

Doyle & Associates, P.C.

The accompanying financial statements and reports are intended for the original recipient.

They must be presented in their entirety and may not be modified in any manner.

**BITTER ROOT IRRIGATION DISTRICT
RAVALLI COUNTY, MONTANA**

FINANCIAL STATEMENTS

October 31, 2014

(With Independent Auditor's Reports Thereon)

**BITTER ROOT IRRIGATION DISTRICT
RAVALLI COUNTY, MONTANA**

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**BITTER ROOT IRRIGATION DISTRICT
RAVALLI COUNTY, MONTANA**

ORGANIZATION

BOARD OF COMMISSIONERS

John SchmiedekeChairman
Bill Posten..... Vice-Chairman
Harvey Hackett Commissioner
Matt Pendergast Commissioner
Steve Bauman Commissioner

ADMINISTRATION

John Crowley Manager
Elaine Culletto Secretary
David Markette Attorney

Doyle & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Lolo, MT 59847

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Bitter Root Irrigation District
Ravalli County
Corvallis, Montana

Report on the Financial Statements

We have audited the accompanying statement of net position as of October 31, 2014 of Bitter Root Irrigation District, Ravalli County, Montana (the "District") and the statement of changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position as of October 31, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited Bitter Root Irrigation District's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 7, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2015, on our consideration of the 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 the District's internal control over financial reporting and compliance.

Dafra Associates, P.C.

Lolo, Montana
May 26, 2015

BITTER ROOT IRRIGATION DISTRICT
CORVALLIS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

OCTOBER 31, 2014

This is the District's management's discussion and analysis. It provides an overview of the District's financial activities for the fiscal year ended October 31, 2014. Please read it along with the District's financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

Bitter Root Irrigation District services 16,665 irrigated acres along a 72 mile stretch from Lake Como to the Eagle Watch area southeast of Florence. The main canal is referred to as the "Big Ditch" and has an initial capacity of 350 cubic feet per second. The District's biggest challenge is maintaining the canal at its most efficient capacity for the approximately 1,400 water users in the Bitterroot Valley.

Water is a precious resource in the Bitterroot Valley where agriculture is a significant industry in the local economy. As demands for water increase, the District must make every effort to use the Valley's limited water supplies wisely. With an aging infrastructure, the District is constantly seeking various opportunities to maintain and improve the water flow. The deficiencies in Siphon #1 located on the south end of the canal have been of particular concern in recent years. During fiscal year 2009 an engineering firm was hired to complete an analysis on Siphon #1. The engineer's report found substantial deterioration with the potential of siphon failure.

The District has built a cash reserve in the event of a catastrophic failure to the canal or siphon pipe, but it is difficult to build a reserve large enough to deal with replacement of a large section of the canal or siphon pipe. In fiscal year 2013 / 2014, the Montana Department of Natural Resources and Conservation (DNRC) awarded the District \$100,000 Renewable Resource grant for engineering services and construction costs. These monies were used towards partial replacement of Phase 4. This phase involved replacement of four old bellow type expansion joints. In their place will be three butt straps and one new Baker expansion joint. The project cost came in at \$88,354. The remaining \$11,646 was used to purchase 2 rolls of Huesker liner that were used to line in an area that had a substantial amount of water loss.

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the District. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position (pages 8 and 9) provide information about the activities of the District as a whole and present an overall view of the District's finances. The Statement of Cash Flows (page 10) represents the actual cash received into the District for the fiscal year as well as the cash outflow during the fiscal year.

BITTER ROOT IRRIGATION DISTRICT
CORVALLIS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

OCTOBER 31, 2014

THE DISTRICT AS A WHOLE

The information in the financial statements shows if the District is better or worse off as a result of the year's activities. The balance sheet includes all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net position (the difference between total assets, deferred outflows of resources and total liabilities, and deferred inflows of resources) over time is one indicator of whether the District's financial health is improving or deteriorating. However, you need to consider other non-financial factors in making an assessment of the District's health, such as changes in the economy, changes in water usage, and adverse weather conditions to assess the overall health of the District.

Changes in the District's net position (rounded to the nearest \$1,000) were as follows:

	2014	2013	Change	%
Current assets	\$ 1,718,000	\$ 1,675,000	\$ 43,000	3%
Non-current assets	4,087,000	4,123,000	(36,000)	(1%)
Total assets.....	\$ 5,805,000	\$ 5,798,000	\$ 7,000	0%
Current liabilities	\$ 178,000	\$ 235,000	\$ (57,000)	(24%)
Non-current liabilities.....	1,699,000	1,809,000	(110,000)	(6%)
Total liabilities	1,877,000	2,044,000	(167,000)	(8%)
Net position:				
Invested in capital assets	2,168,000	2,092,000	76,000	4%
Restricted for debt service	56,000	56,000	-	0%
Unrestricted net position	1,704,000	1,606,000	98,000	6%
Total net position	3,928,000	3,754,000	174,000	5%
Total net position & liabilities.....	\$ 5,805,000	\$ 5,798,000	\$ 7,000	0%

The District's current assets increased mainly due to increase in the cash reserves for major repairs and replacements. Non-current assets decreased mainly due to depreciation of capital assets. The decrease of 24% of current liabilities is mainly due to decrease in accounts

BITTER ROOT IRRIGATION DISTRICT
CORVALLIS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

OCTOBER 31, 2014

payable for costs associated with Phase II of the Siphon I project. Decrease in noncurrent liabilities is mainly due to reduction in long-term debt for scheduled debt payments made during fiscal year 2014. Overall the District's net position increased by \$174,000 or 5%.

Changes in the District's operating revenues (rounded to the nearest \$1,000) were as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Operating Revenues:				
Charges for services	\$ 831,000	\$ 829,000	\$ 2,000	0%
Total operating revenues	<u>\$ 831,000</u>	<u>\$ 829,000</u>	<u>\$ 2,000</u>	0%

The District's operating revenues during fiscal year 2014 were comparable to fiscal year 2013.

Changes in the District's operating expenses and net position (rounded to the nearest \$1,000) were as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Operating expenses:				
Personal services	\$ 410,000	\$ 396,000	\$ 14,000	4%
Operations	162,000	125,000	37,000	30%
Amortization & Depreciation.....	190,000	188,000	2,000	1%
Interest expense	23,000	26,000	(3,000)	(12%)
Total operating expenses.....	785,000	735,000	50,000	7%
Less operating revenues	831,000	829,000	2,000	0%
Expenses, net of operating revenues	46,000	94,000	(48,000)	(51%)
Plus non-operating revenues	128,000	345,000	(217,000)	(63%)
Change in net position.....	<u>\$ 174,000</u>	<u>\$ 439,000</u>	<u>\$ (265,000)</u>	(60%)

The District's personal services were comparable to fiscal year 2013 and increased slightly for increase in rates of pay and temporary employees. Increase in operations of 30% is mainly due to increase in canal maintenance, engineering fees, and repairs and maintenance for vehicles and equipment. Non-operating revenues decreased due to a decrease in grant funds compared to fiscal year 2013 for the Siphon I project.

BITTER ROOT IRRIGATION DISTRICT
CORVALLIS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

OCTOBER 31, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

See detailed footnote III for more information about capital assets and debt administration.

THE FUTURE OF THE DISTRICT

As the District closes out fiscal year 2014, the major concern continues to be the aging infrastructure along the 72 mile canal and continuing to find sources to fund the cost of repairs and maintenance.

The District is moving forward on Phase 3 of Siphon 1 project. This project involves replacement of 700 feet of 66 inch steel pipe and replacement of the bridge structure spanning the Bitterroot River. The District submitted a Montana Renewable Resource Grant Loan Application to the State of Montana for consideration. The Montana 2015 Legislation session approved the following monies for Siphon one Phase three: The District received \$125,000 grant in HB-8 the session approved a loan for \$1,773,976. Also, the District received an Army Corps WARDA 595 grant for \$250,000. The District committed \$300,000 from its catastrophic fund. There are several steps to complete, in this large process, before the project can go out to bid. The District is anticipating the project to start in the fall of 2015. This is where all the coordination will take place, with the potential of a fall of 2016 construction date.

The District is committed to providing uninterrupted water usage during the irrigation season to the District's water users. The District has worked hard to keep the water users informed about the challenges facing the District and will continue to do so. Public meetings will continue to be held to inform area residents, district water users as well as local, state and federal representatives of the progress on replacement of the siphon.

The District is fortunate to have a dedicated board of commissioners as well as committed management and staff who will continue to work in the best interest of the District as it continues to pursue the efficient water management in the Bitterroot Valley.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Bitter Root Irrigation District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Secretary, Elaine Culletto, 1182 Lazy J. Lane, Corvallis, MT 59828.

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Bitter Root Irrigation District
Ravalli County, Montana

Statement of Net Position

October 31, 2014

(With comparative amounts for 2013)

	2014	2013
<u>Assets:</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 886,540	\$ 818,409
Assessments Receivable	831,507	816,770
Grants Receivable	-	39,305
Interest Receivable	-	119
Total Current Assets	1,718,047	1,674,603
Non-current Assets:		
Note Receivable	114,264	117,292
Loan Fees, net of accumulated amortization	11,430	12,192
Capital Assets, net of accumulated depreciation	3,961,616	3,994,339
Total Non-current Assets	4,087,310	4,123,823
Total Assets	\$ 5,805,357	\$ 5,798,426
<u>Liabilities:</u>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 17,254	\$ 79,947
Interest Payable	6,360	6,933
Current Portion of Compensated Absences	41,958	38,793
Current Portion of Long-term Debt	111,864	109,336
Total Current Liabilities	177,436	235,009
Non-current Liabilities:		
Compensated Absences	17,982	16,315
Notes and Contracts Payable	1,681,282	1,793,146
Total Non-current Liabilities	1,699,264	1,809,461
Total Liabilities	1,876,700	2,044,470
<u>Net Position:</u>		
Invested in Capital Assets, net of related debt	2,168,465	2,091,857
Restricted for Debt Service	55,731	55,731
Unrestricted	1,704,461	1,606,373
Total Net Position	3,928,657	3,753,961
Total Liabilities and Net Position	\$ 5,805,357	\$ 5,798,431

The accompanying notes are an integral part of these financial statements.

Bitter Root Irrigation District
Ravalli County, Montana

Statement of Revenues, Expenses and Change in Net Position
For the Year Ended October 31, 2014
(With comparative amounts for the year ended October 31, 2013)

	2014	2013
<u>Operating Revenues:</u>		
Charges for Services	\$ 831,016	\$ 828,748
Total Operating Revenues	831,016	828,748
<u>Operating Expenses:</u>		
Personal Services	409,547	396,436
Operations	161,685	125,610
Amortization and Depreciation	189,792	187,504
Interest Expense	23,323	25,712
Total Operating Expenses	784,347	735,262
Operating Income	46,669	93,486
<u>Nonoperating Revenues (Expenses):</u>		
Capital Grant Revenue	112,809	333,936
Investment Income	10,323	4,291
Gain on Sale of Capital Assets	4,900	6,750
Total Nonoperating Revenues (Expenses)	128,032	344,977
Change in Net Position	174,701	438,463
<u>Total Net Position:</u>		
Beginning	3,753,956	3,315,493
Ending	\$ 3,928,657	\$ 3,753,956

The accompanying notes are an integral part of these financial statements.

Bitter Root Irrigation District
Ravalli County, Montana

Statement of Cash Flows

For the Year Ended October 31, 2014

(With comparative amounts for the year ended October 31, 2013)

	2014	2013
<u>Cash flows from operating activities:</u>		
Cash received from customers	\$ 816,279	\$ 833,126
Cash payments to suppliers for goods and services	(220,682)	(103,895)
Interest paid	(23,323)	(25,712)
Cash payments to employees for services	(408,866)	(395,914)
Net cash provided by operating activities	163,408	307,605
<u>Cash flows used for capital and related financing activities:</u>		
Capital grant proceeds	152,114	730,439
Proceeds from sale of capital assets	4,900	6,750
Principal paid on debt	(109,335)	(114,342)
Acquisition of capital assets	(156,307)	(879,413)
Net cash used for capital and related financing activities	(108,628)	(256,566)
<u>Cash flows from investing activities:</u>		
Interest income received	10,323	4,172
Proceeds from installment sale note receivable	3,028	1,956
Net cash provided by investing activities	13,351	6,128
Net increase in cash and cash equivalents	68,131	57,167
<u>Cash and cash equivalents:</u>		
Beginning	818,409	761,242
Ending	\$ 886,540	\$ 818,409
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating income	\$ 46,669	\$ 93,486
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization and Depreciation	189,792	187,504
Decrease (increase) in assessments receivable	(14,737)	4,378
Increase (decrease) in accounts payable and accrued expenses	(63,148)	21,761
Increase (decrease) in compensated absences payable	4,832	476
Net cash provided by operating activities	\$ 163,408	\$ 307,605

The accompanying notes are an integral part of these financial statements.

Bitter Root Irrigation District

Ravalli County, Montana

NOTES TO THE FINANCIAL STATEMENTS

October 31, 2014

I. Summary of Significant Accounting Policies

Reporting Entity - The Bitter Root Irrigation District (the "District") was formed as a public corporation established under the laws of Montana in 1920 for the purpose of providing irrigation services to property owners whose property is located within the District. The District services 16,665 acres along a 72 mile stretch and serves approximately 1,360 water users.

The District is a primary government as defined by Governmental Accounting Standards Board (GASB). The District has no component units. An elected Board of Commissioners manages the District as well as a district manager who is appointed by and responsible to the Board. As required by generally accepted accounting principles the accompanying financial statements present Bitter Root Irrigation District as an independent single enterprise fund.

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, the District considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. When applicable, restricted cash and investments are included except for restricted investments with maturities exceeding three months.

Cash and Investments - The District's cash is held by the Ravalli County Treasurer and pooled with other County cash. All cash which is not necessary for short-term obligations is pooled for investment purposes. Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis. The District does not own specific identifiable investment securities in the County investment pool. Information regarding credit risk, custodial risk and interest rate risk for Ravalli County deposits and investments is available from Ravalli County Treasurer's office, 215 South 4th Street, Suite H, Hamilton, MT 59840. Fair value approximates carrying value for investments as of October 31, 2014. The Ravalli County investment pool is not rated.

Authorized by Montana statute local government's cash and investments may include cash and cash items; demand, time, savings, and fiscal agent deposits; investments in the State Short-term Investment Pool (STIP); repurchase agreements; registered warrants of the County or of municipalities or school districts located in the County; U.S. government treasury bills, notes, bonds, and other treasury obligations such as state and local government series; general obligations of certain agencies of the United States such

Bitter Root Irrigation District
Notes to the Financial Statements (continued)
October 31, 2014

as Federal Home Loan Bank and U.S. government security money market funds if the fund meets certain conditions.

The District does not have a detailed written investment policy, but limits exposure to credit risk (the risk that an issuer or other counter party to an investment will not fulfill its obligation) by following state law and participating in the County's investment pool.

Capital Assets - All purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The District capitalizes all fixed assets with a value of \$5,000 or greater. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Water Distribution System	25 - 70 years
Buildings	39 years
Vehicles and Office Equipment	5-10 years
Machinery and Equipment	7 - 25 years

Inventories - Inventories of materials and supplies are expensed at the time of purchase. Inventory records of materials and supplies on hand are not maintained. Inventories were not considered material to the financial statements taken as a whole.

Compensated Absences - Employees of the District are compensated for vacation and sick leave absences. Unused vacation benefits are fully accrued and vested sick pay benefits are accrued based on 25 percent of accumulated unused sick leave.

Net Position - Restrictions of net position represent amounts that are set aside for servicing the debt for the Three Mile Project and the Siphon 1 Project. Unrestricted net position represents the amount available for future operations. It is the District's policy to first apply restricted resources when an expense is incurred in which both unrestricted and restricted net position are available.

Operating and Nonoperating Revenues - Operating income includes revenues and expenses related to the continuing operations of the District. Principal operating revenues are assessments charged to customers for irrigation services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Use of 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.

Bitter Root Irrigation District
Notes to the Financial Statements (continued)
October 31, 2014

Comparative Totals - The financial statements include prior year comparative totals and may not be at a level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, these totals should be used in conjunction with the previously issued financial statements for the year ended October 31, 2013, from which they have been derived.

II. Stewardship, Compliance and Accountability

Budgetary Information - A legally adopted budget is not required for the District, therefore, a budget to actual statement is not included.

III. Detailed Notes on the Financial Statements

1. Assessments Receivable - Irrigation district assessments are levied each year and are placed on the tax rolls along with real estate taxes. Assessments are payable in two installments which are due on November 30 and May 31. Assessments are based on the irrigable land located within the District's boundaries.
2. Note Receivable - During July 2007, the District sold real property located in Darby, Montana for \$190,000. The District accepted a \$50,000 down payment and established a Montana Trust Indenture Note for the remaining \$140,000 balance with interest at the rate of 7% per annum. During fiscal year 2012 the District foreclosed on the property due to nonpayment of the remaining balance per the terms of the original contract. The District sold the property during fiscal year 2012 for the balance of the original note of \$140,000. The terms of the note require monthly payments of \$608 at 4.5% interest for thirty years. Balloon payments of \$25,000 every five years are required until the note is paid in full. The balance due the District as of October 31, 2014 was \$114,264.
3. Capital Assets - The following is a summary of changes in capital assets:

	Balance 11/1/2013	Additions	Deletions	Balance 10/31/2014
Non-depreciable assets:				
Land	\$ 56,534	\$ -	\$ -	\$ 56,534
Assets subject to depreciation:				
Buildings	109,390	-	-	109,390
Vehicles	236,565			236,565
Office Equipment	3,348		-	3,348
Machinery & Equipment	445,228	27,568	(20,000)	452,796
Water Distribution System	7,171,732	128,739	-	7,300,471
	<u>8,022,797</u>	<u>156,307</u>	<u>(20,000)</u>	<u>8,159,104</u>
Less Accumulated Depreciation	(4,028,458)	(189,030)	20,000	(4,197,488)
Net Capital Assets	<u>\$ 3,994,339</u>	<u>\$ (32,723)</u>	<u>\$ -</u>	<u>\$ 3,961,616</u>

Bitter Root Irrigation District
Notes to the Financial Statements (continued)
October 31, 2014

4. Long-term Debt - The following is a summary of long-term debt:

	Balance 11/01/13	<u>Additions</u>	<u>Reductions</u>	Balance 10/31/14
U.S. Contracts	\$ 1,293,154	-	(34,996)	\$ 1,258,158
Bonded Debt	609,328	-	(74,340)	534,988
Compensated Absences	55,108	4,832	-	59,940
Total Long-Term Debt	\$ 1,957,590	4,832	(109,336)	\$ 1,853,086

U.S. CONTRACTS

<u>Contract Number</u>	<u>Year</u>	<u>Original Amount</u>	<u>Interest</u>	<u>Term</u>	<u>Balance 2013</u>	<u>Balance 2014</u>
3-07-10-W0971	1993	\$ 1,830,000	N/A	34 yrs	\$ 1,293,154	\$ 1,258,158

BONDED DEBT

<u>Purpose</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Term of Bond</u>	<u>Final Maturity Date</u>	<u>Original Amount</u>	<u>Balance 2013</u>	<u>Balance 2014</u>
Construction	1985	3%	30 yrs	2/15/16	\$ 1,180,000	\$ 170,290	\$ 115,196
Construction	2009	4.5%	20 yrs	7/15/29	\$ 508,000	439,038	419,792
						<u>\$ 609,328</u>	<u>\$ 534,988</u>

Requirements to Amortize Debt - The annual requirement to amortize long-term debt, except compensated absences payable, is as follows:

<u>Year Ending October 31</u>	<u>U.S. Contracts</u>	<u>Bonded Debt</u>	<u>Total</u>
2015	\$ 34,996	\$ 76,868	\$ 111,864
2016	34,996	79,487	114,483
2017	34,996	21,994	56,990
2018	34,996	22,995	57,991
2019	34,996	22,995	57,991
After	1,083,178	310,649	1,393,827
Total	\$ 1,258,158	\$ 534,988	\$ 1,793,146
Principal	\$ 1,258,158	\$ 534,988	\$ 1,793,146
Interest	-	162,031	162,031
Total	\$ 1,258,158	697,019	\$ 1,955,177

IV. Other Information

- Deferred Compensation Plan - The District offers its permanent full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all qualifying District employees and permits them to defer a portion of their salary until future years. The District contributes a matching amount not to exceed 7% of the employee's gross wages. Participation in the plan is optional. The

Bitter Root Irrigation District
Notes to the Financial Statements (continued)
October 31, 2014

deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The District's contributions for fiscal years 2014 and 2013 were \$20,654 and \$20,172 respectively.

2. Post Employment Benefits – Terminated employees may remain on the District's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under federal COBRA law. Retirees may remain on the District's health plan, provided they pay the monthly premiums. State law requires the District to provide this benefit until the age of 65. The District had no retirees participating in the plan as of October 31, 2014 and 2013 and during the fiscal years then ended.

Health Insurance - The District provides medical insurance coverage through a private insurance carrier. Covered medical claims are paid at 100% if care is given by the primary care physician or based on a referral from the primary care physician. The District paid health insurance premiums in the amount of \$36,447 and \$39,535, respectively, for fiscal years 2014 and 2013.

Health Reimbursement Arrangement – During fiscal year 2012 the District adopted a Health Reimbursement Arrangement under Internal Revenue Code Section 105 that allows eligible employee participants to submit claims for the reimbursement of qualifying medical expenses. The District paid \$5,443 and \$842 of qualified medical expenses during fiscal years 2014 and 2013 respectively.

3. Insurance - The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability such as employee injuries, errors, and omissions, d) environmental damage, e) workers compensation such as employee injuries, and f) medical insurance costs of employees. 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 property and content damage, employee torts, and professional liabilities. Due to the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Coverage and deductibles on these policies have remained relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

4. County Provided Services - Ravalli County provides various financial services to the District. The County serves as a bank for the District. All District funds are maintained and accounted for as agency funds at the County. The County also serves as cashier and treasurer for the District for assessment collections and other revenues subject to deposit into the District agency funds maintained by the County. The County bills and collects the District's assessments and makes payments on warrants issued by the District.

Bitter Root Irrigation District
Notes to the Financial Statements (continued)
October 31, 2014

During June 2007 the County Commissioners approved an investment policy that allows the County to charge 5% of total interest earnings received each month to cover administrative costs. The 5% fee is deducted before distribution of earnings to participating agencies.

5. Change in Classifications – The District made immaterial classification changes to the 2013 financial statements presented for comparability and analysis purposes.

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Doyle & Associates, P.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Bitter Root Irrigation District
Ravalli County, 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 Bitter Root Irrigation District, Ravalli County, Montana (the "District"), as of and for the year ended October 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 26, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matters that we reported to management of the District in a separate letter dated May 26, 2015.

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.

Dafe & Associates, P.C.

Lolo, Montana
May 26, 2015