

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT

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CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Gardiner-Park County Water and Sewer District
Gardiner, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of Gardiner-Park County Water and Sewer District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Gardiner-Park County Water and Sewer District as of June 30, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

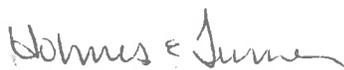
Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2015, on our consideration of Gardiner-Park County Water and Sewer 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 Gardiner-Park County Water and Sewer District's internal control over financial reporting and compliance.



June 9, 2015

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 STATEMENTS OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2014

	Water Fund	Sewer Fund	Total
Current assets:			
Cash and cash equivalents	\$ 86,003	\$ 70,831	\$ 156,834
Investments	583,474	258,331	841,805
Accounts receivable	68,879	30,666	99,545
Inventory	15,795	-	15,795
Prepaid expenses	900	900	1,800
Total current assets	755,051	360,728	1,115,779
Noncurrent assets:			
Restricted investments	99,794	17,450	117,244
Capital assets			
Land	34,630	6,740	41,370
Depreciable buildings, property and equipment, net	2,905,854	736,392	3,642,246
Total noncurrent assets	3,040,278	760,582	3,800,860
Total assets	\$ 3,795,329	\$ 1,121,310	\$ 4,916,639
Current liabilities:			
Accounts payable and accrued expenses	\$ 22,712	\$ 12,524	\$ 35,236
Payroll liabilities	2,060	2,060	4,120
Prepayments	13,200	-	13,200
Current portion of long-term liabilities	82,000	10,000	92,000
Total current liabilities	119,972	24,584	144,556
Long-term liabilities:			
Compensated absences payable	9,657	10,776	20,433
Long-term debt	816,000	211,000	1,027,000
Less: current portion of long-term liabilities	(82,000)	(10,000)	(92,000)
Total long-term liabilities	743,657	211,776	955,433
Total liabilities	863,629	236,360	1,099,989
Net position:			
Unrestricted	707,422	335,368	1,042,790
Restricted for debt service	99,794	17,450	117,244
Net investment in capital assets	2,124,484	532,132	2,656,616
Total net position	2,931,700	884,950	3,816,650
Total liabilities and net position	\$ 3,795,329	\$ 1,121,310	\$ 4,916,639

See accompanying notes to the financial statements

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 367,688	\$ 240,729	\$ 608,417
Land lease revenue	31,000	-	31,000
Miscellaneous revenues	100,099	-	100,099
Total operating revenue	<u>498,787</u>	<u>240,729</u>	<u>739,516</u>
Operating expenses:			
Accounting and auditing	4,373	4,373	8,746
Advertising	-	-	-
Amortization	2,167	500	2,667
Contracted services	123,894	222	124,116
Depreciation	180,775	32,694	213,469
Dues and subscriptions	459	105	564
Employee benefits	11,084	11,084	22,168
Insurance	9,778	9,278	19,056
Lab and testing	-	9,070	9,070
Miscellaneous expense	528	358	886
Office supplies	367	379	746
Operating supplies	10,734	7,203	17,937
Payroll taxes	6,456	6,456	12,912
Postage and freight	1,137	1,715	2,852
Primacy cost to State	826	-	826
Printing	49	49	98
Rent	1,800	1,800	3,600
Repairs and maintenance	19,101	13,316	32,417
Safety	223	101	324
Salaries	72,891	74,074	146,965
Software and support	1,896	1,046	2,942
Taxes and licenses	218	1,718	1,936
Telephone	3,157	1,036	4,193
Travel and training	1,149	-	1,149
Utilities	28,253	34,524	62,777
Vehicle expenses	1,787	2,598	4,385
Water purification expense	2,482	-	2,482
Total operating expenses	<u>485,584</u>	<u>213,699</u>	<u>699,283</u>
Operating income	<u>13,203</u>	<u>27,030</u>	<u>40,233</u>

See accompanying notes to the financial statements

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Nonoperating revenues (expenses):			
Interest income	2,693	550	3,243
Grant revenue	107,453	-	107,453
Interest expense	(17,883)	(7,316)	(25,199)
Total nonoperating revenues (expenses)	<u>92,263</u>	<u>(6,766)</u>	<u>85,497</u>
Change in net position	<u>105,466</u>	<u>20,264</u>	<u>125,730</u>
Net position, beginning of year	2,853,195	872,686	3,725,881
Prior period adjustment	<u>(26,961)</u>	<u>(8,000)</u>	<u>(34,961)</u>
Net position, beginning of year, restated	<u>2,826,234</u>	<u>864,686</u>	<u>3,690,920</u>
Net position, end of year	<u>\$ 2,931,700</u>	<u>\$ 884,950</u>	<u>\$ 3,816,650</u>

See accompanying notes to the financial statements

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities			
Receipts from customers	\$ 384,022	\$ 271,034	\$ 655,056
Payments to employees	(85,029)	(83,039)	(168,068)
Payments to suppliers	(206,827)	(80,763)	(287,590)
Other operating cash receipts	100,099	-	100,099
Net cash provided by operating activities	192,265	107,232	299,497
Cash flows from capital and related financing activities			
Principal paid on capital debt	(81,000)	(10,000)	(91,000)
Purchases of capital assets	(21,241)	(22,209)	(43,450)
Interest paid on capital debt	(17,883)	(7,316)	(25,199)
Proceeds from grants	107,453	-	107,453
Net cash used by capital and related financing activities	(12,671)	(39,525)	(52,196)
Cash flows from investing activities			
Interest received	787	-	787
Purchase of investments	(180,000)	(140,000)	(320,000)
Net cash used by investing activities	(179,213)	(140,000)	(319,213)
Net increase (decrease) in cash and cash equivalents	381	(72,293)	(71,912)
Cash and cash equivalents - beginning of the year	85,622	143,124	228,746
Cash and cash equivalents - end of the year	\$ 86,003	\$ 70,831	\$ 156,834

Supplemental disclosure of non-cash investing and financing activities:

None.

See accompanying notes to the financial statements

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 13,203</u>	<u>\$ 27,030</u>	<u>\$ 40,233</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	180,775	32,694	213,469
Amortization	2,167	500	2,667
(Increase) decrease in current assets:			
Accounts receivable	(27,866)	30,305	2,439
Inventory	(439)	-	(439)
Increase (decrease) in current liabilities:			
Accounts payable and accrued expenses	12,279	12,524	24,803
Payroll liabilities	(1,990)	2,060	70
Prepayments	13,200	-	13,200
Compensated absences payable	936	2,119	3,055
	<u>179,062</u>	<u>80,202</u>	<u>259,264</u>
Net cash provided by operating activities	<u>\$ 192,265</u>	<u>\$ 107,232</u>	<u>\$ 299,497</u>

See accompanying notes to the financial statements

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Gardiner-Park County Water and Sewer District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Gardiner-Park County Water District was incorporated on October 11, 1965, in the State of Montana. During fiscal year ended June 30, 2008, the residents of Gardiner elected to have the sewer operations managed by the District; in the fiscal year ended June 30, 2010, the District started to manage the sewer operations. At that time the District changed its name to Gardiner-Park County Water and Sewer District.

Residents of Gardiner elect the Board of Directors. Gardiner-Park County Water and Sewer District establishes its own budget independent of any other government entity so it is, therefore, considered to be a primary government. The District provides services in the Gardiner, Montana community. The District is a municipal corporation and, therefore, is not liable for federal and state income taxes pursuant to Internal Revenue Code 501(c)(1).

B. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the District's operating statements. The District is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported and equity is reported as net position.

The term basis of accounting is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

C. Cash and Investments

The District is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchased agreements, and the State Short-Term Investment Pool (STIP).

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments (Continued)

As of June 30, 2014, the District had certificates of deposit, which are classified as either investments or restricted investments on the balance sheet. These certificates of deposit had an original maturity of at least three months and therefore, for the purpose of the cash flow statement, are not considered cash and cash equivalents.

Certificates of deposit do not qualify as investments as defined by GASB Statement 40. Therefore, investment disclosures are not required.

D. Restricted Cash

According to bond resolutions, \$99,794 and \$17,450 are restricted for water and sewer reserves, respectively. More details about the restrictive covenants pertaining to the debt are in the long-term debt Note.

E. Accounts Receivable

No allowance for uncollectible accounts is provided in the District's financial statements. An 18% finance charge is accrued on any unpaid balance that is more than 60 days old. Liens can be placed against properties with unpaid water and sewer bills and unpaid balances can be added to the county tax rolls; as such, risk of bad debts is minimal for the District.

F. Inventory

Inventory is recorded at lower of cost (first-in, first-out) or market and consists primarily of operating materials.

G. Capital Assets

The District's capital assets are capitalized at historical cost or estimated historical cost. Repair and maintenance costs are recorded as expenses as incurred. Improvements, which improve or extend the lives of these assets, are capitalized.

Depreciation is provided utilizing the straight-line method over the following estimated useful lives:

Buildings and improvements	30 - 39 years
Leasehold improvements	39 years
System and improvements	10-15 years
Source of supply	20 - 40 years
Transmission and distribution	5 - 50 years
Equipment and tools	3 - 15 years
Office Equipment	5 - 10 years
Vehicles	10 years

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences

Employees accrue vacation time at 10 hours per month (increasing to 12 hours after 10 years up to 16 hours after 15 years) and sick leave at 8 hours per month. Upon termination, unused sick time is paid at 25%. Unused vacation may not be accrued beyond two times the annual amount. Excess time must be used within 90 days of the next calendar year or be forfeited.

I. Net Position

The District adopted the provisions of GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Statement 63 provides a new net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Proprietary fund net position is divided into three components:

- **Net investment in capital assets** – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets, plus capital asset related deferred outflows of resources less capital asset related deferred inflows of resources related to those assets.
- **Restricted net position**– consists of assets that are restricted as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – all other net position is reported in this category.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

J. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are user charges. Revenue from user charges and sales of services is recognized as the related service is provided. Refunds to customers are charged to income in the period in which those refunds are paid. Operating expenses include the costs associated with the conveyance of water, wastewater services, administrative expenses, and depreciation of capital assets.

All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

L. Use of Estimates

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

NOTE 2. DEPOSITS

Custodial credit risk

To minimize credit risk in relation to the District's deposits, it is the District's policy to have uninsured deposits covered by collateral, held by the pledging bank's agent in the District's name. As of June 30, 2014, the carrying amount of the District's deposits (cash, money market fund, and certificates of deposits) was covered by federal depository insurance.

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2014:

<u>Water Fund</u>	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 34,630	\$ -	\$ -	\$ 34,630
Capital assets being depreciated:				
Buildings and improvements	487,685	426	-	488,111
Leasehold improvements	2,385	-	-	2,385
System improvements	133,544	20,256	-	153,800
Source of supply	1,096,395	-	-	1,096,395
Transmissions and distributions	1,091,614	-	-	1,091,614
Scott Street project	739,860	-	-	739,860
Equipment and tools	46,038	459	-	46,497
Office equipment	4,366	100	-	4,466
Vehicles	129,208	-	-	129,208
Arsenic building project	1,957,709	-	-	1,957,709
Total capital assets being depreciated	5,688,803	21,241	-	5,710,044
Accumulated depreciation	<u>(2,623,415)</u>	<u>(180,775)</u>	<u>-</u>	<u>(2,804,190)</u>
Net depreciable capital assets	<u>3,065,388</u>	<u>(159,534)</u>	<u>-</u>	<u>2,905,854</u>
Total capital assets	<u>\$3,100,018</u>	<u>\$(159,534)</u>	<u>\$ -</u>	<u>\$ 2,940,484</u>
<u>Sewer Fund</u>	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 6,740	\$ -	\$ -	\$ 6,740
Capital assets being depreciated:				
Building improvements	820,144	1,576	-	821,720
System improvements	-	20,533	-	20,533
Office equipment	1,038	100	-	1,138
Vehicles	8,591	-	-	8,591
Total capital assets being depreciated	829,772	22,209	-	851,981
Accumulated depreciation	<u>(82,895)</u>	<u>(32,694)</u>	<u>-</u>	<u>(115,589)</u>
Net depreciable capital assets	<u>746,877</u>	<u>(10,485)</u>	<u>-</u>	<u>736,392</u>
Total capital assets	<u>\$ 753,617</u>	<u>\$(10,485)</u>	<u>\$ -</u>	<u>\$ 743,132</u>

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 4. LONG-TERM DEBT

Water fund

Revenue bond payable to the Department of Natural Resources and Conservation Series A; issued April 17, 2002 in the amount of \$161,504; refinanced February 19, 2013; matures January 1, 2022; semi-annual principal payments ranging from \$6,000 to \$7,000 at 2% interest. The bond is secured by revenues of the system.	\$ 94,000
Revenue bond payable to the Department of Natural Resources and Conservation Series B; issued April 17, 2002 in the amount of \$330,000; refinanced February 19, 2013; matures January 1, 2022; semi-annual principal payments ranging from \$11,000 to \$13,000 at 2% interest. The bond is secured by revenues of the system.	181,000
Revenue bond payable to the Department of Natural Resources and Conservation Series C; issued April 17, 2002 in the amount of \$267,000; refinanced February 19, 2013; matures January 1, 2022; semi-annual principal payments ranging from \$7,000 to \$9,000 at 2% interest. The bond is secured by revenues of the system.	123,000
Revenue bond payable to the Department of Natural Resources and Conservation; issued May 15, 2006 in the amount of \$463,784; refinanced February 19, 2013; matures January 1, 2026; semi-annual principal payments ranging from \$12,000 to \$16,000 at 2.25% interest. The bond is secured by revenues of the system.	331,000
Revenue bond payable to the Department of Natural Resources and Conservation; issued November 20, 2007 in the amount of \$125,000; refinanced February 19, 2013; matures July 1, 2027; semi-annual principal payments ranging from approximately \$3,000 to \$4,000 at 2.25% interest. The bond is secured by revenues of the system.	<u>87,000</u>
Total	816,000
Less current portion	<u>(82,000)</u>
Total long-term portion	<u>\$ 734,000</u>

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 4. LONG-TERM DEBT (Continued)

Sewer fund

Revenue bond payable to the Department of Natural Resources and Conservation Series 2011B; original issue of \$195,840; refinanced February 19, 2013; matures January 1, 2031; semi-annual principal payments ranging from \$4,000 to \$7,000 at 3.0% interest. The bond is secured by revenues of the system. \$ 171,000

Revenue bond payable to the Department of Natural Resources and Conservation Series 2011C; original issue of \$46,793; refinanced February 19, 2013; matures July 1, 2031; semi-annual principal payments ranging from \$1,000 to \$2,000 at 3.0% interest. The bond is secured by revenues of the system. 40,000

Total 211,000
 Less current portion (10,000)
 Total long-term portion \$ 201,000

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

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
<u>Water Fund bonds</u>					
2002A series	\$ 106,000	\$ -	\$ (12,000)	\$ 94,000	\$ 12,000
2002B series	203,000	-	(22,000)	181,000	22,000
2002C series	139,000	-	(16,000)	123,000	16,000
2006 series	356,000	-	(25,000)	331,000	26,000
2007 series	93,000	-	(6,000)	87,000	6,000
<u>Sewer Fund bonds</u>					
2012B	179,000	-	(8,000)	171,000	8,000
2012C	<u>42,000</u>	<u>-</u>	<u>(2,000)</u>	<u>40,000</u>	<u>2,000</u>
Total bonds payable	1,118,000	-	(91,000)	1,027,000	92,000
Compensated absences	<u>17,378</u>	<u>3,056</u>	<u>-</u>	<u>20,433</u>	<u>20,433</u>
Totals	<u>\$ 1,135,378</u>	<u>\$ 3,056</u>	<u>\$ (91,000)</u>	<u>\$ 1,047,434</u>	<u>\$ 112,433</u>

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 4. LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 92,000	\$ 23,190	\$ 115,190
2016	93,000	21,170	114,170
2017	94,000	19,120	113,120
2018	96,000	17,046	113,046
2019	98,000	14,929	112,929
2020-2024	384,000	43,763	427,763
2025-2029	143,000	12,120	155,120
2030-2031	27,000	885	27,885
	<u>\$1,027,000</u>	<u>\$152,223</u>	<u>\$1,179,223</u>

Restrictive covenants:

- a. The District shall at all times keep and maintain with respect to the system, property and casualty insurance and liability insurance with financially sound and reputable insurers.
- b. A special water and sewer system fund shall be maintained as a separate and special bookkeeping account on the official books until all bonds have been fully paid.
- c. An operating fund shall exist to pay the current expenses of operation, maintenance and current repair of the system.
- d. A revenue bond account must be maintained, into which should be paid each month an amount equal to not less than the sum of one-sixth of the interest due within the next six months and one-twelfth of the principal to become due within the next twelve months.
- e. Reserve accounts of at least \$99,794 and \$17,450 must be maintained for the water and sewer systems, respectively.
- f. The District shall furnish DNRC with a financial report within 180 days after the close of the fiscal year.
- g. The District shall have prepared and supplied to DNRC and the DEQ within 180 days of the close of every other fiscal year an audit report prepared by an independent CPA.
- h. Net revenues (change in net position before depreciation and interest) during each fiscal year must not be less than 120% and 125% of the maximum annual principal and interest payable on any outstanding bonds in the current or future year for the water and sewer systems, respectively.

As of June 30, 2014, the District was in compliance with each of these covenants.

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5. EMPLOYEE BENEFIT PLANS

Public Employees' Retirement System (PERS)

District employees are provided pension benefits by this multi-employer plan. Funding is provided by participating units of government and their covered employees. The District was required to contribute 8.07%, 7.07% and 7.07% of members' compensation, which was \$11,382, \$9,663 and \$9,327 for the fiscal years ended June 30, 2014, 2013, and 2012, respectively. Plan members were required to contribute 7.9%, 6.9% and 6.9% of their compensation, which was \$11,143, \$9,431 and \$9,102 for the years ended June 30, 2014, 2013, and 2012, respectively. The State is required to contribute .1% of members' compensation, which was \$141, \$167, and \$132 for the years ended June 30, 2014, 2013, and 2012, respectively. One hundred percent of required contributions were made for all three years.

All full-time District employees participate in one of two statewide cost-sharing multiple-employer retirement benefit plans administered by the Public Employees Retirement Division (PERD). Contributions to the two plans are as required by State statute. Financial information for the two plans 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 100 North Park Avenue, Suite 220, P.O. Box 200131, Helena, MT 59620-0131. The authority to establish, amend and provide cost of living adjustments to the plans is assigned to the State legislature. The authority to establish and amend contribution rates to the plans is also assigned to the State legislature.

Defined Benefit Retirement Plan (DBRP) – Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 years of service regardless of age. Rights become vested after 5 years of service.

Defined Contribution Retirement Plan (DCRP) – Participants may elect the defined contribution plan, in which the contributions into the plan are known, but the benefit is not. The retirement benefit received is based upon account balance, which is determined by contributions made plus investment earnings, or losses, less administrative costs. Employees become vested in the employer's contributions after 5 years of service and become vested in the employee's contributions immediately.

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6. LEASE COMMITMENTS

The District has entered into an operating lease with Park County for its office and shop space. The term of the lease was five years and commenced on October 1, 2005. During the fiscal year ended June 30, 2011, the lease agreement was extended for a period of five years. The lease requires a monthly payment of \$300. The following represents minimum lease payment requirements as of the year end:

June 30, 2015	\$ 3,600
June 30, 2016	900

Lease expense for the year ended June 30, 2014 was \$3,600.

NOTE 7. LEASE AGREEMENTS

The District has entered into a land lease agreement with Verizon for lease of its lot located at Archview Drive Gardiner, Montana 59030. The term of the lease is five years and commenced on March 1, 2014. The lease requires a monthly payment of \$900. The following represents minimum lease revenue projected as of the year end:

June 30, 2015	\$ 10,800
June 30, 2016	10,800
June 30, 2017	10,800
June 30, 2018	10,800
June 30, 2019	7,200

Lease income for the year ended June 30, 2014 was \$3,600

The District has entered into a land lease agreement with AT&T for lease of its lot located 19 Arch View Drive Gardiner, MT 59030. The initial lease commenced on June 1, 2013 and requires a monthly payment of \$1,000. The amendment commenced on July 1, 2013 and requires an additional \$200 a month. The term of the lease is five years. The following represents minimum lease revenue projected as of the year end:

June 30, 2015	\$ 14,400
June 30, 2016	14,400
June 30, 2017	14,400
June 30, 2018	13,200

Lease income for the year ended June 30, 2014 was \$14,400

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8. RISK MANAGEMENT

The District faces risk 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. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property content damage, employee torts, employee medical insurance, and professional liabilities. The District participates in the State of Montana's Workers' Compensation Plan. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years.

NOTE 9. COMMITMENTS AND CONTINGENCIES

The District is involved in a lawsuit arising in the ordinary course of operations. As of June 30, 2014, the District cannot predict the outcome of the lawsuit or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liability that may result has been made in the financial statements.

NOTE 10. CONCENTRATIONS

At June 30, 2014, one customer owed approximately 14% of the outstanding balance in accounts receivable. For the year ended June 30, 2014, two customers accounted for approximately 26% of the District's operating revenues.

NOTE 11. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB Statement No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by other entities. The District participates in the Montana Retirement System that is administered by the State of Montana. Under this standard, the District will be required to report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on its proportionate share of the collective amounts for all the governments in the Montana Retirement System plan. The District will receive the amounts it will be required to report on its financial statements from the Montana Retirement System beginning in fiscal year June 30, 2015.

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 12. PRIOR PERIOD ADJUSTMENTS

In the year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement 65 “Items Previously Reported as Assets and Liabilities”. The objective of Statement 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources.

Another aspect of implementing Statement 65 resulted in the reclassification of the beginning net position. Net deferred charges for issuance costs of \$34,961 were reclassified as expense of prior periods and resulted in the adjustments below.

A summary of these adjustments is as follows:

	Water Fund	Sewer Fund
Net position at June 30, 2013	\$ 2,853,195	\$ 872,686
Change in reporting for deferred charges for debt issuance costs	<u>(26,961)</u>	<u>(8,000)</u>
Net position at June 30, 2013, restated	<u>\$ 2,826,234</u>	<u>\$ 864,686</u>

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 Directors
Gardiner-Park County Water and Sewer District
Gardiner, 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 major funds of Gardiner-Park County Water and Sewer District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Gardiner-Park County Water and Sewer District's basic financial statements and have issued our report thereon dated June 9, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gardiner-Park County Water and Sewer 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 Gardiner-Park County Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gardiner-Park County Water and Sewer 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 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 in the accompanying schedule of findings and responses that we consider to be significant deficiencies [2014-001, 2014-002].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gardiner-Park County Water and Sewer District's financial statements are free from 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.

Gardiner-Park County Water and Sewer District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Gardiner-Park County Water and Sewer District's responses were not subjected to the auditing procedures applied in the audit of financial statements, and, accordingly, we express no opinion on them.

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.



June 9, 2015

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

INTERNAL CONTROL

2014-001 Segregation of duties

The District has one employee who handles all of the accounting functions and who has sole access to the accounting software. A possible effect of this is errors occurring and not being detected. It would be inefficient, considering the size of the District, for the District to hire additional personnel to achieve optimal internal controls. However, the District has taken several steps to involve Board members and to obtain the best internal controls possible.

Management's response

We concur with the above comment. We feel that effective internal controls are very important and we have established procedures that result in efficient internal controls over the District's daily operations and financial reporting.

2014-002 Monitoring

Ongoing monitoring activities enable management to determine whether internal controls are functioning, and to assist in identifying internal control deficiencies. This is particularly important when there is a lack of segregation of duties. When monitoring is designed and implemented effectively, it can identify and correct internal control problems on a timely basis. Currently, bank reconciliations and financial statements are not being reviewed. We recommend that the general manager and board review monthly financial statements. The monthly financial statements should include a balance sheet and profit and loss statements with current year and prior year comparisons and budget vs. actual comparisons.

Management's response

We will add these monitoring procedures to our monthly activities.

GARDINER-PARK COUNTY WATER AND SEWER DISTRICT
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014

Finding

Status

13-01 Segregation of duties

See current year finding 2014-001

13-02 Monitoring

General manager started to review the bank reconciliation. There are still open items under monitoring outstanding. See current year finding 2014-002



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BOZEMAN, MONTANA 59715
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CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

June 9, 2015

To the Board of Directors
Gardiner-Park County Water and Sewer District
Gardiner, Montana

We have audited the financial statements of the major funds of Gardiner-Park County Water and Sewer District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 4, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gardiner-Park County Water and Sewer District are described in Note 1 to the financial statements. As described in Note 12 to the financial statements, Gardiner-Park County Water and Sewer District changed accounting policies related to bond issuance costs by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, "Items Previously Reported as Assets and Liabilities" in the year ended June 30, 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of revenues, expenses, and changes in net position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Gardiner-Park County Water and Sewer District's financial statements were:

Management's estimate of the depreciable lives of capital assets is based on prescribed depreciable lives for water and sewer utilities, and the expected useful life. Management's estimate of the collectability of accounts receivable is based on the knowledge of, and history with, existing customers, as well as the ability to place the accounts on the County tax rolls. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

The attached schedule summarizes the misstatements detected as a result of audit procedures that were corrected by management.

In addition, a separate attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 9, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

June 9, 2015
Gardiner-Park County Water and Sewer District
Page three

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Gardiner-Park County Water and Sewer District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Holmes & Turner".

Holmes & Turner

Prepared by _____

**Gardiner Park County W and S District
Adjusting Journal Entries**

GARDINER

Page 1

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit
AJE01	Adjusting	06/30/14			
		1-101104-000	Unrestricted - Amer Savings C	328.58	
		2-101103-000	Unrestricted RBC CD's for Sew	549.79	
		1-101103-000	Unrestricted - Dain Rauscher	1,576.90	
		1-360001-000	Interest Income		328.58
		1-360001-000	Interest Income		1,576.90
		2-360001-000	Interest Income for Sewer		549.79
			Adjust investments for interste income		
AJE02	Adjusting	06/30/14			
		1-151100-000	Inventory	439.26	
		1-430510-220	Operating Supplies		439.26
			Adjust inventory		
AJE03	Adjusting	06/30/14			
		1-170002-000	Less - Accum Amortization	10,815.00	
		1-170000-000	Loan Fees		10,815.00
		1-170006-000	Less -Accum Amortization	20,096.75	
		1-170005-000	Bond Issuance Costs -DNRC R		20,096.75
		1-170011-000	Less Accum Amortization	5,084.00	
		1-170010-000	Bond Issuance Costs - Fall '9		11,501.65
		1-255000-000	Unrestricted Net Assets	6,417.65	
		1-170015-000	Bond Refinance Fees		12,080.00
		1-255000-000	Unrestricted Net Assets	4,782.16	
		1-170016-000	Less - Accum Amortization	7,297.84	
		1-170020-000	Bond Iss Costs-Arsenic Treat		19,494.50
		1-255000-000	Unrestricted Net Assets	11,561.50	
		1-170026-000	Less - Loan Costs on 2007 Issu	1,800.00	
		1-170025-000	Loan costs on 2007 issue		6,000.00
		1-255000-000	Unrestricted Net Assets	4,200.00	
		2-170301-000	Accumulated amortization	1,999.76	
		2-170300-000	Bond issue costs - sewer - 201		10,000.00
		2-255000-000	Unrestricted net assets (sewer)	8,000.24	
		1-170021-000	Less Accumulated Amort -Arse	7,933.00	
			Reclass bond costs		
AJE04	Adjusting	06/30/14			
		1-122002-000	Grants receivable	34,519.65	
		1-334120-000	Grant Revenues		34,519.65
			Grant receivable from Western Federal Home Lands.		
AJE05	Adjusting	06/30/14			
		1-343028-000	Wireless Co Rent for Land Use	13,200.00	
		1-202108-000	Prepaid rent (deferred revenue)		13,200.00

Prepared by _____

**Gardiner Park County W and S District
Adjusting Journal Entries**

GARDINER

Page 2

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit
			Reclass AT&Ts prepayments.		
AJE06	Adjusting	06/30/14			
		1-430590-800	Depreciation		15,137.00
		1-186004-000	Less Acc Depr	15,137.00	
		2-430590-800	Depreciation	1,212.00	
		2-186004-000	Accumulated depreciation		1,212.00
			Adjust current year depreciation		
AJE07	Adjusting	06/30/14			
		1-202110-000	Accrued Vacation		936.22
		2-202110-000	Accrued compensated absence		2,119.40
		1-430510-110	Wages/Salaries - Operations	936.22	
		2-430610-110	Wages/Salaries - Oper Sewer	2,119.40	
			Adjust accrued vacation		
AJE08	Adjusting	06/30/14			
		2-231012-000	SRF B bond payable	1,000.00	
		2-231013-000	SRF C bond payable		1,000.00
			Adj bonds		
AJE09	Adjusting	06/30/14			
		1-202101-000	Accounts Payable	12,524.41	
		2-202101-000	Accounts payable - sewer		12,524.41
			Allocate accounts payable to water and sewer.		
AJE10	Adjusting	06/30/14			
		1-250000-000	Retained Earnings - Reserved	409,470.00	
		1-255000-000	Unrestricted Net Assets		134,957.66
		1-275000-000	Inv in Capital Assets, Net of	487,548.00	
		2-275000-000	Investment in fixed assets. net		532,617.00
		1-265000-000	Restricted Net Assets		4,502.00
		2-265000-000	Restricted net assets		17,450.00
		2-255000-000	Unrestricted net assets (sewer)		207,492.00
		1-255000-000	Unrestricted Net Assets	0.66	
			Reclass net assets		
AJE11	Adjusting	06/30/14			
		1-240000-000	Less - Current Portion LTD	1,000.00	
		1-210000-000	Current Portion LTD		1,000.00
			Adjust current portion of LTD.		

Prepared by _____

**Gardiner Park County W and S District
Adjusting Journal Entries**

GARDINER
Page 3

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit
AJE12	Adjusting	06/30/14			
		2-101000-000	FIB Checking (Sewer)	16,189.10	
		1-101000-000	Cash - FIB Checking		16,189.10
			Reclass cash between water and sewer.		
		TOTAL		<u>1,087,738.87</u>	<u>1,087,738.87</u>

Prepared by _____

**Gardiner Park County W and S District
Adjusting Journal Entries**

GARDINER

Page 1

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
PJE01	Potential	06/30/14				
		1-122001-000	Accounts Receivable - Water	23,060.00		
		1-343021-000	Water Sales	3,971.00		
		1-255000-000	Unrestricted Net Assets		27,031.00	
		2-122000-000	Accounts Receivable - Sewer	18,119.00		
		2-343031-000	Sewer Service Charges	3,120.00		
		2-255000-000	Unrestricted net assets (sewer)		21,239.00	
			Overstated revenue as a result of billing dates.			
PJE02	Potential	06/30/14				
		1-122001-000	Accounts Receivable - Water	1,962.00		
		1-430510-354	Legal Expenses		1,962.00	
			Amount of legal fees to be reimbursed.			
		TOTAL		50,232.00	50,232.00	



CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

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BOZEMAN, MONTANA 59715
(406) 587-4265
FAX (406) 586-3111

June 9, 2015

To the Board of Directors
Gardiner-Park County Water and Sewer District
Gardiner, Montana

In planning and performing our audit of the financial statements of Gardiner-Park County Water and Sewer District for the year ended June 30, 2014, we considered its internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

However, during our audit, we noticed an opportunity to strengthen your internal controls and operating efficiency. We have enclosed a recommended change for your review. This letter does not affect our report, dated June 9, 2015, on Gardiner-Park County Water and Sewer District's financial statements.

We will review the status of this comment during our next audit engagement. Please feel free to contact us at your convenience if we may assist you in implementing this recommendation.

Sincerely,

HOLMES & TURNER

A handwritten signature in cursive script that reads "Bill Hebron 7/3".

William B. Hebron

Enclosure:

As stated

Management Letter Recommendations

Health insurance

As we reviewed payroll, we noted that the District is reimbursing two employees for health insurance. Please see the attached notice which addresses the issue of employers paying for employee's health insurance while not providing a group policy for the employees. To the best of our knowledge, this does not apply if an employer reimburses an employee for group health insurance. For example, if an employee's spouse is covered by a group health insurance plan and the District reimburses the employee for their portion of this health insurance. We recommend that the District review these payments and make any necessary adjustments to be in compliance with DOL guidelines pertaining to this issue.

Employer Can Not Pay for Employee's Individual Health Insurance

Issue Date: November 2014

In the most direct guidance released to date, the DOL has issued new FAQs that make it clear employers are not permitted to pay for the cost of individual health insurance for employees, even if the payments are made on an after tax basis. The guidance also prohibits employers from providing cash to employees to encourage them to waive the employer's plan and purchase individual health insurance instead.

No Employer Payment of Individual Health Insurance Premiums Allowed

The DOL, IRS, and HHS have previously released guidance limiting the employer's ability to pay for individual health insurance premiums for employees, but prior guidance was somewhat unclear and left room for some alternative interpretations. As a result, a number of vendors have offered programs designed to allow employers to pay for their employee's purchase of individual health insurance policies.

This new DOL guidance effectively puts an end to that practice. The DOL states that the payment of individual health insurance premiums by an employer constitutes a group health plan under federal law. A group health plan made up of individual health insurance policies violates a number of ACA related provisions. The first question in the FAQ states:

Q1: My employer offers employees cash to reimburse the purchase of an individual market policy. Does this arrangement comply with the [ACA] market reforms?

No. If the employer uses an arrangement that provides cash reimbursement for the purchase of an individual market policy, the employer's payment arrangement is part of a plan...maintained for the purpose of providing medical care to employees, without regard to whether the employer treats the money as pre-tax or post-tax to the employee.

Therefore, the arrangement is group health plan coverage within the meaning of...(ERISA)...and is subject to the market reform provisions of the (ACA) applicable to group health plans. Such employer health care arrangements...will violate PHS Act sections 2711 and 2713, among other provisions, which can trigger penalties such as excise taxes under section 4980D of the Code.

No Cash to Employees to Encourage Purchase of Individual Health Insurance

The DOL guidance also addresses reports that some employers have begun to provide cash incentives to high risk employees to encourage them to waive coverage on the employer's plan, and instead purchase individual health insurance. The DOL states this practice is a violation of the HIPAA rules that prohibit discrimination against individuals based on their health status. According to the DOL, this practice is discriminatory even if the employee agrees to the payment.

Summary

As the rules related to the ACA continue to evolve and be clarified by the regulatory agencies, employers should be cautious when adopting strategies that are not clearly within the framework of existing guidance. The complete text of the DOL FAQs can be found at <http://www.dol.gov/ebsa/faqs/faq-aca22.html>

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