNTY  
FISCAL YEAR 2013-2014**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The assessed valuation for fiscal year 2013-2014 was \$955,368,349 and the county-wide mill was worth \$21,258,282. The total mills levied were 201.47.

The Stonegarden Grant for the Sheriff's department will continue again and we are anticipating approximately the same amount of reimbursable expenses as the previous fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Treva Nelson, Toole County clerk and Recorder, 226 1<sup>st</sup> Street South, Shelby MT 59474. For information regarding NETA or Marias Medical Center financials, please contact the County as well.

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Toole County  
Shelby, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Toole County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements. We did not audit the financial statements of the Marias Medical Center, which is both a major fund and represents 74 percent, 74 percent, and 99 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amount included for the audited component unit of the County, is based on the report of the other auditors.

**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 did not audit the financial statements of Marias Medical Center, which represent 74 percent, 74 percent, and 99 percent, respectively of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for Marias Medical Center, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

### **Basis for Modified Opinion**

The financial statements of Northern Express Transit Authority (NETA) Component Unit have not been audited, and we were not engaged to audit the NETA financial statements as part of our audit of Toole County's basic financial statements. NETA's financial activities are not included in Toole County's basic financial statements as a discretely presented component unit as required by generally accepted accounting principles.

### **Modified Opinion**

In our opinion, based on our audit and the report of other auditors, except for the possible effects of the matter discussed in the "Basis for Modified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the representative financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Toole County, State of Montana, as of and for the year then ended June 30, 2014, and the respective changes in financial position thereof, and where applicable, cash flows, 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, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 5, 57 through 60, and 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2015, on our consideration of the Toole County, 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 Toole County, Montana's internal control over financial reporting and compliance.

*Derring, Downey and Associates, CPA's, P.C.*

April 28, 2015

**Toole County, Montana**  
**Statement of Net Position**  
**June 30, 2014**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 6,221,276	\$ 133,877	\$ 6,355,153
Taxes and assessments receivable, net	319,623	49,940	369,563
Accounts receivable - net	-	1,935,515	1,935,515
Due from other governments	139,754	-	139,754
Prepaid expenses	-	37,013	37,013
Inventories	285,670	498,048	783,718
Restricted assets	-	429,387	429,387
Medicare reimbursement	-	253,588	253,588
Other	-	2,370	2,370
Total current assets	<u>\$ 6,966,323</u>	<u>\$ 3,339,738</u>	<u>\$ 10,306,061</u>
Noncurrent assets			
Capital assets - land	\$ 314,959	\$ 7,680	\$ 322,639
Capital assets - construction in progress	448,727	-	448,727
Capital assets - depreciable, net	8,320,007	11,511,075	19,831,082
Total noncurrent assets	<u>\$ 9,083,693</u>	<u>\$ 11,518,755</u>	<u>\$ 20,602,448</u>
Total assets	<u>\$ 16,050,016</u>	<u>\$ 14,858,493</u>	<u>\$ 30,908,509</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 121,897	\$ 313,188	\$ 435,085
Accrued payables	3,612	-	3,612
Accrued payroll	33,797	652	34,449
Due to other governments	45	-	45
Current portion of long-term capital liabilities	296,183	29,471	325,654
Current portion of compensated absences payable	257,512	5,744	263,256
Current maturities of bonds payable	-	105,000	105,000
Current maturities of notes payable	-	366,553	366,553
Vacation and sick leave	-	490,251	490,251
Salaries and wages	-	169,104	169,104
Interest	-	56,248	56,248
Total current liabilities	<u>\$ 713,046</u>	<u>\$ 1,536,211</u>	<u>\$ 2,249,257</u>
Noncurrent liabilities			
Noncurrent portion of OPEB	\$ 1,001,612	\$ 37,157	\$ 1,038,769
Noncurrent portion of long-term capital liabilities	920,632	124,836	1,045,468
Noncurrent portion of compensated absences	132,850	5,531	138,381
Bonds payable, net of current maturities	-	2,180,000	2,180,000
Notes payable, net of current maturities	-	1,696,382	1,696,382
Total noncurrent liabilities	<u>\$ 2,055,094</u>	<u>\$ 4,043,906</u>	<u>\$ 6,099,000</u>
Total liabilities	<u>\$ 2,768,140</u>	<u>\$ 5,580,117</u>	<u>\$ 8,348,257</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 7,866,878	\$ 7,016,513	\$ 14,883,391
Restricted for other purposes	58,522	-	58,522
Restricted for general government	405,290	336,317	741,607
Restricted for public safety	489,577	-	489,577
Restricted for public works	2,703,251	-	2,703,251
Restricted for public health	234,159	-	234,159
Restricted for culture and recreation	510,995	-	510,995
Restricted for economic development	73,006	-	73,006
Restricted for social and economic services	121,466	-	121,466
Restricted for conservation of natural resources	5,887	-	5,887
Nospendable	285,670	-	285,670
Unrestricted	527,175	1,925,546	2,452,721
Total net position	<u>\$ 13,281,876</u>	<u>\$ 9,278,376</u>	<u>\$ 22,560,252</u>

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,332,036	\$ 108,623	\$ 4,332	\$ -	\$ (2,219,081)	\$ -	\$ (2,219,081)
Public safety	1,889,404	170,639	367,488	3,300	(1,347,977)	-	(1,347,977)
Public works	1,928,698	471,803	239,738	456	(1,216,701)	-	(1,216,701)
Public health	373,044	-	109,136	-	(263,908)	-	(263,908)
Social and economic services	416,173	25,967	122,668	-	(267,538)	-	(267,538)
Culture and recreation	404,207	48,391	-	-	(355,816)	-	(355,816)
Housing and community development	379,670	-	15,800	-	(363,870)	-	(363,870)
Conservation of natural resources	33,790	301	102,106	-	68,617	-	68,617
Debt service - interest	24,908	-	-	-	(24,908)	-	(24,908)
Comprehensive liability insurance	142,730	-	-	-	(142,730)	-	(142,730)
Total governmental activities	\$ 7,924,660	\$ 825,724	\$ 961,268	\$ 3,756	\$ (6,133,912)	\$ -	\$ (6,133,912)
Business-type activities:							
Marias Medical Center	\$ 14,321,978	\$ 12,493,967	\$ -	\$ -	\$ -	\$ (1,828,011)	\$ (1,828,011)
Airport Commission	382,430	98,089	-	1,608	-	(282,733)	(282,733)
	-	-	-	-	-	-	-
Total business-type activities	\$ 14,704,408	\$ 12,592,056	\$ -	\$ 1,608	\$ -	\$ (2,110,744)	\$ (2,110,744)
Total primary government	\$ 22,629,068	\$ 13,417,780	\$ 961,268	\$ 5,364	\$ (6,133,912)	\$ (2,110,744)	\$ (8,244,656)
General Revenues:							
Property taxes for general purposes					\$ 4,068,020	\$ 62,735	\$ 4,130,755
Liquor tax apportionment					10,534	-	10,534
Video poker apportionment					1,550	-	1,550
Miscellaneous					553,627	8,884	562,511
Interest/investment earnings					118,741	659	119,400
PILT					63,890	-	63,890
Montana oil and gas production tax					586,462	4,596	591,058
State entitlement					629,352	9,999	639,351
Grants and entitlements not restricted to specific programs					684,727	-	684,727
Intergovernmental revenue					-	407	407
Total general revenues, special items and transfers					\$ 6,716,903	\$ 87,280	\$ 6,804,183
Change in net position					\$ 582,991	\$ (2,023,464)	\$ (1,440,473)
Net position - beginning					\$ 12,575,885	\$ 11,316,297	\$ 23,892,182
Restatements					123,000	(14,457)	108,543
Net position - beginning - restated					\$ 12,698,885	\$ 11,301,840	\$ 24,000,725
Net position - end					\$ 13,281,876	\$ 9,278,376	\$ 22,560,252

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	<b>General</b>	<b>Road</b>	<b>Impact Fees</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 1,891,357	\$ 580,031	\$ 1,695,908	\$ 2,053,980	\$ 6,221,276
Taxes and assessments receivable, net	98,090	84,981	-	136,552	319,623
Due from other funds	50,662	-	-	-	50,662
Due from other governments	-	-	-	139,754	139,754
Inventories	-	142,835	-	142,835	285,670
Total current assets	<u>\$ 2,040,109</u>	<u>\$ 807,847</u>	<u>\$ 1,695,908</u>	<u>\$ 2,473,121</u>	<u>\$ 7,016,985</u>
Total assets	<u>\$ 2,040,109</u>	<u>\$ 807,847</u>	<u>\$ 1,695,908</u>	<u>\$ 2,473,121</u>	<u>\$ 7,016,985</u>
Current liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ 121,897	\$ 121,897
Accrued payables	-	-	-	3,612	3,612
Accrued payroll	18,359	5,930	-	9,508	33,797
Due to other funds	-	-	-	50,662	50,662
Due to other governments	45	-	-	-	45
Total current liabilities	<u>\$ 18,404</u>	<u>\$ 5,930</u>	<u>\$ -</u>	<u>\$ 185,679</u>	<u>\$ 210,013</u>
Total liabilities	<u>\$ 18,404</u>	<u>\$ 5,930</u>	<u>\$ -</u>	<u>\$ 185,679</u>	<u>\$ 210,013</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows of resources	\$ 98,090	\$ 84,981	\$ -	\$ 136,552	\$ 319,623
Total deferred inflows of resources	<u>\$ 98,090</u>	<u>\$ 84,981</u>	<u>\$ -</u>	<u>\$ 136,552</u>	<u>\$ 319,623</u>
<b>FUND BALANCES</b>					
Nonspendable	\$ -	\$ 142,835	\$ -	\$ 142,835	\$ 285,670
Restricted	-	574,101	1,695,908	1,590,730	3,860,739
Committed	-	-	-	499,576	499,576
Unassigned fund balance	1,923,615	-	-	(82,251)	1,841,364
Total fund balance	<u>\$ 1,923,615</u>	<u>\$ 716,936</u>	<u>\$ 1,695,908</u>	<u>\$ 2,150,890</u>	<u>\$ 6,487,349</u>

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**June 30, 2014**

<b>Total fund balances - governmental funds</b>	\$ 6,487,349
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,083,693
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	319,623
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,608,789)
<b>Total net position - governmental activities</b>	<b>\$ <u>13,281,876</u></b>

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Road</u>	<u>Impact Fees</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes and assessments	\$ 1,637,038	\$ 981,039	\$ -	\$ 1,439,787	\$ 4,057,864
Licenses and permits	-	-	-	20,640	20,640
Intergovernmental	1,426,949	226,125	-	1,215,667	2,868,741
Charges for services	165,851	201	454,365	149,449	769,866
Fines and forfeitures	59,812	-	-	18,872	78,684
Miscellaneous	49,356	16,745	-	245,323	311,424
Investment earnings	94,702	3,509	12,037	8,480	118,728
Internal services	20,990	-	-	-	20,990
Total revenues	<u>\$ 3,454,698</u>	<u>\$ 1,227,619</u>	<u>\$ 466,402</u>	<u>\$ 3,098,218</u>	<u>\$ 8,246,937</u>
<b>EXPENDITURES</b>					
General government	\$ 1,150,256	\$ -	\$ -	\$ 660,655	\$ 1,810,911
Public safety	1,416,056	-	-	208,570	1,624,626
Public works	-	1,072,645	-	404,420	1,477,065
Public health	185,589	-	-	166,041	351,630
Social and economic services	12,491	-	-	403,682	416,173
Culture and recreation	-	-	-	337,350	337,350
Housing and community development	-	-	-	360,566	360,566
Conservation of natural resources	-	-	-	33,790	33,790
Debt service - principal	-	-	-	285,120	285,120
Debt service - interest	3,631	-	-	21,277	24,908
Capital outlay	53,083	322,524	-	959,733	1,335,340
Comprehensive liability insurance	-	-	-	142,730	142,730
Total expenditures	<u>\$ 2,821,106</u>	<u>\$ 1,395,169</u>	<u>\$ -</u>	<u>\$ 3,983,934</u>	<u>\$ 8,200,209</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 633,592</u>	<u>\$ (167,550)</u>	<u>\$ 466,402</u>	<u>\$ (885,716)</u>	<u>\$ 46,728</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of general long term debt	\$ 130,420	\$ -	\$ -	\$ -	\$ 130,420
Proceeds from the sale of general capital asset disposition	2,000	124,280	-	124,280	250,560
Transfers in	115,550	40,000	-	396,505	552,055
Transfers out	(120,373)	(85,000)	(80,000)	(266,682)	(552,055)
Total other financing sources (uses)	<u>\$ 127,597</u>	<u>\$ 79,280</u>	<u>\$ (80,000)</u>	<u>\$ 254,103</u>	<u>\$ 380,980</u>
Net Change in Fund Balance	<u>\$ 761,189</u>	<u>\$ (88,270)</u>	<u>\$ 386,402</u>	<u>\$ (631,613)</u>	<u>\$ 427,708</u>
Fund balances - beginning	\$ 1,162,426	\$ 805,206	\$ 1,309,506	\$ 2,782,503	\$ 6,059,641
Fund balance - ending	<u>\$ 1,923,615</u>	<u>\$ 716,936</u>	<u>\$ 1,695,908</u>	<u>\$ 2,150,890</u>	<u>\$ 6,487,349</u>

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

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

<b>Net change in fund balances - total governmental funds</b>	\$ 427,708
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
- Capital assets purchased	1,335,340
- Depreciation expense	(930,166)
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:	
- Proceeds from the sale of capital assets	(250,560)
- Revenue from the sale of capital assets	51,965
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
- Long-term receivables (deferred revenue)	10,154
The change in compensated absences is shown as an expense in the Statement of Activities	
	(14,923)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
- Long-term debt principal payments	285,120
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:	
- Proceeds from the sale of long-term debt	(130,420)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:	
- Post-employment benefits other than retirement liability	(201,227)
<b>Change in net position - Statement of Activities</b>	<b>\$ <u>582,991</u></b>

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

	<u>Marias Medical Center</u>	<u>Airport Commission</u>	<u>Totals</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 39,562	\$ 94,315	\$ 133,877
Taxes and assessments receivable, net	42,150	7,790	49,940
Accounts receivable - net	1,935,515	-	1,935,515
Prepaid expenses	37,013	-	37,013
Inventories	464,769	33,279	498,048
Restricted assets	429,387	-	429,387
Medicare reimbursement	253,588	-	253,588
Other	2,370	-	2,370
Total current assets	<u>\$ 3,204,354</u>	<u>\$ 135,384</u>	<u>\$ 3,339,738</u>
Noncurrent assets:			
Capital assets - land	\$ -	\$ 7,680	\$ 7,680
Capital assets - depreciable, net	7,717,544	3,793,531	11,511,075
Total noncurrent assets	<u>\$ 7,717,544</u>	<u>\$ 3,801,211</u>	<u>\$ 11,518,755</u>
Total assets	<u>\$ 10,921,898</u>	<u>\$ 3,936,595</u>	<u>\$ 14,858,493</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 224,954	\$ 88,234	\$ 313,188
Accrued payroll	-	652	652
Current portion of long-term capital liabilities	-	29,471	29,471
Current portion of compensated absences payable	-	5,744	5,744
Current maturities of bonds payable	105,000	-	105,000
Current maturities of notes payable	366,553	-	366,553
Vacation and sick leave	490,251	-	490,251
Salaries and wages	169,104	-	169,104
Interest	56,248	-	56,248
Total current liabilities	<u>\$ 1,412,110</u>	<u>\$ 124,101</u>	<u>\$ 1,536,211</u>
Noncurrent liabilities:			
Noncurrent portion of long-term liabilities	\$ -	\$ 37,157	\$ 37,157
Noncurrent portion of long-term capital liabilities	-	124,836	124,836
Noncurrent portion of compensated absences	-	5,531	5,531
Bonds payable, net of current maturities	2,180,000	-	2,180,000
Notes payable, net of current maturities	1,696,382	-	1,696,382
Total noncurrent liabilities	<u>\$ 3,876,382</u>	<u>\$ 167,524</u>	<u>\$ 4,043,906</u>
Total liabilities	<u>\$ 5,288,492</u>	<u>\$ 291,625</u>	<u>\$ 5,580,117</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 3,369,609	\$ 3,646,904	\$ 7,016,513
Restricted for general government	336,317	-	336,317
Unrestricted	1,927,480	(1,934)	1,925,546
Total net position	<u>\$ 5,633,406</u>	<u>\$ 3,644,970</u>	<u>\$ 9,278,376</u>
Total liabilities and net position	<u>\$ 10,921,898</u>	<u>\$ 3,936,595</u>	<u>\$ 14,858,493</u>

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Marias Medical Center</u>	<u>Airport Commission</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ -	\$ 98,088	\$ 98,088
Miscellaneous revenues	-	8,884	8,884
Net Patient and Resident Service Revenue	12,082,869	-	12,082,869
Other Revenue	2,136,823	-	2,136,823
Provision for bad debts	<u>(1,725,725)</u>	<u>-</u>	<u>(1,725,725)</u>
Total operating revenues	<u>\$ 12,493,967</u>	<u>\$ 106,972</u>	<u>\$ 12,600,939</u>
<b>OPERATING EXPENSES</b>			
Personal services	\$ -	\$ 62,617	\$ 62,617
Supplies	-	43,253	43,253
Purchased services	-	31,047	31,047
Fixed charges	-	3,015	3,015
Depreciation	-	240,297	240,297
Marias Medical operating expenses	<u>14,633,450</u>	<u>-</u>	<u>14,633,450</u>
Total operating expenses	<u>\$ 14,633,450</u>	<u>\$ 380,229</u>	<u>\$ 15,013,679</u>
Operating income (loss)	<u>\$ (2,139,483)</u>	<u>\$ (273,257)</u>	<u>\$ (2,412,740)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Taxes/assessments revenue	\$ -	\$ 62,736	\$ 62,736
Intergovernmental revenue	-	16,610	16,610
Interest revenue	-	659	659
Debt service interest expense	-	(2,201)	(2,201)
Marias Medical non operating income (expenses)	<u>311,472</u>	<u>-</u>	<u>311,472</u>
Total non-operating revenues (expenses)	<u>\$ 311,472</u>	<u>\$ 77,804</u>	<u>\$ 389,276</u>
Income (loss) before contributions and transfers	<u>\$ (1,828,011)</u>	<u>\$ (195,453)</u>	<u>\$ (2,023,464)</u>
Change in net position	<u>\$ (1,828,011)</u>	<u>\$ (195,453)</u>	<u>\$ (2,023,464)</u>
Net Position - Beginning of the year	\$ 7,461,417	\$ 3,854,880	\$ 11,316,297
Restatements	<u>-</u>	<u>(14,457)</u>	<u>(14,457)</u>
Net Position - Beginning of the year - Restated	<u>\$ 7,461,417</u>	<u>\$ 3,840,423</u>	<u>\$ 11,301,840</u>
Net Position - End of the year	<u>\$ 5,633,406</u>	<u>\$ 3,644,970</u>	<u>\$ 9,278,376</u>

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Fiscal Year Ended June 30, 2014**

	<b>Business - Type Activities</b>		
	<b>Airport</b>	<b>Marias Medical Center</b>	<b>Totals</b>
<b>Cash flows from operating activities:</b>			
Cash received from providing services	\$ 143,120	\$ 14,116,627	\$ 14,259,747
Cash received from miscellaneous sources	8,884	-	8,884
Cash payments to suppliers	(65,207)	(4,510,541)	(4,575,748)
Cash payments for professional services	(34,062)	-	(34,062)
Cash payments to employees	(55,167)	(8,868,291)	(8,923,458)
Net cash provided (used) by operating activities	<u>\$ (2,432)</u>	<u>\$ 737,795</u>	<u>\$ 735,363</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(29,430)	(585,908)	(615,338)
Principle payments on bonds payable	-	(100,000)	(100,000)
Principal paid on debt	(36,349)	-	(36,349)
Interest paid on debt	(2,201)	(113,244)	(115,445)
Principal payments on notes payable	-	(366,070)	(366,070)
Net cash provided (used) by capital and related financing activities	<u>\$ (67,980)</u>	<u>\$ (1,165,222)</u>	<u>\$ (1,233,202)</u>
<b>Cash flows from non-capital financing activities:</b>			
Tax levies and contributions from the County	63,501	445,161	508,662
Intergovernmental revenue	2,153	-	2,153
Other Income	-	15,296	15,296
Unrestricted gifts	-	573	573
Net cash provided (used) from non-capital financing activities	<u>\$ 65,654</u>	<u>\$ 461,030</u>	<u>\$ 526,684</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	659	1,598	2,257
Change in assets whose use is limited or restricted	-	(2,824)	(2,824)
Net cash provided (used) by investing activities	<u>\$ 659</u>	<u>\$ (1,226)</u>	<u>\$ (567)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (4,099)</b>	<b>\$ 32,377</b>	<b>\$ 28,278</b>
<b>Cash and cash equivalents at beginning</b>	<u>98,414</u>	<u>7,185</u>	<u>105,599</u>
<b>Cash and cash equivalents at end</b>	<u><u>\$ 94,315</u></u>	<u><u>\$ 39,562</u></u>	<u><u>\$ 133,877</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (273,257)	\$ (2,139,483)	\$ (2,412,740)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	240,297	1,286,315	1,526,612
Amortization	-	111,043	111,043
Other post-employment benefits	7,465	-	7,465
Changes in assets and liabilities:			
Decrease in due from other governments	45,032	-	45,032
Receivables	-	1,622,660	1,622,660
Increase in inventory	(21,954)	(61,650)	(83,604)
Accounts payable	-	114,297	114,297
Accrued expenses	-	(195,387)	(195,387)
Decrease in compensated absences	(667)	-	(667)
Increase in accrued payroll	652	-	652
Net cash provided (used) by operating activities	<u>\$ (2,432)</u>	<u>\$ 737,795</u>	<u>\$ 735,363</u>

**Schedule of Noncash Financing and Investing Activities:**

The Marias Medical Center acquired \$70,451 of fixed assets by incurring additional long-term debt during the year ended June 30, 2013. There were no noncash financing and investing activities for the year ended June 30, 2014.

See accompanying notes to the financial statements

**Toole County, Montana**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and short-term investments	\$ 3,425,296	\$ 2,571,760
Taxes receivable	-	819,643
Total assets	\$ 3,425,296	\$ 3,391,403
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 1,157,710
Due to others	-	2,233,693
Total liabilities	\$ -	\$ 3,391,403
<b>NET POSITION</b>		
Assets held in trust	\$ 3,425,296	

See accompanying Notes to the Financial Statements

**Toole County, Montana**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Investment Trust Funds</u>
<b>ADDITIONS</b>	
Contributions:	
Contributions to Investment Trust Fund	\$ 23,142,884
Total contributions	\$ 23,142,884
Investment earnings:	
Total additions	\$ 14,971
	<u>\$ 23,157,855</u>
<b>DEDUCTIONS</b>	
Distributions from investment trust fund	\$ 23,354,638
Total deductions	\$ 23,354,638
Change in net position	<u>\$ (196,783)</u>
 Net Position - Beginning of the year	 \$ 3,622,079
 Net Position - End of the year	 \$ <u>3,425,296</u>

See accompanying Notes to the Financial Statements

TOOLE COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

**Financial Reporting Entity**

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

*Primary Government*

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

*Discretely Presented Component Units*

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component unit listed below has a fiscal year ending June 30, 2014.

Northern Express Transportation Authority

Northern Express Transportation Authority (the Authority) was created by a joint resolution of Toole County and the City of Shelby on July 30, 1987, pursuant to the authority granted by section 7-14-1101, MCA, and is a political subdivision of the State. The Authority is governed by an appointed nine member Board of Directors.

TOOLE COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

The Authority was created to stimulate and develop commerce, create opportunities for employment, and work towards the advancement of general welfare and prosperity within the Northern Express Transportation Authority's jurisdictions.

The audit opinion for Toole County, Montana was modified because the Authorities financial statements were not complete by the date of this audit. As such, they are not included as a discreetly presented component unit as required by GASB #61.

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

***Government-wide Financial Statements:***

*Basis of Presentation*

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

TOOLE COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

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

**Fund Financial Statements:**

*Basis of Presentation*

Fund financial statements of the reporting County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

TOOLE COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

Modified Accrual

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

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

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

Major Funds:

The County reports the following major governmental funds:

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

*Impact Fees* – A special revenue fund that was established to account for wind farm impact fees revenues and related expenditures.

*Road* – A special revenue fund to maintain and build road infrastructure.

TOOLE COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

***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 County's policy to use restricted resources first, then unrestricted resources as they are needed.

**Major Funds:**

The County reports the following major proprietary funds:

*Airport Commission* – An enterprise fund that accounts for the activities of the County's airport maintenance and improvement operations.

*Marias Medical Center Fund* – An enterprise fund that accounts for the activities of the County's hospital maintenance and operations.

***Fiduciary Funds***

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The **investment trust fund** is accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The investment trust fund is used to account for the external portion of the investment pool held by the sponsoring agreement.

The **Agency fund** is custodial in nature and does not present results of operation or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the County holds for others in an agency capacity.

TOOLE COUNTY, MONTANA  
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**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>Cash on hand and deposits:</u>	
Petty Cash	\$ 3,768
Hospital refund cash	2,000
Cash in banks:	
Demand deposits	2,619,895
Savings deposits	421,150
Time deposits	117,379
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	3,022,655
U.S. Government Securities	6,594,749
Total	\$ 12,781,596

**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.

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Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be 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.

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	\$ 907,892,295	A1	44
Corporate Commercial Paper	150,768,775	A1	105
Corporate Variable-Rate	663,143,336	A3	41
Certificates of Deposit Fixed Rate	50,000,000	A1	222
Certificates of Deposit Variable-Rate	435,974,196	A2	35
Other Asset Backed	17,987,295	BBB-	NA
U.S. Government Agency Fixed	25,000,000	A1	3
U.S. Government Agency Variable -Rate	182,700,345	A1	17
Money Market Funds (Unrated)	168,232,935	NR	1
Money Market Funds (Rated)	15,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>29,561,449</u>	<u>NR</u>	<u>4</u>
Total Investments	<u>\$ 2,646,260,626</u>		<u>43</u>
Securities Lending Collateral Investment Pool	<u>\$ 7,182,928</u>	NR	*

“\*As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 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.

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**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 was exposed to custodial credit risk as follows:

	<u>June 30, 2014</u> <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 700,965
Collateralized	1,938,717
Uninsured and uncollateralized	630,774
Total deposits and investments	<u>\$ 3,270,456</u>

Deposit Security

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

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

The amount of collateral held for County deposits at June 30, 2014, equaled or exceeded the amount required by State statutes.

**Interest Rate Risk**

The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of individual investments as of June 30, 2014 alone with their related interest rates and maturity dates.

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
STIP – County Overall	0.19%	N/A	\$ 1,500,000
STIP – County Only	0.19%	N/A	500,000
STIP – Cemetery	0.19%	N/A	12,922
STIP – Clerk of Court	0.19%	N/A	1,009,733
Federal Home Loan Bank	0.625%	10/24/2016	249,365
Federal National Mortgage Association	0.605%	10/25/2016	249,393
Federal Farm Credit Bank	0.70%	8/9/2017	301,510
Federal National Mortgage Association	1.07%	9/27/2017	274,403
Federal Home Loan Banks	0.90%	10/23/2017	247,708
Federal Home Loan Mortgage Corporation	1.00%	11/28/2017	109,387
Federal Home Loan Mortgage Corporation	1.20%	3/27/2015	149,445
Federal Agriculture Mortgage Corporation	0.84%	1/8/2018	337,943
Federal Home Loan Banks	1.25%	6/8/2018	129,427

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Federal Farm Credit Bank	1.77%	3/6/2019	250,047
Federal Home Loan Bank	1.85%	3/27/2019	149,985
Federal Home Loan Bank	0.625%	10/24/2016	398,984
Federal National Mortgage Association	0.605%	10/25/2016	374,089
Federal Agriculture Mortgage Association	0.63%	11/21/2016	297,327
Federal Farm Credit Bank	0.70%	8/9/2017	297,543
Federal National Mortgage Association	1.07%	9/27/2017	356,543
Federal Home Loan Bank	0.90%	10/23/2017	371,561
Federal Home Loan Mortgage Corporation	1.00%	11/28/2017	174,025
Federal National Mortgage Association	0.75%	12/12/2017	299,100
Federal National Mortgage Association	0.875%	12/20/2017	248,120
Federal Home Loan Mortgage Corporation	1.20%	12/27/2017	300,883
Federal Agriculture Mortgage Corporation	0.008%	1/8/2018	149,093
Federal Home Loan Banks	1.25%	6/8/2018	199,118
Federal National Mortgage Association	1.00%	12/27/2018	379,800
Federal Home Loan Bank	1.85%	3/27/2019	299,970
			<u>\$ 9,617,404</u>

**Cash and Investment Pool**

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments." In addition, investments are separately held by several of the government's funds. The deposits and investments of the North Toole County Cemetery District Fund are held separately from those of other government funds.

**Investment in the Treasurer's Pools**

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

The County has five directed investment trust funds, invested in savings and time deposits. The pooled funds invested in STIP are carried at fair value, and the pooled funds invested in non-negotiable certificates of deposit are carried at cost, which approximates fair value.

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

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2013 to support the value of the shares in the pool.

As noted below State statutes limit the type of investments but provide no other regulatory oversight.

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Investment Income

Income from pooled investments is allocated to the individual funds or external participants based on the fund or participant's month end cash balance in relation to total pooled investments.

**Condensed statements of investments pools**

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2014.

**Statement of Net Assets**

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$	4,802,914
Equity of external pool participants		3,425,296
Total equity	\$	<u><u>8,228,210</u></u>

**Condensed Statement of Changes in Net Assets**

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 14,972	\$ 21,139
Contributions to trust	23,142,884	32,722,587
Distributions paid	<u>(23,161,822)</u>	<u>(32,749,364)</u>
Net change in net assets	\$ (3,966)	\$ (5,638)
Net assets at beginning of year	3,622,079	4,615,735
Restatements	(192,817)	192,817
Net assets at end of year	<u><u>\$ 3,425,296</u></u>	<u><u>\$ 4,802,914</u></u>

**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 County's cash management pool to be cash equivalents.

**NOTE 3. RECEIVABLES**

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write-off method is used for these accounts.

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

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

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

**NOTE 4. INVENTORIES**

The purchase method is used in which the inventories are recorded as an expense when purchased. At year-end, if the value of inventory is significant, it must be recorded as an asset.

**NOTE 5. CAPITAL ASSETS**

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

Buildings	10 – 40 years
Equipment	3 – 10 years
Infrastructure	20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2013 Basic Financial Statements.

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

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 314,959	\$ -	\$ -	\$ -	\$ 314,959
Construction in progress	30,013	418,714	-	-	448,727
Total capital assets not being depreciated	<u>\$ 344,972</u>	<u>\$ 418,714</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 763,686</u>
Other capital assets:					
Buildings	\$ 5,786,761	\$ 16,850	\$ -	\$ -	\$ 5,803,611
Improvements other than buildings	498,976	14,655	-	-	513,631
Machinery and equipment	7,211,711	885,121	(442,445)	123,000	7,777,387
Construction work in progress	4,285,038	-	-	-	4,285,038
Total other capital assets at historical cost	<u>\$ 17,782,486</u>	<u>\$ 916,626</u>	<u>\$ (442,445)</u>	<u>\$ 123,000</u>	<u>\$ 18,379,667</u>
Less: accumulated depreciation	<u>\$ (9,373,344)</u>	<u>\$ (930,166)</u>	<u>\$ 243,850</u>	<u>\$ -</u>	<u>\$ (10,059,660)</u>
Total	<u>\$ 8,754,114</u>	<u>\$ 405,174</u>	<u>\$ (198,595)</u>	<u>\$ 123,000</u>	<u>\$ 9,083,693</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:

General government	\$ 106,380
Public safety	264,778
Public works	451,632
Public health	21,414
Culture and recreation	66,857
Housing and community development	<u>19,104</u>
Total governmental activities depreciation expense	<u>\$ 930,166</u>

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

Business-type activities: (Airport)

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Transfers</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 7,680	\$ -	\$ -	\$ 7,680
Construction in progress	2,284,080	29,430	(2,313,510)	-
Total capital assets not being depreciated	<u>\$ 2,291,760</u>	<u>\$ 29,430</u>	<u>\$ (2,313,510)</u>	<u>\$ 7,680</u>
Other capital assets:				
Buildings	\$ 591,059	\$ -	\$ 2,313,510	\$ 2,904,569
Improvements other than buildings	2,642,444	-	-	2,642,444
Machinery and equipment	223,507	-	-	223,507
Total other capital assets at historical cost	<u>\$ 3,457,010</u>	<u>\$ -</u>	<u>\$ 2,313,510</u>	<u>\$ 5,770,520</u>
Less: accumulated depreciation	<u>\$ (1,736,692)</u>	<u>\$ (240,040)</u>	<u>\$ -</u>	<u>\$ (1,976,732)</u>
Total	<u>\$ 4,012,078</u>	<u>\$ (210,610)</u>	<u>\$ -</u>	<u>\$ 3,801,468</u>

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**NOTE 6. LONG TERM DEBT OBLIGATIONS**

In the governmental-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities.

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2013, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance			Balance	
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Compensated absences	\$ 375,439	\$ 14,923	\$ -	\$ 390,362	\$ 257,512
Intercap loans	1,327,447	130,420	(258,972)	1,198,895	278,263
Capital leases	44,068	-	(26,148)	17,920	17,920
Other post-employment benefits*	800,385	201,227	-	1,001,612	-
<b>Total</b>	<b>\$ <u>2,547,339</u></b>	<b>\$ <u>346,570</u></b>	<b>\$ <u>(285,120)</u></b>	<b>\$ <u>2,608,789</u></b>	<b>\$ <u>553,695</u></b>

\*See Note 7

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

Business-type Activities: (Airport)

	Balance			Balance	
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Contracted debt	\$ 7,660	\$ (7,590)	\$ -	\$ 70	\$ 70
Compensated absences	11,942	-	(667)	11,275	5,744
Intercap loans	182,996	-	(28,759)	154,237	29,401
Other post-employment benefits*	29,692	7,465	-	37,157	-
<b>Total</b>	<b>\$ <u>232,290</u></b>	<b>\$ <u>(125)</u></b>	<b>\$ <u>(29,426)</u></b>	<b>\$ <u>202,739</u></b>	<b>\$ <u>35,215</u></b>

\*See Note 7

**Loans/Contracted Debt**

Loans/contracted debts 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>
Snow Removal Building	2/28/05	2.00%	10 yrs	2/28/15	\$ <u>37,500</u>	\$ <u>70</u>

Reported in business-type activities.

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Annual requirement to amortize debt:

For Fiscal		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ <u>70</u>	\$ <u>-</u>

**Intercap Loans**

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16<sup>th</sup> 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>
Sherriff's Furnace (1)	6/23/06	1.25-4.85%	9 yrs	8/15/15	\$ 212,769	\$ 39,982
Fire Department (1)	6/28/05	1.25-4.85%	9 yrs	7/7/15	98,000	18,432
Fair (1)	6/28/05	1.25-4.85%	9 yrs	7/7/15	46,000	8,813
Search and Rescue – Boat (1)	7/31/07	1.25-4.85%	10 yrs	8/15/17	60,000	24,820
Cat Motor Grader (1)	12/30/10	1.95%	5 yrs	2/15/16	139,466	55,747
John Deere Grader (1)	12/30/10	1.95%	7 yrs	2/15/18	226,058	132,323
Energy Retrofit County Building (1)	7/23/10	1.95%	10 yrs	8/15/20	425,000	285,011
New Maintenance Truck – Cemetery (1)	1/18/13	1-1.25%	6 yrs	2/15/19	18,038	15,107
ArcaSearch Software – Clerk/Recorder (1)	1/18/13	1-1.25%	5 yrs	2/15/18	145,972	117,359
Truck/Trailer & Two Motor Graders (1)	1/18/13	1-1.25%	7 yrs	2/15/20	447,156	385,208
Software (1)	1/18/13	1-1.25%	5 yrs	2/15/20	130,420	116,093
Airport Runways (2)	7/15/05	1.25-4.85%	10 yrs	8/15/15	100,000	17,078
Airport Snow Shed (2)	6/28/08	1.25-4.85%	9 yrs	8/15/15	30,000	5,643
Airport Taxiway & Hangar (2)	1/18/13	1-1.25%	10 yrs	2/15/23	<u>145,394</u>	<u>131,516</u>
Total					<u>\$ 2,224,273</u>	<u>\$ 1,353,132</u>

(1) Reported in the governmental activities.

(2) Reported in business-type activities.

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Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 307,664	\$ 12,581
2016	276,177	8,889
2017	224,274	6,621
2018	222,290	4,665
2019	128,173	2,909
2020	126,504	1,630
2021	37,659	530
2022	15,180	266
2023	15,212	114
Total	<u>\$ 1,353,133</u>	<u>\$ 38,205</u>

**Capital Leases**

The County has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 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>
2008 Grader	6/27/08	4.25%	5 yrs	6/27/13	\$ <u>174,984</u>	\$ <u>17,920</u>
Reported in the governmental activities.						

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ <u>17,920</u>	\$ <u>1,371</u>

**Compensated Absences**

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

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**NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN**

*Plan Description.* The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The above described OPEB plan does not provide a stand-alone financial report.

*Funding Policy.* The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

*Funding Status and funding Progress.* The funded status of the plan as of June 30, 2013, was as follows:

Actuarial Accrued Liability (AAL)	\$	4,594,022
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	4,594,022
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	6,936,249
UAAL as a percentage of covered payroll		66.2%

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

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Annual Required Contribution (ARC)	\$	469,500
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	469,500
Contributions made	\$	-
Increase in net OPEB obligation	\$	469,500
Net OPEB obligation - beginning of year	\$	1,867,440
Net OPEB obligation - end of year	\$	2,336,940

The ARC and Net OPEB obligation are allocated to the following opinion units:

	<u>ARC</u>	<u>Net OPEB Obligation</u>
Governmental activities	\$201,227	\$1,001,612
Airport Commission	7,465	37,157
Marais Medical Center	<u>260,808</u>	<u>1,298,171</u>
Total	<u>\$469,500</u>	<u>\$2,336,940</u>

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

Actuarial cost method	Unit Credit Cost Method
Discount rate (average anticipated rate)	4.25%
Average salary increase (Consumer Price Index)	2.50%

**NOTE 9. INTERFUND RECEIVABLES AND PAYABLES**

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2014:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General – Major Governmental	Impact Fees – Major Governmental	\$ 40,000
General – Major Governmental	Junk Vehicle – Nonmajor Governmental	550
Road – Major Governmental	Impact Fees – Major Governmental	40,000
S. Toole County Cemetery Perpetual Care – Nonmajor Governmental	S. Toole County Cemetery District – Nonmajor Governmental	165
S. Toole County Cemetery Perpetual Care – Nonmajor Governmental	S. Toole County Cemetery District – Nonmajor Governmental	150
Economic Development – Nonmajor	State Allocated Federal Mineral	47,000

TOOLE COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Governmental	Royalties – Nonmajor Governmental	
Employer Contribute Health – Nonmajor	Permissive Health Insurance –	89,564
Governmental	Nonmajor Governmental	
Toole County Transit – Nonmajor	PILT – Nonmajor Governmental	23,000
Governmental		
PILT – Nonmajor Governmental	Bridge – Nonmajor Governmental	75,000
CTEP Projects – Nonmajor	PILT – Nonmajor Governmental	3,073
Governmental		
Museum Tourist Infrastructure –	PILT – Nonmajor Governmental	2,300
Nonmajor Governmental		
Museum Tourist Infrastructure –	Museum – Nonmajor Governmental	5,620
Nonmajor Governmental		
COA 3B Admin – Shelby – Nonmajor	Council on Aging – Nonmajor	4,903
Governmental	Governmental	
COA Nutrition – Shelby – Nonmajor	Council on Aging – Nonmajor	5,706
Governmental	Governmental	
COA 3B Admin – Kevin – Nonmajor	Council on Aging – Nonmajor	288
Governmental	Governmental	
COA 3B Admin – Kevin – Nonmajor	Council on Aging – Nonmajor	344
Governmental	Governmental	
COA 3B Nutrition – Kevin – Nonmajor	Council on Aging – Nonmajor	1,359
Governmental	Governmental	
COA 3B Nutrition – Kevin – Nonmajor	Council on Aging – Nonmajor	1,628
Governmental	Governmental	
General Capital Improvements –	Weed Control – Nonmajor	9,182
Nonmajor Governmental	Governmental	
General Capital Improvements –	NTC Fire Capital Improvements –	12,223
Nonmajor Governmental	Nonmajor Governmental	
Law Enforcement Capital Improvements	General – Major Governmental	10,000
– Nonmajor Governmental		
Law Enforcement Capital Improvements	General – Major Governmental	35,000
– Nonmajor Governmental		
NTC Rural Fire Capital Improvements –	General Capital Improvements –	12,000
Nonmajor Governmental	Nonmajor Governmental	
STC Rural Fire Capital Improvements –	General Capital Improvements –	18,000
Nonmajor Governmental	Nonmajor Governmental	
Road/Bridge Depreciation – Nonmajor	Road – Major Governmental	85,000
Governmental		
Road/Bridge Depreciation – Nonmajor	Bridge – Nonmajor Governmental	<u>30,000</u>
Governmental		
		\$ <u>552,055</u>

TOOLE COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE 9. STATE-WIDE RETIREMENT PLANS**

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

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014 for the defined benefit plans, were:

	<u>PERS**</u>	<u>SRS</u>
Employer	8.07%	10.115%
Employee	7.90%*	9.245%
State	0.10%	-

\* For PERS members hired before 7/1/2011 that rate is 6.9%

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

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

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

The County's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2012	\$ 430,388	\$ 63,558
2013	\$ 435,126	\$ 73,380
2014	\$ 466,327	\$ 76,957

TOOLE COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE 10. LOCAL RETIREMENT PLANS**

**Deferred Compensation Plan**

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all County employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**NOTE 11. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

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

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

**Nonspendable Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	\$ 142,835	Public Works
All other aggregate:	<u>142,835</u>	Public Works
	<u>\$ 285,670</u>	

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 651,254	Public works
Impact Fees	\$ 1,695,908	Public works
All other aggregate:	\$ 365,085	General government
	\$ 309,399	Public works
	\$ 105,295	Public health
	\$ 91,315	Culture & recreation
	\$ 49,856	Comprehensive Liability Insurance
	\$ 411,135	Public safety
	\$ 70,681	Housing and community development
	\$ 105,579	Social & economic resources
	\$ 5,232	Conservation of natural resources

**Committed Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All other aggregate:	\$ 24,862	Public works
	399,177	Culture & recreation
	73,416	Public safety
	<u>2,121</u>	Housing & community development
	<u>\$ 449,576</u>	

TOOLE COUNTY, MONTANA  
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**NOTE 12. JOINT VENTURES**

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

**1. City-County Interlocal Equipment Agreement**

Toole County and the City of Shelby entered into an equipment rental agreement effective April 19, 1999 in order to save money by not individually purchasing equipment that the other entity already owns. The requesting entity shall give the granting entity at least five days of notice of the equipment requested, the dates of the required usage and the number of operators required if necessary. The City and County shall prepare a schedule of fees for the use of the equipment which shall include all costs of usage including labor, insurance, and maintenance.

**2. City-County Interlocal Fire Protection Agency**

Toole County and the City of Shelby entered into a fire protection agreement effective December 16, 1996 where the City agrees to provide the fire-fighting services as required by the County Fire Department. The only fire-fighting equipment obligated to proceed to any fire in South Toole County shall be owned by the County. The City has no obligation to furnish any more personnel with the equipment of the County than the minimum necessary to man such equipment contingent upon the volunteer firemen being available. The County in return agrees to pay the City an annual sum of \$18,450, maintain liability insurance in an amount sufficient to cover its indemnity obligations, but not less than \$1,000,000, and shall provide any fire equipment that it may have to the City for fires within the City limits.

**3. Northern Transit Interlocal**

Toole County, City of Cut Bank, Glacier County, City of Conrad, and Pondera County have formed an interlocal agreement for the purposes of a local bus transportation system. The Northern Transit Interlocal is hosted by Toole County and as such the financial information is blended into the financial statements of Toole County.

**NOTE 13. SERVICES PROVIDED TO OTHER GOVERNMENTS**

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

TOOLE COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 16. RISK MANAGEMENT**

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

Insurance Policies:

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

Insurance Pools:

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

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

The County has joined with 28 other Montana Counties to form a self-insurance pool offering liability and general insurance coverage. This pool, named the Montana Association of Counties Joint Powers Insurance Authority Trust, provides for property, liability, public officials errors and omissions, and crime coverage in the amount of \$50,000 each. The Trust also provides for additional coverage for the above areas through excess insurance lines for varying amounts. The Trust has entered into an agreement with a private insurance agency to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The counties do not exercise control over the budgeting and financing of the Trust's activities.

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

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of Marias Medical Center's significant accounting policies:

Reporting Entity

Marias Medical Center (the Facility) is a 25-bed acute care hospital and a 63-bed nursing facility located in Shelby, Montana. The Facility is organized and reported as a proprietary fund in the Toole County, Montana, (the County) basic financial statements. The Facility is exempt from federal income taxes.

Basis of Presentation

The Facility is characterized under GASB 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" as a business-type activity. Business-type activities are financed in whole or in part by fees charged to external parties. As such, only those financial statements required for enterprise funds under GASB 34 are included in the basic financial statements. Those basic financial statements – the balance sheet, statement of revenue, expenses, and changes in net position, and statement of cash flows – are presented in a format defined under GASB 34.

Measurement Focus/Basis of Accounting

The basic financial statements of the Facility are reported using the economic resources measurement focus under 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. Operating revenue and expenses generally arise from patient and resident services. All other revenue and expenses are classified as non-operating, such as clinic/heritage center rent, employee meal tickets, and medical record charges. Non-exchange transactions, in which the Facility gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. The Facility's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

New Accounting Pronouncements

The Facility has adopted the provisions of the following GASB pronouncements for the year ended June 30, 2014:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities and deferred outflows or deferred inflows, respectively.

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Risk Management

The Facility is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural 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. The Facility is insured for medical malpractice and judgments, as discussed in Note 14.

Cash and Investments

Cash and investments include amounts in demand deposits, savings deposits, time deposits, U.S. Government securities, and securities issued by agencies of the United States. Investments in U.S. Government securities and U.S. Government agencies are shown at fair value, which is in accordance with generally accepted accounting principles.

Montana statutes authorize the Facility to invest in direct obligations of the United States government and securities issued by agencies of the United States if the investment is a direct obligation of the agency; savings or time deposits in a state or national bank, building or loan association, or credit union located in Montana; in investments of the S.T.I.P. managed by the Montana Board of Investments; or in repurchase agreements. Investments of the Facility are subject to various risks.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of or guaranteed by the U.S. government do not require disclosure of credit quality.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Facility does not have a formal investment policy limiting the amount the Facility may invest in any one issuer. As there is minimal credit risk associated with investments issued or guaranteed by the U.S. government, no disclosure of concentration of credit risk is required for these investments.

Cash and Cash Equivalents

Cash and cash equivalents for the statement of cash flows include highly liquid investments with a maturity of three months or less, excluding assets whose use is limited or restricted.

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Assets Whose Use Is Limited or Restricted

Restricted funds are used to differentiate resources restricted for specific uses by donors or grantors from resources of which donors or grantors place no restriction or that arise as a result of the operations of the Facility for its stated purposes. Assets whose use is limited include assets set aside by the County for revenue bond payments and assets set aside by the Board of Trustees for capital acquisitions. Assets whose use is limited or restricted that are required for obligations classified as current liabilities are reported as current assets.

Resident Agency Funds

The Facility acts as custodian for the funds of several nursing home residents. These funds are included in assets whose use is limited and accounts payable in these financial statements.

Inventories

Supplies and inventories are valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Property and equipment acquisitions are recorded at cost. Purchases of capital assets with a cost of \$5,000 or greater are included as additions to capital assets. Donated property and equipment are recorded at estimated fair market value as of the date received. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of the property and equipment are as follows:

Buildings and improvements	10–40 years
Equipment	3–10 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Debt Financing Costs

Deferred financing costs of \$102,859 were recognized as expense during the year ended June 30, 2014, in accordance with GASB 65.

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Vacation and Sick Leave

The Facility accrues a liability for unused vacation and sick leave benefits earned by employees and “payable” at year-end. The amount payable to an employee for unused vacation benefits is limited to a maximum of two years’ worth of accrual, while the amount due an employee for unused sick leave benefits is limited to 25% of the total unused sick leave.

Net Patient and Resident Service Revenue

The Facility has agreements with third-party payors that provide for payments to the Facility 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 and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The allowance for uncollectibles reflects management’s best estimate of probable losses determined principally on the basis of past experience. Aging of receivables is monitored daily. After an account has received a final notice, they must initiate payment within a specified period before it is sent to collections and the balance is written off to bad debt expense.

Charity Care

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

Tax Levies

County tax levies are reported as revenue when levied, less an estimate for uncollectible amounts. No allowance for uncollectible taxes was necessary as of June 30, 2014 and 2013.

Operating Income

The statement of revenues, expenses, and changes in net position includes operating income (loss) as a performance indicator.

Unrestricted and Restricted Gifts

Unrestricted gifts are reported as non-operating revenue when received. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Donations restricted by donors for capital improvements are added to the appropriate fund balance in the period received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

Donations restricted by donors or grantors for specific purposes are reported in non-operating revenue to the extent used within the period.

TOOLE COUNTY, MONTANA  
 MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2014

Restricted Net Assets

Restricted net assets are those amounts whose use by the Facility has been limited by donors or the County to a specific time period or purpose.

Reclassifications

Certain amounts in the prior periods have been reclassified to conform to the current period financial statement presentation. These reclassifications had no effect on previously reported changes in net assets.

Estimates

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments are held by the County treasurer in the Facility's name. Montana statutes require all county deposits be protected by insurance, surety bond, or collateral. The County is responsible for obtaining the necessary collateral on uninsured deposits.

NOTE 3. ASSETS WHOSE USE IS LIMITED OR RESTRICTED

The assets whose use is limited or restricted at June 30, 2014 are as follows:

	<u>2014</u>
Use of Funds	
Patient trust funds	\$ 6,568
By the County for current revenue bond payments	306,109
By donors for specific purposes	30,208
By trustees for capital acquisitions	<u>86,502</u>
	<u>\$ 429,387</u>
Composition	
Cash	\$ 312,677
Certificates of deposit	<u>116,710</u>
	<u>\$ 429,387</u>

NOTE 4. INVESTMENTS

Investment Income:

Investment income and gains and losses on assets whose use is limited or restricted, cash equivalents, and other investments are comprised of the following for the years ended June 30, 2014.

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

	<u>2014</u>	
Investment income, unrestricted	\$	995
Investment income, restricted		<u>603</u>
	\$	<u><u>1,598</u></u>

**NOTE 5. PATIENT AND RESIDENT RECEIVABLES**

Patient and resident receivables include amounts for which services to patients have been rendered, but bills have not been sent out for those services as of year-end. The amount of unbilled receivables at June 30, 2014 was \$1,193,859. The Facility serves patients mainly living in or near Toole County, Montana. As a result, the Facility is potentially exposed to economic and other risks that could affect area residents and their ability to pay for services.

**NOTE 6. CAPITAL ASSETS**

A summary of changes in property and equipment during the years ended June 30, 2014 and 2013 are as follows:

	<u>Balance</u> <u>June 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Capital assets not being depreciated:</b>			
Land	\$ <u>9,063</u>	\$ <u>-</u>	\$ <u>9,063</u>
Capital assets being depreciated			
Building Improvements	12,633,390	-	12,633,390
Equipment	<u>11,115,413</u>	<u>585,908</u>	<u>11,701,321</u>
Total capital assets being depreciated	<u>23,748,803</u>	<u>585,908</u>	<u>24,334,711</u>
Less accumulated depreciation:			
Building and depreciation	(6,545,462)	(413,205)	(6,958,667)
Equipment	<u>(8,794,453)</u>	<u>(873,110)</u>	<u>(9,667,563)</u>
Total accumulated depreciation	<u>(15,399,915)</u>	<u>(1,286,315)</u>	<u>(16,626,563)</u>
<b>Capital assets being depreciated, net</b>	<u>8,408,888</u>	<u>(700,407)</u>	<u>7,708,481</u>
<b>Capital assets, net</b>	\$ <u>8,417,951</u>	\$ <u>(700,407)</u>	\$ <u>7,717,544</u>

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 7. LEASES**

The Facility leases certain equipment and a building under non-cancellable long-term lease agreements. These leases have been recorded as operating leases. Total lease expense for all operating leases was \$173,409, for the years ended June 30, 2014.

Remaining minimum lease payments for operating leases under the lease agreements as they exist at June 30, 2014:

2015	\$	131,431	
2016		34,306	
2017		8,106	
2018		<u>5,856</u>	
	\$	<u>179,699</u>	

**NOTE 8. BONDS PAYABLE**

Bonds payable at June 30, 2014 are as follows:

	<u>2014</u>
Tax Supported Hospital Revenue Bonds, Series 2005, 3.9% to 5.0% serial bonds due in varying annual sinking fund requirements to January 1, 2028	\$ 2,285,000
Less current maturities	<u>(105,000)</u>
	<u>\$ 2,180,000</u>

The annual requirements to amortize all bonds payable outstanding as of June 30, 2014, including interest payments of \$943,048 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 105,000	\$ 110,185	\$ 215,185
2016	110,000	105,400	215,400
2017	115,000	100,338	215,338
2018	125,000	94,625	219,625
2019	130,000	88,250	218,250
2020-2024	760,000	333,250	1,093,250
2025-2028	<u>940,000</u>	<u>111,000</u>	<u>1,051,000</u>
	<u>\$ 2,285,000</u>	<u>\$ 943,048</u>	<u>\$ 3,228,048</u>

TOOLE COUNTY, MONTANA  
 MARIAS MEDICAL CENTER  
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 June 30, 2014

The following is a summary of the Facility's bonds payable transactions for the year ended June 30, 2014:

	<u>Balance</u>		<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>July 30, 2014</u>
Hospital Revenue Bond	\$ 2,385,000	\$ -	\$ (100,000) \$ 2,285,000

The bonds issued have a debt service ratio covenant, however, the covenant is the ultimate obligation of Toole County. The Facility is not in compliance with the debt service ratio covenant for the year ended June 30, 2014. Toole County obtained the services of a management consultant as directed by the covenant.

**NOTE 9. NOTES PAYABLE**

Notes payable at June 30, 2014 are as follows:

	<u>2014</u>
Montana Facility Finance Authority, Direct Loan Program monthly payments of \$3,516, including interest at 3.00% per month, maturing January 15, 2015, secured by equipment	\$ 24,367
All American Investment Group, LLC, variable annual payments, ranging from \$164,143 to \$269,169, including interest at 2.75% per annum, maturing June 1, 2022, secured by equipment	1,569,554
Montana Board of Investments, Intercap Revolving Program, variable annual payments, ranging from \$120,314 to \$120,603, including variable interest not to exceed 15.00% per annum, variable interest was 1.00% to February 15, 2014, maturing February 15, 2018, secured by equipment and software	<u>469,014</u> 2,062,935
Less current maturities	<u>(366,553)</u> <u>\$ 1,696,382</u>

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

The annual requirements to amortize all notes payable outstanding as of June 30, 2014, including interest payments of \$201,722 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 366,553	\$ 47,394	\$ 413,947
2016	349,362	40,410	389,772
2017	324,201	33,514	357,715
2018	297,938	27,068	325,006
2019	183,642	21,049	204,691
2020-2024	<u>541,239</u>	<u>32,287</u>	<u>573,526</u>
	<u>\$ 2,062,935</u>	<u>\$ 201,722</u>	<u>\$ 2,264,657</u>

The following is a summary of notes payable transactions of the Facility for the year ended June 30, 2014:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>
	<u>July 1, 2013</u>			<u>July 30, 2014</u>	<u>Portion</u>
Montana Facility Finance Authority	\$ 65,160	\$ -	\$ (40,793)	\$ 24,367	\$ 24,367
All American Investment Corp	1,784,451	-	(241,897)	1,569,554	227,016
Montana Board of Investments	<u>579,394</u>	-	<u>(110,380)</u>	<u>469,014</u>	<u>115,170</u>
	<u>\$ 2,429,005</u>	<u>\$ -</u>	<u>\$ (366,070)</u>	<u>\$ 2,062,935</u>	<u>\$ 366,553</u>

**NOTE 10. VACATION AND SICK LEAVE**

The following is a summary vacation and sick leave transactions of the Facility for the years ended June 30, 2014 and 2013:

	<u>Balance</u>	<u>Net Change *</u>	<u>Balance</u>
	<u>July 1, 2013</u>		<u>July 30, 2014</u>
Compensated Absences	<u>\$ 541,534</u>	<u>\$ (51,283)</u>	<u>\$ 490,251</u>

\*This is the net increase (decrease) to compensated absences payable.

**NOTE 11. CHARITY CARE**

The Facility provides health care services to patients who meet certain criteria under its charity care policies without charge or at amounts less than its established rates. Since collection of these amounts is not pursued, they are excluded from net patient service revenue. The Facility maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics.

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
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The cost of providing charity care was \$158,969. The cost of providing charity care was measured by applying an overall cost to charge ratio of 78% to the charges incurred of \$203,806 during the years ended June 30, 2014. The Facility also provides a significant amount of uncompensated care to other uninsured and underinsured patients, which is included in the provision for bad debts.

**NOTE 12. NET PATIENT AND RESIDENT SERVICE REVENUE**

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

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services, and outpatient capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Facility is reimbursed a per diem amount of 99% of cost. The Facility'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 Facility. The Facility's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2013.

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Other inpatient service, outpatient services, and outpatient capital costs related to Medicaid program beneficiaries are reimbursed as percentage of charges based on cost. The Facility's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 2012.

TOOLE COUNTY, MONTANA  
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Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid based on a percentage of the eligible charges that are accumulated during the inpatient stay. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

Resident Services

The Facility is reimbursed for resident services at established billing rates which are determined on a cost-related basis subject to certain limitations as prescribed by Montana Department of Public Health and Human Services regulations. These rates are subject to retroactive adjustment by field audit. Under the Medicare program, payment for resident services is made on a cost-related basis which is subject to retroactive adjustment.

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

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2014:

	<u>2014</u>
Total patient and resident service revenue	\$ 16,386,574
Contractual adjustments	
Medicare	(2,145,422)
Medicaid	(1,102,157)
Blue Cross	(428,675)
Other	<u>(627,451)</u>
Total contractual adjustments	<u>(4,303,705)</u>
Net patient and resident service revenue	<u>\$ 12,082,869</u>

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 13. RETIREMENT PLAN**

The Facility participates in the following retirement plan:

Plan Description

Public Employees' Retirement System (PERS)

All employees of the Facility that work the equivalent of 120 working days or more in any fiscal year participate in the Public Employees' Retirement System (PERS). The PERS is a statewide retirement plan established in 1945 and is governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services for substantially all public employees. The PERS is a mandatory multiple-employer, cost sharing plan administered by the Public Employees' Retirement Division (PERD) consisting of a defined benefit plan and a defined contribution plan. New employees to the system have twelve months to decide whether to participate in the defined contribution plan or the defined benefit plan. If an election is not made within the twelve months, the employee must then participate in the defined benefit plan. The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the highest average salary for employees with less than 25 years of service, or 1/50 times the number of years of service times the highest average salary for those employees with at least 25 years of service.

Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

Public Employees' Retirement System (PERS) (Continued)

The PERS financial information is reported in the Public Employees' Retirement Board's published "Comprehensive Annual Financial Report" for the fiscal year-end. It is available from PERD at 1712 Ninth Avenue, P.O. Box 200131, Helena, MT 59620-0131, (406) 444-3154.

TOOLE COUNTY, MONTANA  
 MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Funding Policy

Authority to establish and amend contribution rates to the plan:	State legislature
Required plan member contributions:	7.9% of monthly compensation
Required employer contributions:	8.07% of monthly compensation
Required state contributions:	.1% of monthly compensation
Required employer contributions received and % of required amount:	
June 30, 2014	\$ 293,068 100%
June 30, 2013	\$ 257,354 100%
June 30, 2012	\$ 270,819 100%

On-behalf payments made by the State of Montana totaled \$4,145 and \$3,640 for the years ended June 30, 2014 and 2013, respectively.

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicaid fraud and abuse. Recently, government activity has increased with regard to investigations and allegations concerning possible violations of fraud and abuse statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, as well as the imposition of significant fines and penalties and repayments for patient services previously billed.

Malpractice Insurance

The Facility has insurance coverage to provide protection for professional liability losses on a claims-made basis. 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.

Hill-Burton Program

The Facility has received funds under Title VI of the Public Health Service Act (Hill-Burton program). Under Department of Health and Human Services regulations, the Facility is required to provide certain minimum amounts of charity care and is subject to other regulatory conditions arising from the Hill-Burton program.

TOOLE COUNTY, MONTANA  
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June 30, 2014

Emergency Room Coverage

The Facility has a contract with a local clinic which required the Facility to pay \$755,592 for emergency room coverage for the year ended June 30, 2014.

Pending Litigation

In the ordinary course of its business, the Facility has become involved in legal claims which have been filed against the Facility by various claimants. In the opinion of management, the outcome of these legal proceedings will not have a material effect on the Facility's financial position or results of operations.

Liability, General, and Workers' Compensation Insurance

Toole County, including the Facility, has joined with other Montana counties to form a self- insurance pool offering liability and general insurance coverage. This pool, named the Montana Association of Counties Joint Powers Insurance Authority Trust, provides for property, liability, public officials' errors and omissions, and crime coverage. The County has a \$2,000-5,000 deductible per occurrence. Claims exceeding the applicable deductible are covered by the pool.

Toole County, including the Facility, has joined with other Montana counties to form a self- insurance pool offering workers' compensation coverage. This pool, named the Montana Association of Counties Joint Powers Trust, provides claim administrative services. The counties do exercise specific control over the budgeting and financing of the Trust's activities.

Members of public risk pools may be subject to supplemental assessments in the event of deficiencies. They are also responsible for their own claim liabilities in the event the pool fails.

Medical Insurance

The Facility obtains medical insurance coverage for its employees through policies offered by Montana Association of Counties Health Care Trust (MACoHCT). Premiums under the policies are paid partly by the Facility and partly by the employees.

**NOTE 15. MANAGEMENT SERVICES AGREEMENT**

The Facility entered into a management service agreement with Med Management, Inc., a hospital management corporation (the Manager), in June 1992. The Manager has the sole and exclusive right to supervise and direct the management and operations of the Facility. Total management fee expense was approximately \$186,252 for the year ended June 30, 2014. This agreement was cancelled as of July 31, 2014, and a new administrative services agreement entered into with Quorum Health Resources, LLC for a six month period ending January 28, 2015.

TOOLE COUNTY, MONTANA  
MARIAS MEDICAL CENTER  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 16. RELATED PARTY TRANSACTIONS**

As a proprietary fund of the County, the Facility has a portion of its accounting and legal expenses paid out of the general fund of the County. None of those expenses are shown in these financial statements.

The County leases a portion of the Facility building to Marias Healthcare Services, Inc. (MHSI), a non-profit organization with a separate board of directors providing outpatient medical services. The Facility and MHSI share physician services.

**NOTE 17. CONCENTRATIONS OF CREDIT RISK**

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

	<u>2014</u>
Medicare	11%
Medicaid	5%
Other governmental agencies	4%
Commercial insurance	11%
Payors and patients	<u>69%</u>
	<u>100%</u>

**NOTE 18. SUBSEQUENT EVENTS**

As described in Note 15, on July 31, 2014 the management services agreement between the Facility and Med Management, Inc. was terminated, and an administrative services agreement entered into with Quorum Health Resources, LLC.

On October 6, 2014 Toole County Commissioners dissolved the existing Administrative Board of the Facility and assumed the duties of managing and operating the Facility.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Toole County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	<b>General</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 176,000	\$ 176,000	\$ 1,637,038	\$ 1,461,038
Intergovernmental	1,352,753	1,352,753	1,305,874	(46,879)
Charges for services	168,300	170,800	165,851	(4,949)
Fines and forfeitures	110,800	110,800	59,812	(50,988)
Miscellaneous	37,380	37,380	48,885	11,505
Investment earnings	115,000	115,000	89,096	(25,904)
Internal services	13,500	13,500	20,990	7,490
Amounts available for appropriation	<u>\$ 1,973,733</u>	<u>\$ 1,976,233</u>	<u>\$ 3,327,546</u>	<u>\$ 1,351,313</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 1,264,800	\$ 1,264,800	\$ 1,144,347	\$ 120,453
Public safety	1,555,150	1,555,150	1,416,056	139,094
Public works	-	-	-	-
Public health	203,525	203,525	185,589	17,936
Social and economic services	16,500	16,500	12,491	4,009
Debt service - interest	-	-	3,631	(3,631)
Capital outlay	-	-	53,083	(53,083)
Total charges to appropriations	<u>\$ 3,039,975</u>	<u>\$ 3,039,975</u>	<u>\$ 2,815,197</u>	<u>\$ 224,778</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -
Proceeds from the sale of general capital asset disposition	-	-	2,000	2,000
Transfers in	40,550	40,550	40,550	-
Transfers out	(45,000)	(45,000)	(45,000)	-
Total other financing sources (uses)	<u>\$ (4,450)</u>	<u>\$ (4,450)</u>	<u>\$ (2,450)</u>	<u>\$ 2,000</u>
Net change in fund balance			<u>\$ 509,899</u>	
Fund balance - beginning of the year			<u>\$ 488,449</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 998,348</u></u>	

**Toole County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Road</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>	<b>WITH FINAL</b>
			<b>(BUDGETARY</b>	<b>BUDGET</b>
			<b>BASIS) See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ -	\$ -	\$ 981,039	\$ 981,039
Intergovernmental	213,818	213,818	226,125	12,307
Charges for services	1,200	1,200	201	(999)
Fines and forfeitures	-	-	-	-
Miscellaneous	110,000	110,000	16,745	(93,255)
Investment earnings	4,000	4,000	3,509	(491)
Internal services	-	-	-	-
Amounts available for appropriation	<u>\$ 329,018</u>	<u>\$ 329,018</u>	<u>\$ 1,227,619</u>	<u>\$ 898,601</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	1,582,110	1,582,110	1,072,645	509,465
Public health	-	-	-	-
Social and economic services	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	-	-	322,524	(322,524)
Total charges to appropriations	<u>\$ 1,582,110</u>	<u>\$ 1,582,110</u>	<u>\$ 1,395,169</u>	<u>\$ 186,941</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ 200,000	\$ 200,000	\$ -	\$ (200,000)
Proceeds from the sale of general capital asset disposition	-	-	124,280	124,280
Transfers in	40,000	40,000	40,000	-
Transfers out	(85,000)	(85,000)	(85,000)	-
Total other financing sources (uses)	<u>\$ 155,000</u>	<u>\$ 155,000</u>	<u>\$ 79,280</u>	<u>\$ (75,720)</u>
Net change in fund balance			<u>\$ (88,270)</u>	
Fund balance - beginning of the year			<u>\$ 805,206</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 716,936</u></u>	

**Toole County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Impact Fees</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	465,000	465,000	454,365	(10,635)
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Investment earnings	8,500	8,500	12,037	3,537
Internal services	-	-	-	-
Amounts available for appropriation	\$ 473,500	\$ 473,500	\$ 466,402	\$ (7,098)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	1,703,006	1,703,006	-	1,703,006
Public health	-	-	-	-
Social and economic services	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	-	-	-	-
Total charges to appropriations	\$ 1,703,006	\$ 1,703,006	\$ -	\$ 1,703,006
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -
Proceeds from the sale of general capital asset disposition	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(80,000)	(80,000)	(80,000)	-
Total other financing sources (uses)	\$ (80,000)	\$ (80,000)	\$ (80,000)	\$ -
Net change in fund balance			\$ 386,402	
Fund balance - beginning of the year			\$ 1,309,506	
<b>Fund balance - end of the year</b>			\$ 1,695,908	

**Toole County, Montana**  
**Budgetary Comparison Schedule**  
**Budget-to-GAAP Reconciliation**

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

	<u>General</u>	<u>Road</u>	<u>Impact Fees</u>
<b>Sources/Inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 3,327,546	\$ 1,227,619	\$ 466,402
Combined funds (GASBS 54) revenues	127,152	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 3,454,698</u>	<u>\$ 1,227,619</u>	<u>\$ 466,402</u>
<b>Uses/Outflows of resources</b>			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,815,197	\$ 1,395,169	-
Combined funds (GASBS 54) expenditures	5,909	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,821,106</u>	<u>\$ 1,395,169</u>	<u>\$ -</u>

**Toole County, Montan**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2012	\$ -	\$ 4,594,022	\$ 4,954,022	0%	\$ 6,936,249	71.4%

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

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

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**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 County Commissioners  
Toole County  
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 governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Toole County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Toole County's basic financial statements and have issued our report thereon dated April 28, 2015. Our report includes a reference to other auditors who audited the financial statements of Marias Medical Center, as described in our report on Toole County's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Toole County, 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 Toole County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Toole County's internal control over financial reporting.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial 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 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies listed as item 2014-001 through 2014-005.

**2014-001      Prepayment of Taxes and Assessments**

**Condition:**

The treasurer's office accepts prepayments on taxes and assessments. These prepayments are then accounted for separately from tax payments and a tax payment is made in full from the separate accounting when prepayments are enough to pay the taxes due.

**Criteria:**

The County treasurer should not maintain an accounting system separate from the property tax system for purposes of collecting property tax. Full payments should be the only valid method of collecting taxes and assessments. Per MCA 15-16-102 (5) partial payments are allowed only for delinquent taxes when the current year is paid in full.

**Effect:**

The County is not in compliance with MCA 15-16-102.

**Cause:**

The County has authorized use of separate accounting for prepayment of taxes.

**Recommendation:**

We recommend that the County not allow partial payments or separate accounting for payments of taxes and assessments.

**Views of Responsible Officials and Planned Corrective Action:**

The County Commissioners will look into the issue and take appropriate action as they deem necessary.

## **Finding #2014-002 Marias Medical Center – Journal Entry Approval**

### ***Criteria***

All journal entries posted in the accounting system should be properly documented and be reviewed and approved by an appropriate individual in the accounting department other than the one preparing and posting the entry.

### ***Condition and Cause***

No one reviews and approves journal entries posted to the Meditech system because there are no policies or controls in place requiring it.

### ***Effect or Potential Effect***

Journal entries could be posted inaccurately and not be detected and corrected on a timely basis. Controls over journal entries are critical as they can be used to perpetrate fraudulent financial reporting and conceal asset misappropriation.

### ***Recommendation***

A policy should be developed detailing who can post and approve journal entries and should require documented approval of all journal entries posted. Additionally, the policy should address how management will review journal entries posted to ensure they were authorized. Access to post journal entries in the Meditech system should continue to be limited to certain employees based on their job duties. A policy should be designed and implemented that provides for a routine review of Meditech modules and journal entry posting access for all employees, as well as requiring a review in specific cases when an employee changes positions within the Facility. Changes in access should be approved and documented.

### ***Management's Response***

Management has implemented some of the abovementioned recommendations. Access to post journal entries in the Meditech system is limited to certain employees based on their job duties. A policy is in place for when an employee changes positions or terminates, all IT access changes for that individual. Review of journal entries has increased, with the CFO reviewing all entries posted by the accounts receivable department in relation to account adjustments and bad debts. However, there is not a policy in place for review of entries posted by the CFO. MMC will continue to look for ways to improve the review of posted journal entries.

## **Finding #2014-003 Marias Medical Center – Segregation of Duties - Payroll**

### ***Criteria***

Duties related to recordkeeping, authorization, and custody of assets should be segregated whenever possible to ensure accurate financial reporting and deter misappropriation of assets.

### ***Condition and Cause***

The current design of internal controls over the payroll cycle does not allow for adequate segregation of duties.

### ***Effect and Potential Effect***

- 1) Recordkeeping Duties - the Accounts Payable and Payroll Clerk (the PC) has recordkeeping duties related to setting up new employees in the Time Clock Plus system and in the County's payroll system. Time is supposed to be derived from employees physically clocking in and out via biometric hand scanners in the Facility. However, the PC can override and edit time, including her own, in the Time Clock Plus system without authorization. Supervisors approve the time sheets from the Time Clock Plus system, but can't tell if any time was altered by the PC.
- 2) Authorization Duties - the PC can override authorization controls and enter time worked into the County payroll system other than what was approved. No one else at the County or the Facility matches hours in the payroll system to authorized time sheets.

It is also our understanding that no one is cross-trained to perform the PC's duties when on vacation or out sick. This lack of segregation of duties over the payroll cycle could result in errors in payments to employees that might not be detected and corrected in a timely manner.

### ***Recommendation***

We recommend management of the Facility review the controls over the payroll cycle and take steps to appropriately separate the recordkeeping and authorization functions. This should include designing and implementing controls over the Time Clock Plus system to protect the integrity of the time worked on the timesheets that the supervisors review and approve. Management should also consider a mandatory vacation policy for persons in key accounting roles and cross-training one or more individuals to perform the PC's duties.

### ***Management's Response***

CFO has been reviewing different departments (dietary, care center, maintenance) for proper use of the time clock and proper payment based on the hours worked. This has increased the accuracy of the time clock and provides oversight on how payment is being made. MMC will continue to identify ways to improve the segregation of duties in the payroll process.

## **Finding #2014-004 Marais Medical Center – Segregation of Duties - Cash Receipts**

### ***Criteria***

Duties related to recordkeeping, authorization, and custody of assets should be segregated whenever possible to ensure accurate financial reporting and deter misappropriation of assets.

### ***Condition and Cause***

The current design of internal controls over the cash receipts cycle does not allow for adequate segregation of duties.

- 1) Recordkeeping Duties – the Collections and Cash Receipts Clerk-Charity Program (the CRC) has recordkeeping duties over the cash receipts cycle as she produces and mails invoices and statements for accounts receivable. This position also fields complaint phone calls from patients if there are questions regarding an invoice or statement.
- 2) Authorization Duties – Write-offs are supposed to be reviewed by the Business Office Manager, but nothing prevents unauthorized entries from being posted and no one reviews write-offs posted at the patient level. The CRC also reviews and approves applications to qualify for the Hill-Burton charity assistance program and no one else reviews these applications. This position is also responsible for reviewing the aging of bad debts and solely determines if and when a patient's account is sent to collections.
- 3) Custody of Assets Duties – the CRC has physical custody of all payments received by the Facility.

### ***Effect and Potential Effect***

The potential effect of the lack of segregation of duties over the cash receipts cycle is the undetected misstatement or misappropriation of cash receipts.

### ***Recommendation***

We recommend management of the Facility review the controls over the cash receipts cycle and take steps to appropriately separate the recordkeeping, custody, and authorization functions. This should include determining which employees will be granted access to certain modules affecting the cash receipts cycle in the new Meditech system when implemented. A policy should be designed and implemented that provides for a routine review of Meditech modules access for all employees, as well as requiring a review in specific cases when an employee changes positions within the Facility. Changes in access should be approved and documented.

### ***Management's Response***

The bad debt and Hill-Burton write offs are all provided to the CFO for review. The CFO also reviews all write-offs at the patient level and the list of all patient accounts sent to collections. The CRC does take appropriate time away from work and other business office staff perform the CRC's duties during that time. The CRC's Meditech access is limited to assigned job duties. MMC will continue to look for ways to improve segregation of duties in the collections and cash receipts process.

## **Finding #2014-005 Marias Medical Center – Segregation of Duties – Patient Trust Funds**

### ***Criteria***

Duties related to recordkeeping, authorization, and custody of assets should be segregated whenever possible to ensure accurate financial reporting and deter misappropriation of assets.

### ***Condition and Cause***

The current design of internal controls over the patients' trust fund does not allow for adequate segregation of duties.

- 1) Recordkeeping Duties – the Accounts Payable and Payroll Clerk (the PC) has recordkeeping duties over the cash receipts and disbursement cycles for patients' trust fund as she is responsible for reconciling the patients' trust fund bank account and keeping track of each patient's balance in a manual ledger. Additionally, we noted patients are only informed of their balances upon request.
- 2) Authorization Duties – The PC is an authorized signer on the patients' trust fund Wells Fargo Bank account and is responsible for preparation and approval of payments made from the patients' trust fund on behalf of patients.
- 3) Custody of Assets Duties – the PC receives monies on behalf of patients and is responsible for depositing such funds into the patients' trust fund Wells Fargo Bank account.

### ***Effect and Potential Effect***

Due to the inadequate segregation of duties described above, the PC could misappropriate patients' trust fund monies through improper cash disbursements or depositing checks intended for the patients' trust fund in a personal account, with such action not being detected. While the balance in the trust account is not large, in its capacity as a trustee of patient monies, the Facility and its reputation could be adversely affected should fraud occur within the patients' trust fund, regardless of the dollar amount.

### ***Recommendation***

We recommend management of the Facility review the controls over the patients' trust account and take steps to appropriately separate recordkeeping, authorization, and custody functions, and/or design and implement review procedures that result in the detection and correction of errors in a timely fashion, whether intentional or unintentional.

### ***Management's Response***

MMC will provide, twice annually, a detailed copy of the inflows and outflows of resident trust fund accounts to the MMC social services department for delivery to those residents. MMC also requires the Accounts Payable and Payroll Clerk to provide a monthly balancing worksheet of the resident trust fund accounts to the CFO for review.

### **Compliance and Other Matters**

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

### **Toole County's Response to Findings**

Toole County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Toole County's response was not subject 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 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.

*Derringer, Downey and Associates, CPAs, P.C.*

April 28, 2015

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Toole County  
Shelby, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Presigned Treasurer's Checks	Implemented
Partial Pre-Payment of Taxes and Assessments	Repeated
Marias Medical Center – Journal Entry Approval	Repeated
Marais Medical Center – Inventory	Implemented
Marias Medical Center – Segregation of Duties - Payroll	Repeated
Marais Medical Center – Segregation of Duties - Cash Receipts	Repeated
Marias Medical Center – Segregation of Duties – Patient Trust Funds	Repeated

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

April 28, 2015