

**COLSTRIP PARK AND RECREATION DISTRICT
ROSEBUD COUNTY
COLSTRIP, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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COLSTRIP PARK AND RECREATION DISTRICT

ORGANIZATION

June 30, 2014

BOARD OF COMMISSIONERS

Bill Neumiller	Chairman
Patty Dunn	Vice-Chairman
Cathy Frank	Treasurer
Gary Parry	Secretary
Mark Ator	Member
Terry Currier	Member
Betty Jo Ellison	Member

OFFICIALS

Rick Harbin	Executive Director
Liz Dudley	Accountant

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Colstrip Park and Recreation District
Colstrip, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the Colstrip Park and Recreation District, Colstrip, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the table of contents 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014, on our consideration of the government'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 the government's internal control over financial reporting and compliance.

O'Leary Associates, PC

Billings, Montana
November 19, 2014

COLSTRIP PARK AND RECREATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

Our discussion and analysis provides an overview of Colstrip Park and Recreation District's financial activities for the year ended June 30, 2014. Please read it in conjunction with our financial statements which begin on page 7.

FINANCIAL HIGHLIGHTS

- Net position increased \$157,005 and \$273,174 for the years ended June 30, 2014 and 2013, respectively.
- During the 2013, the District was required to repay approximately \$231,000 of protested taxes that had been borrowed. The District ran a special levy in 2014 for the protested taxes that were required to be repaid. The levy generated approximately \$230,000 in tax revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements include notes which explain in detail the information in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The basic financial statements of the government report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The statement of net position includes information on the government's assets, liabilities and net position. The statement of revenues, expenses and changes in net position identify the government's revenues and expenses. This statement provides information on the government's operations and can be used to determine if costs have been recovered through user fees and other revenues. The third financial statement is the statement of cash flows. This statement provides information on the government's cash receipts, cash payments and changes in cash resulting from operations, capital and financing and investing activities.

FINANCIAL ANALYSIS OF THE GOVERNMENT

The statement of net position and the statement of revenues, expenses and changes in net position provide an indication of the government's financial condition and also indicate whether the government's financial condition improved or deteriorated. An increase in net position over time typically indicates an improvement in financial condition and a decrease in net position over time typically indicates deterioration in financial condition.

A summary of the government's net position and changes in net position is presented below.

	2014	2013	Change
NET POSITION:			
Current and other assets	\$ 836,695	\$ 973,673	\$ (136,978)
Capital assets, net	4,095,377	3,805,143	290,234
Total assets	4,932,072	4,778,816	153,256
Current liabilities	27,413	16,265	11,148
Long-term liabilities	82,727	97,624	(14,897)
Total liabilities	110,140	113,889	(3,749)
Net position:			
Net investment in capital assets	4,072,548	3,765,238	307,310
Unrestricted	749,384	899,689	(150,305)
Total net position	\$ 4,821,932	\$ 4,664,927	\$ 157,005

**COLSTRIP PARK AND RECREATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
CHANGE IN NET POSITION:			
Operating revenues:			
Taxes	\$ 1,605,572	\$ 1,680,322	\$ (74,750)
Intergovernmental	473,116	459,336	13,780
Charges for services	49,832	68,228	(18,396)
Total operating revenues	<u>2,128,520</u>	<u>2,207,886</u>	<u>(79,366)</u>
Operating expenses:			
Personal services	1,089,078	1,036,974	52,104
Contractual services	42,376	57,521	(15,145)
Utilities	166,169	182,779	(16,610)
Repairs and maintenance	105,001	110,253	(5,252)
Supplies and materials	145,572	135,252	10,320
Insurance	37,554	34,056	3,498
Other operating expense	99,499	97,450	2,049
Depreciation	307,471	294,116	13,355
Total operating expenses	<u>1,992,720</u>	<u>1,948,401</u>	<u>44,319</u>
Operating income	135,800	259,485	(123,685)
Non-operating revenues (expenses):			
Interest income	2,807	8,649	(5,842)
Other income	15,323	8,877	6,446
Interest expense	(1,925)	(3,394)	1,469
Gain (loss) on disposal of equipment	5,000	(443)	5,443
Total non-operating revenues (expenses)	<u>21,205</u>	<u>13,689</u>	<u>7,516</u>
Change in net position	157,005	273,174	(116,169)
Total net position-beginning	<u>4,664,927</u>	<u>4,391,753</u>	<u>273,174</u>
Total net position-ending	<u>\$ 4,821,932</u>	<u>\$ 4,664,927</u>	<u>\$ 157,005</u>

Tax revenues decreased because taxable value decreased. Personal services increased due to raises and related costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Assets purchased during the year included: golf course pump replacement, paving, ADA ramps, flooring, roofing, exercise equipment and a vehicle. Total capital asset additions were \$592,705.

We entered into a capital lease during 2011 to purchase an irrigation control system. At year-end, we owed \$22,829.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The annual budget for 2014-2015 was developed to provide the best use of available revenues and resources to provide the citizens of the Colstrip Park and Recreation District exceptional leisure services, facilities and opportunities at reasonable prices to meet their expectations. Following are highlights for 2014-2015.

- The certified valuation of real property decreased from 86,053 to 78,089 and had a moderate effect on park district revenue. Coal proceeds were down slightly as shipping contracts have expired and reduced need from the power plants being shut down because of extended maintenance and lack of demand in the electric market.
- Major tax protests were settled in fiscal year 2013. No other major tax protests have been filed to our knowledge.
- The 3-mill levy increase approved by the voters in November 2006 continues to allow the district to fund capital projects. We completed the golf pump station replacement including sludge removal from the pond.

COLSTRIP PARK AND RECREATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

- We are now starting on conversion of the Rye Park wading pool to a splash park. Phase 1-element acquisition and phase 2-demolition of concrete and installation of new water and sewer service will occur in this fiscal year. The budget for this project is \$242,000 and all this work will be competitively bid and should be completed by June 15, 2015. We are also replacing the pool boiler which has become unreliable and has regularly required work to be functional each of the past 5 seasons.
- Our major focus in fiscal year 2016 will be Spray Park phase 3-the actual construction of the spray park including concrete and plumbing work. This should result in project completion. The installation of the spray park elements already purchased and the construction of a storage building that will house manifolds, controllers, electrical and other related operational components. During the off season the above ground elements can be removed and stored to be protected from the winter in the same building.
- We are keenly aware of the ongoing war on coal and coal fired power plants. Coal production and coal fired power plants make up the majority of district revenue. We will continue to monitor these events closely. To be conservative we have begun to phase large projects to eliminate any additional tax burden on our major taxpayers.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the government patrons and other interested parties with an overview of the government's financial operations and financial condition. Should the reader have other questions regarding the information included in this report or wish to request additional financial information, please contact Rick Harbin, Executive Director, at P.O. Box 127, Colstrip, Montana 59323

COLSTRIP PARK AND RECREATION DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 828,849
Receivables:	
Accounts	4,754
Taxes	2,056
Inventories	989
Prepaid items	<u>47</u>
Total current assets	<u>836,695</u>
Capital assets:	
Land improvements	3,659,479
Construction in progress	30,000
Buildings	3,212,963
Furniture and equipment	1,516,682
Less accumulated depreciation	<u>(4,323,747)</u>
Total capital assets, net	<u>4,095,377</u>
Total assets	<u>4,932,072</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	5,979
Salaries payable	21,434
Compensated absences	5,990
Capital lease obligation	<u>18,126</u>
Total current liabilities	<u>51,529</u>
Long-term liabilities, less current maturities:	
Compensated absences	53,908
Capital lease obligation	<u>4,703</u>
Total long-term liabilities	<u>58,611</u>
Total liabilities	<u>110,140</u>
NET POSITION	
Net investment in capital assets	4,072,548
Unrestricted	<u>749,384</u>
Total net position	<u>\$ 4,821,932</u>

COLSTRIP PARK AND RECREATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2014

OPERATING REVENUES:	
Taxes	\$ 1,605,572
Intergovernmental	473,116
Charges for services	<u>49,832</u>
Total operating revenues	<u>2,128,520</u>
OPERATING EXPENSES:	
Personal services	1,089,078
Contractual services	42,376
Utilities	166,169
Repairs and maintenance	105,001
Supplies and materials	145,572
Insurance	37,554
Other operating expense	99,499
Depreciation	<u>307,471</u>
Total operating expenses	<u>1,992,720</u>
Operating income	<u>135,800</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	2,807
Other income	15,323
Interest expense	(1,925)
Gain on disposal of equipment	<u>5,000</u>
Total non-operating revenues (expenses)	<u>21,205</u>
Change in net position	157,005
Total net position-beginning	<u>4,664,927</u>
Total net position-ending	<u><u>\$ 4,821,932</u></u>

COLSTRIP PARK AND RECREATION DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from tax collections	\$ 1,836,170
Receipts from other governments	473,116
Receipts from customers and users	46,863
Other cash receipts	15,323
Payments to employees for wages and benefits	(1,075,751)
Payments for supplies and other services	<u>(596,365)</u>
Net cash provided by operating activities	<u>699,356</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest paid	(1,925)
Principal payments made on capital lease	(17,076)
Acquisition of capital assets	<u>(592,705)</u>
Net cash used by capital and related financing activities	<u>(611,706)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>2,807</u>
Net cash provided by investing activities	<u>2,807</u>
Net change in cash and cash equivalents	90,457
Cash and cash equivalents - beginning	<u>738,392</u>
Cash and cash equivalents - ending	<u>\$ 828,849</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 135,800
Depreciation	307,471
Other income	15,323
Change in assets and liabilities:	
Increase in accounts receivable	(2,969)
Decrease in taxes receivable	230,598
Increase in inventory	(180)
Increase in prepaid items	(14)
Increase in salaries payable	11,148
Increase in compensated absences	<u>2,179</u>
Net cash provided by operating activities	<u>\$ 699,356</u>

COLSTRIP PARK AND RECREATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

Colstrip Park and Recreation District (the government) was established under Montana law on April 20, 1987. The government is a special purpose district organized to operate, maintain and administer the park and recreation land within and surrounding Colstrip, Montana. The government is supported by tax revenues, which are assessed against property owners, fees charged for services provided to users and intergovernmental revenues. The government's intent is to support operations with tax revenues and as such, reports tax revenues as operating revenues. Colstrip Park and Recreation District is controlled by an elected Board of Commissioners. These financial statements include all the operations under the control of the Board. A review of other units of local government, using the criteria set forth in generally accepted accounting principles, indicates there are no additional entities or funds for which the government has reporting responsibilities.

Rosebud County provides substantial services to the government; tax billing, cash collections and warrant redemption. The County also maintains the government's cash and invests available funds at the direction of the government. The County Commissioners have a legal obligation to set levy amounts and to approve the budget adopted by the government. However, despite the degree of services provided, the government does not qualify as a component unit of the County.

Basis of Accounting

The government uses the accrual basis of accounting and accounts for its financial transactions on the flow of economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Assets, Liabilities and Net Position

Cash and Investments

The government considers cash on hand, demand, savings and time deposits with original maturities of three months or less from the date of acquisition to be cash and cash equivalents. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

The government participates in an investment pool administered by the Rosebud County Treasurer. Allowable investments for the pool are the same as discussed above. Funds invested in the pool are available upon demand and are considered to be cash equivalents unless specific investments are requested.

Receivables and Unearned Revenue

Membership fees are charged for usage of the community center to patrons living outside of district boundaries. Paid membership fees which have not been fully earned are reflected in the financial statements as unearned revenue.

Receivable bad debts are written-off using the direct write-off method. Use of this method does not result in a material difference from the allowance method required by generally accepted accounting principles.

Most taxes receivable at June 30 are delinquent property taxes from prior year levies. No allowance is made for uncollectible taxes as they are not considered significant.

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer.

COLSTRIP PARK AND RECREATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Inventories and Prepaid Items

All inventories are valued at cost using the first in first out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Property and equipment are recorded at cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Donated assets are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed. Property and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-30
Buildings	10-40
Furniture and equipment	5-15

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Net Position

In the statement of net position, equity is classified and displayed in three components:

Net Investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Estimates

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

NOTE 2. DETAILED NOTES

Cash and Cash Equivalents and Investments

As discussed in Note 1, the government's cash and investments consist of cash on hand, savings and amounts held in Rosebud County's investment pool. Montana law allows the government to require security for the portion of deposits not guaranteed or insured.

COLSTRIP PARK AND RECREATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Deposit insurance is administered by the FDIC. The government's savings account was entirely insured by the FDIC. The Rosebud County Treasurer has the fiduciary responsibility to ensure that adequate collateral is pledged for all investments that are not fully covered by Federal Deposit Insurance. Montana code allows the County Treasurer to take collateral up to 50% of deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%. Risk in the event of loss is unclear in State law, but may be the liability of the County government. Risk classification of the government's deposits and pooled investments can be obtained from the Rosebud County Treasurer.

The composition of cash and cash equivalents and investments as of June 30, 2014, was as follows:

	Cash/Cash Equivalents
Cash on hand	\$ 1,405
Cash in banks:	
Savings deposits	13,221
County pool	814,223
	\$ 828,849

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets				
Land improvements	\$ 3,170,228	\$ 489,251	\$ -	\$ 3,659,479
Construction in progress	15,909	30,000	(15,909)	30,000
Buildings	3,173,157	39,806	-	3,212,963
Furniture and equipment	1,489,930	54,557	(27,805)	1,516,682
Total capital assets	7,849,224	613,614	(43,714)	8,419,124
Less accumulated depreciation for:				
Land improvements	(1,972,997)	(100,924)	-	(2,073,921)
Buildings	(1,165,630)	(104,649)	-	(1,270,279)
Furniture and equipment	(905,454)	(101,898)	27,805	(979,547)
Total accumulated depreciation	(4,044,081)	(307,471)	27,805	(4,323,747)
Total capital assets, net	\$ 3,805,143	\$ 306,143	\$ (15,909)	\$ 4,095,377

Operating Leases

The government leases golf carts under an operating lease expiring on October 31, 2014. Total rental payments were \$9,808 for the year ended June 30, 2014. The scheduled minimum rental payments for the year ending June 30, 2015 are \$6,539.

Short-term Debt

The government had a \$200,000 line-of-credit with a local bank that expires May 2015. The line-of-credit is used during periods of cash shortages. During the year ended June 30, 2014, the government did not draw on the line of credit.

COLSTRIP PARK AND RECREATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Leases

The government has entered into a capital lease agreement under which the related equipment will become the property of the government when all terms of the lease agreements are met. Assets acquired through capital leases are as follows:

Machinery and equipment	\$ 81,931
Less: accumulated depreciation	<u>(31,407)</u>
	<u>\$ 50,524</u>

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2014, are as follows:

	<u>Year ending June 30,</u>			
	2015	\$	19,001	
	2016		<u>4,750</u>	
Total minimum lease payments			23,751	
Less: amount representing interest			<u>(922)</u>	
Present value of minimum lease payments		\$	<u>22,829</u>	

Long-term Debt

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Capital leases	\$ 39,905	\$ -	\$ (17,076)	\$ 22,829	\$ 18,126
Compensated absences	57,719	2,179	-	59,898	5,990
	<u>\$ 97,624</u>	<u>\$ 2,179</u>	<u>\$ (17,076)</u>	<u>\$ 82,727</u>	<u>\$ 24,116</u>

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Retirement Plan

The government has adopted a defined contribution money purchase pension plan covering permanent full time employees completing one year of service and attaining the age of 20 ½. The plan requires contributions of 9% of eligible employees' salaries. Employees covered by the pension plan self direct investment of the plan contributions. Employees are 100% vested in plan contributions. Total contributions to the plan were \$34,100.

Economic Dependency

Approximately 95 percent of the government's taxable value is comprised of six taxpayers. Tax revenues generated by these taxpayers approximate \$1,525,000.

COLSTRIP PARK AND RECREATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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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 Commissioners
Colstrip Park and Recreation District
Colstrip, 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 Colstrip Park and Recreation District, Colstrip, Montana, (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (Findings 2014-001 through 2014-003)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government'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*.

The Government's Response to Findings

The government's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The government's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
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BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

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.

O'neal & Associates, PC

Billings, Montana
November 19, 2014

COLSTRIP PARK AND RECREATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely on the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and ensure the quality of the document and the preparer.

Response: The Colstrip Park and Recreation District does not have the ability to create financial reports in house to meet the recently enacted standard for creating financial statements. We do not have the expertise to perform such as function as indicated. It is our understanding that this inability is common amongst most Montana government entities. With our limited staffing and resources we do not foresee the park district meeting that ability and is not a realistic expectation in our opinion. We expect that we are one of many that will also receive this finding due to GASB rules.

2014-002. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Response: Segregation of duties is done as well as can be expected with the limited staff available. This issue was brought up last year and the park district has done everything reasonable to try and accommodate segregating duties related to monetary duties. We are very cognizant of the need to separate duties and we have earnestly made as many changes as we can to try and meet that goal. This was addressed in the previous audit and the same steps and processes are in place and practiced to be as compliant as possible. The executive director receives detailed reports as well as original expenditure and payroll claims for review and comparison prior to any signatures occurs and the board treasurer also performs a monthly review of finances to ensure there are oversights. We will continue to think of ways that may increase our ability to segregate financial duties for more internal controls.

2014-003. DETERMINATION OF TAX REVENUE AND MILL LEVY LIMITATION WORKSHEET COMPLETED INCORRECTLY

Criteria: The worksheet used to calculate tax revenues and the mill levy limitations under Section 15-10-420, MCA should be completed accurately and independently reviewed.

Condition: The tax revenue amount carried forward from 2013 was incorrect.

Cause: The worksheet for the 2013 tax revenue calculation was incorrect, therefore the carry forward amount was incorrect.

Effect: Property taxes were under levied by approximately \$88,000.

Recommendation: The worksheet should be independently reviewed. The reviewer should be knowledgeable about the

COLSTRIP PARK AND RECREATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

budget laws in Montana.

Response: The worksheet used to calculate tax revenues and the mill levy limitations under Section 15-10-420, MCA will be reviewed for completeness and accuracy.

COLSTRIP PARK AND RECREATION DISTRICT
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-001. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-002. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE