

PRAIRIE COUNTY HOSPITAL DISTRICT
(dba Prairie Community Hospital)

Financial Statements

June 30, 2014

PRAIRIE COUNTY HOSPITAL DISTRICT
Terry, Montana

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Independent Auditor's Report

To the Board of Trustees
Prairie County Hospital District
Terry, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Prairie County Hospital District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie County Hospital District, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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 December 16, 2014, on our consideration of the Prairie County Hospital District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Prairie County Hospital District's internal control over financial reporting and compliance.

Rowland, Thomas & Company
ROWLAND, THOMAS & COMPANY
Certified Public Accountants

Miles City, Montana
December 16, 2014

PRAIRIE COUNTY HOSPITAL DISTRICT
Year ended June 30, 2014

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of Prairie County Hospital District, hereinafter referred to as the District, provides an overview of the District's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the District's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The District's cash decreased \$69,412 (9%) from June 30, 2013 to June 30, 2014.
- The accounts receivable increased \$56,083 (25%) from June 30, 2013 to June 30, 2014.
- Inventory increased by \$7,605 (45%) from June 30, 2013 to June 30, 2014.
- Prepaid insurance decreased by \$1,460 (2%) from June 30, 2013 to June 30, 2014.
- Accounts payable increased by \$614 (1%) from June 30, 2013 to June 30, 2014.
- Accrued liabilities increased by \$29,435 (29%) from June 30, 2013 to June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Fund Net Position; and, a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District.

STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

Our analysis of the District's finances begins on page 6. One of the most important questions asked about the District's finances is, "Is the District, as a whole, better or worse off as a result of the year's activity?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all designated and undesignated assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

THE STATEMENT OF CASH FLOWS

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

THE DISTRICT'S NET POSITION

The District's net position is the difference between the assets and liabilities reported in the Statement of Net Position on page 6. The District's net position decreased in the past year by \$76,675 (5 %) as you can see from the information described in Tables 1 and 2 below.

Table 1: Assets, Liabilities and Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%-age Change</u>
ASSETS				
Current assets	\$ 1,152,728	\$ 1,157,421	\$ (4,693)	(-%)
Property and equipment, net	<u>484,248</u>	<u>540,931</u>	(56,683)	(10%)
Total assets	<u>1,636,976</u>	<u>1,698,352</u>	(61,376)	(4%)
LIABILITIES:				
Current liabilities	188,081	161,994	26,087	16%
Long-term liabilities	<u>126,214</u>	<u>137,002</u>	(10,788)	(8%)
Total liabilities	<u>314,295</u>	<u>298,996</u>	<u>15,299</u>	5%
NET POSITION				
Net investment in capital assets	347,246	389,179	(41,933)	(11%)
Unrestricted	<u>975,435</u>	<u>1,010,177</u>	(34,742)	(3%)
Total net position	<u>\$ 1,322,681</u>	<u>\$ 1,399,356</u>	\$ (76,675)	(5%)

Table 2: Operating Results and Changes in Net Position

Operating revenues:				
Net patient service	\$ 1,928,538	\$ 1,986,583	\$ (58,045)	(3%)
Other revenues	<u>39,724</u>	<u>46,132</u>	(6,408)	(14%)
Total operating revenues	<u>1,968,262</u>	<u>2,032,715</u>	(64,453)	(3%)
Non-operating revenues				
Tax revenues	179,595	179,966	(371)	(-%)
Donations, grants and rent	48,977	101,916	(52,939)	(52%)
Investment income less expense	<u>7</u>	<u>733</u>	(726)	(99%)
Total non-operating revenue	<u>228,579</u>	<u>282,615</u>	(54,036)	(19%)
Total revenue	<u>2,196,841</u>	<u>2,315,330</u>	(118,489)	(5%)
Operating expenses:				
Salaries and benefits	1,191,993	1,154,667	37,326	3%
Medical supplies and expenses	617,647	544,204	73,443	13%
Non-medical supplies & expenses	319,864	288,150	31,714	11%
Insurance	71,092	63,646	7,446	12%
Depreciation and amortization	<u>72,920</u>	<u>72,945</u>	(25)	(-%)
Total operating expenses	<u>2,273,516</u>	<u>2,123,612</u>	<u>149,904</u>	7%
Increase (decrease) in net position	(76,675)	191,718	(268,393)	(140%)
Net position, beginning of year	<u>1,399,356</u>	<u>1,207,638</u>	<u>191,718</u>	16%
Net position, end of year	<u>\$ 1,322,681</u>	<u>\$ 1,399,356</u>	\$ (76,675)	(5%)

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers and taxpayers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the administrator at Prairie County Hospital District, 312 S. Adams, Terry, Montana 59349.

AUDITED FINANCIAL STATEMENTS

PRAIRIE COUNTY HOSPITAL DISTRICT
Statement of Net Position
June 30, 2014

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 743,060
Accounts receivable	282,576
Property taxes receivable	12,085
Inventory	24,399
Prepaid insurance	<u>90,608</u>
Total current assets	<u>1,152,728</u>
Non-current assets:	
Capital assets:	
Nondepreciable	16,000
Buildings and improvements	1,211,102
Equipment	<u>697,545</u>
Total property and equipment	1,924,647
Less: accumulated depreciation and amortization	<u>1,440,399</u>
Total non-current assets	<u>484,248</u>
 Total assets	 <u>1,636,976</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	46,850
Accrued payroll	44,946
Liability insurance payable	19,596
Accrued vacation and sick leave	65,901
Current portion long-term debt	<u>10,788</u>
Total current liabilities	188,081
Non-current liabilities	
Note payable net of current portion	<u>126,214</u>
Total liabilities	<u>314,295</u>
 NET POSITION:	
Net investment in capital assets	347,246
Unrestricted	<u>975,435</u>
Total net position	<u>\$ 1,322,681</u>

The accompanying notes are an integral part of these statements.

PRAIRIE COUNTY HOSPITAL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
Year ended June 30, 2014

Operating revenues:	
Medical patient revenues:	
Inpatient	\$ 143,205
Outpatient	414,895
Clinic	229,061
Other	39,724
Total medical patient revenues	826,885
Swing bed long-term care revenues	1,150,191
Total patient revenues	1,977,076
Deductions from revenues:	
Contractual adjustments	62,605
Cost report settlement (refund)	(53,791)
Total deductions from revenues	8,814
Net operating revenues	1,968,262
Operating expenses:	
Administrative and general	436,886
Dietary	216,765
Laundry and linen	27,165
Housekeeping	52,528
Operating and maintenance	106,290
Nursing services	711,281
X-ray	48,331
Laboratory	117,535
Pharmacy	32,797
Therapy and treatment	3,080
Emergency room	21,839
Patient activities	51,757
Nursing administration	57,457
Clinic	389,805
Total operating expenses	2,273,516
Net operating loss	(305,254)
Non-operating revenues (expenses):	
Donations, memorials and grants	48,677
Taxation	179,595
Interest income	1,485
Rent	300
Interest expense	(1,478)
Total non-operating revenues (expenses)	228,579
Decrease in net position	(76,675)
Net position - beginning of year	1,399,356
Net position - end of year	<u>\$ 1,322,681</u>

The accompanying notes are an integral part of these statements.

PRAIRIE COUNTY HOSPITAL DISTRICT
Statement of Cash Flows
Year ended June 30, 2014

Cash flows from operating activities:	
Cash received from patients and third party payer's	\$ 1,884,433
Cash payments to suppliers for goods and services	(979,097)
Cash payments to employees for services	<u>(1,169,849)</u>
Net cash used in operating activities	<u>(264,513)</u>
Cash flows from noncapital financing activities:	
Donations, memorials and grants received	48,677
Received from taxation	177,104
Received from rent	<u>300</u>
Net cash provided by noncapital financing activities	<u>226,081</u>
Cash flows from capital and related financing activities:	
Purchase of equipment	(16,237)
Principal paid on long-term debt	(14,750)
Interest paid on long-term debt	<u>(1,478)</u>
Net cash used in financing activities	<u>(32,465)</u>
Cash flows from investing activities:	
Interest received on investments	<u>1,485</u>
Net decrease in cash and cash equivalents	(69,412)
Cash and cash equivalents, beginning of year	<u>812,472</u>
Cash and cash equivalents, end of year	<u>\$ 743,060</u>
Reconciliation of net operating loss to net cash provided by operating activities:	
Net operating loss	\$ (305,254)
Adjustments to reconcile net operating loss to net cash provided by operations:	
Depreciation and amortization	72,920
Bad debt expense	27,746
Changes in operating assets and operating liabilities:	
Trade accounts receivable	(83,830)
Inventories	(7,605)
Prepaid insurance	1,460
Trade accounts payable	614
Accrued liabilities	<u>29,436</u>
Net cash used in operating activities	<u>\$ (264,513)</u>

The accompanying notes are an integral part of these statements.

PRAIRIE COUNTY HOSPITAL DISTRICT
Notes to Financial Statements
June 30, 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used in the preparation of the accompanying financial statements:

A. Reporting Entity

Prairie County Hospital District was formed in 1979 under the laws of the State of Montana authorizing public hospital districts. The District is an independent special district within the geographical boundaries of Prairie County, Montana. The District was established to provide health care services in Terry, Montana, and is governed by a three-member Board of Trustees elected by the voters of the District. The Prairie County Hospital District operates as a critical access hospital which reflects the type of licenses under which the facility is now operating. Since Prairie County is not financially accountable for the District, and the District has no significant relationship to the operations of the County, the District is not considered to be a component unit of Prairie County. The District has no other organizational units. The financial statements contained herewith include all of the operations of the District.

B. Fund Accounting

The District utilizes the fund accounting concept with the operating fund classified as an enterprise fund. Enterprise funds are proprietary funds that account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Other revenues and expenses are classified as non-operating in the financial statements.

C. Basis of Accounting

The District prepares its financial statements on the accrual basis of accounting, recognizing revenues when earned and expenses when incurred.

When both restricted and unrestricted resources are available for use, it is the District's policy to use unrestricted resources first and then restricted resources, as needed.

D. Budgets and Budgetary Accounting

Budgets for the District are adopted by the Board of Trustees prior to the beginning of the fiscal year and are used primarily as a management tool. The budget must be submitted to the County Commissioners for review. The District has no legal requirement to follow the budget.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

F. Property Taxes Receivable

Property taxes are recorded as revenues when levied. Taxes receivable include delinquent real and personal property taxes and protested taxes collected but not yet distributed and available to the District. Since the amount of property taxes that could be considered uncollectible would be negligible, no allowance for uncollectible taxes has been established by the District.

G. Accounts Receivable

Charges for services by the District are recognized as revenues when earned. Accounts receivable and Medicare receivable are recorded within the fund. Accounts are charged to operations as bad debts when deemed uncollectible by management. No allowance for doubtful accounts is maintained by the District and such an allowance would not be material.

H. Inventory

Inventory is recorded at cost, principally utilizing first-in, first-out (FIFO) costing methods.

I. Fixed Assets

Fixed assets of the District are recorded at original cost at time of acquisition. Property rights under capital leases are recorded at the estimated fair value of the property at the time the lease was acquired. This estimated value is considered equivalent to book value of the underlying assets.

J. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

2. PROPERTY TAX

The District's real estate property tax is levied on the assessed value as of January 1st for all real estate located in the District. Assessed values are established by the State Department of Revenue based on market value. A revaluation of all property is required to be completed on a periodic basis.

Taxable value is defined by Montana statutes as a fixed percentage of assessed value. The taxable values for the District used in computing current taxation for the fiscal year ended June 30, 2014 was the taxable valuations of property in the District as of January 1, 2014, which was \$3,995,122. Taxes are due in two installments on November 30th and May 31st of each year. The total tax levy was approved by the electorate.

3. CASH AND CASH EQUIVALENTS

The cash deposits of the District were held as follows:

Cash on hand and petty cash	\$ 1,092
Held in the central treasury of the County in the District's name and insured by FDIC coverage and/or securities pledged by the bank holding County funds	<u>741,968</u>
Total deposits	<u>\$ 743,060</u>

Cash deposits held in the central treasury of the County are part of the County's demand and time deposit funds and have the same federal depository insurance and other coverage as for other funds of the County. The portion of these funds in excess of the basic depository insurance coverage for the County of \$250,000 is considered to be uninsured and uncollateralized. Montana statutes require that the County obtain pledged securities from the financial institution for the uninsured portion of the deposits, required levels of which are based on the capital structure of the financial institution. The Montana statutes do not specify in whose custody or name these securities are to be held. Such pledged securities are held by the financial institutions or by their trust departments or agents, but not in the County's name.

Portions of the funds of the District that are being held in the central treasury of the County are invested by the County as part of its investment activities. The District receives interest earnings from these funds in the proportionate share of the total of its funds so held in relation to the total of all funds of the County so held. The County is responsible for the investment of the funds, and whether the respective investments meet the authorized types of investments and other statutory requirements.

4. CAPITAL ASSETS

Capital assets of the District consist of buildings and improvements as well as fixed and movable equipment and furnishings. Property and equipment are summarized as follows as of June 30, 2014:

	<u>Buildings & Improvements</u>	<u>Equipment</u>	<u>Total</u>
Capital assets not being depreciated:			
Balance, July 1, 2013	\$ 16,000	\$ -	\$ 16,000
Increases	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2014	<u>16,000</u>	<u>-</u>	<u>16,000</u>
Capital assets - depreciated:			
Balance, July 1, 2013	1,211,102	682,258	1,893,360
Increases	-	16,237	16,237
Decreases	<u>-</u>	<u>950</u>	<u>950</u>
Balance, June 30, 2014	<u>1,211,102</u>	<u>697,545</u>	<u>1,908,647</u>
Accumulated depreciation:			
Balance, July 1, 2013	873,576	494,853	1,368,429
Increases	35,742	37,178	72,920
Decreases	<u>-</u>	<u>950</u>	<u>950</u>
Balance, June 30, 2014	<u>909,318</u>	<u>531,081</u>	<u>1,440,399</u>
Capital assets, net, June 30, 2014	<u>\$ 317,784</u>	<u>\$ 166,464</u>	<u>\$ 484,248</u>

Buildings and improvements:	
Construction in progress	\$ 16,000
Buildings and improvements	1,211,102
Total buildings and improvements	<u>1,227,102</u>
Equipment and furnishings:	
Kitchen equipment	53,747
Office and reception room (including software)	81,572
Laundry equipment	11,791
Laboratory equipment	52,877
Medical/surgical equipment	180,491
Room furniture & fixtures	71,328
Grounds & plant equipment	8,328
X-ray equipment	198,500
Clinic equipment	<u>38,911</u>
Total	<u>697,545</u>
Total property and equipment	\$ <u>1,924,647</u>

The District has a capitalization policy using \$3,000 as a level for determining whether to capitalize fixed assets. Asset useful lives are generally determined using industry guidelines.

The District utilizes its building and improvements under an agreement with Prairie County, Montana which is equivalent to a long-term leasing arrangement. The economic substance of this arrangement is that the District has acquired the assets through the lease, and accordingly, the assets are being recorded as buildings and improvement and shown with property and equipment.

Depreciation on buildings and improvements, equipment and furnishings are accumulated by the straight-line method based on the estimated useful lives of the assets. The range of estimated useful lives of the assets is from 3 to 25 years. Depreciation charged to operations for the fiscal year ended June 30, 2014 was \$72,920.

5. COMPENSATED ABSENCES

All full-time employees of the District are permitted to accumulate a number of hours of accrued vacation leave up to the equivalent of two years annual allowance, and an unlimited number of hours of accrued sick leave. Upon termination of employment, an employee is paid for accumulated vacation and for 25% of accumulated sick leave based on the current rate of pay. The District accrued the total vacation pay and sick leave at 25% of possible costs. Changes in the compensated absences for the fiscal years are included in the amount of salaries charged to operations.

6. LONG-TERM LIABILITIES

The District had a line of credit from the Board of Investments of the State of Montana for \$180,000, dated May 21, 2010. The line of credit converted to a promissory note due in semiannual payments on February 15 and August 15, maturing on August 15, 2025. The initial interest rate will be 1.95% through February 15, 2012 and thereafter the interest rate is annually revised to equal the interest rate on the Board of Investments' bonds as determined pursuant to Section 3.03 of the Indenture, plus up to 1.5% per annum as is necessary to pay the District's share of program expenses as determined by the Board of Investments, not to exceed 15% per annum. The line of credit and subsequent note will be secured by the revenue of the District. At June 30, 2014, the promissory note balance was \$137,002 at an interest rate of 1.00%.

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

Balance, June 30, 2013	\$ 151,752
Retired	<u>14,750</u>
Balance, June 30, 2014	\$ <u>137,002</u>

Maturities of long-term debt are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 10,788	\$ 1,343	\$ 12,131
2016	10,999	1,235	12,234
2017	11,215	1,124	12,339
2018	11,435	1,012	12,447
2019	11,659	897	12,556
2020-2024	61,810	2,679	64,489
2025-2026	<u>19,096</u>	<u>188</u>	<u>19,284</u>
Total	\$ <u>137,002</u>	\$ <u>8,478</u>	\$ <u>145,480</u>

The total interest expense incurred was \$1,478.

7. NET POSITION

The Board of Trustees of the District has designated certain cash accounts for the purchase or construction of property and equipment. The total amount of cash set aside for these specified purposes is treated as a designation of net position.

The amounts of the designated cash and designated net position as of June 30, 2014 were as follows:

Designated for purchase or construction of property or equipment \$ 397,057

8. MEDICARE

The District is reimbursed for cost reimbursable items at a tentative interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.

9. RISK MANAGEMENT

The District faces a 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. The District uses commercial insurance policies for these risks. These commercial policies transfer all risks, except for relatively small deductible amounts, for property and content damage, employee medical costs, professional liabilities, and employee injuries. Given the lack of coverage available, the District has no insurance for potential losses from environmental damages.

10. RETIREMENT PLANS

Hospital employees eligible to participate in retirement programs are members of the Montana Public Employees' Retirement System (PERS). The Pension Benefit Obligation is not available on an individual agency basis, but is available on a state wide basis from the PERS.

PERS was established in 1945 and is governed by Title 19, Chapter 3, MCA, as a cost-sharing multiemployer defined benefit pension plan providing retirement services to substantially all public employees. Effective July 1, 2002, eligible new employees of the Hospital are defaulted into the PERS defined benefit plan and have one year from their date of hire to elect whether to stay in the PERS defined benefit plan or enroll in the PERS Defined Contribution Plan. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 year of service regardless of age. Actuarially reduced benefits maybe be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary, unless the employee has 25 or more years of service, in which case the multiplier is 1/50. The required contribution rates for active participants and employers are statutorily determined (MCA 19-3-315 and MCA 19-3-316). Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

The contribution rates expressed as a percentage of covered payroll for fiscal year ended June 30, 2014 were 7.07% for the employer and 7.90% for employees hired after July 1, 2011 and 6.90% for the employees hired prior to July 1, 2011. The District's contributions for the years ended June 30, 2014, 2013 and 2012 were equal to the required contribution. The employer's contributions paid was \$51,988, \$46,969, and \$46,440 for the years ended June 30, 2014, 2013 and 2012, respectively. The employee's June 30, 2014 contribution paid was \$50,547.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 16, 2014, the date on which the financial statements were available to be issued.

REPORT

ROWLAND, THOMAS & COMPANY

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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

To the Board of Trustees
Prairie County Hospital District
Terry, 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 Prairie County Hospital District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprises Prairie County Hospital District's basic financial statements, and have issued our report thereon dated December 16, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other Matters

As part of obtaining reasonable assurance about whether Prairie County Hospital District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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*.

We noted certain matters that we reported to management of Prairie County Hospital District, in a separate letter dated December 16, 2014.

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.

Rowland, Thomas & Company
ROWLAND, THOMAS & COMPANY
Certified Public Accountants

Miles City, Montana
December 16, 2014

ROWLAND, THOMAS & COMPANY

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To the Management and
the Board of Trustees of
Prairie County Hospital District
PO Box 156
Terry, Montana 59349

In planning and performing our audit of the financial statements of Prairie County Hospital District as of and for the year ended June 30, 2014, 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, we considered the Prairie County Hospital District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of deficiencies internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. We previously communicated to you about the District's internal control in our report dated December 16, 2014. This letter does not affect our reports dated December 16, 2014 on the financial statements and internal control over financial reporting and on compliance and other matters of Prairie County Hospital District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Allowance for Doubtful Accounts

The District is currently using the direct write-off method to record bad debt expense. The direct write-off method is allowable only when recording an amount in the allowance for doubtful accounts would be immaterial. The District should evaluate uncollectible balances and review historical write-offs to determine whether an allowance for doubtful accounts is needed.

Organizational Structure

The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Trustees remains involved in the financial affairs of the District to provide oversight and independent review functions.

We wish to thank the finance department for their support and assistance during our audit.

This communication is intended solely for the information and use of the Board of Trustees, management, others within the District and the State of Montana, Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.

Rowland Thomas & Company
ROWLAND, THOMAS & COMPANY
Certified Public Accountants

Miles City, Montana
December 16, 2014