

BUFFALO RAPIDS IRRIGATION DISTRICT II

**PRAIRIE COUNTY
TERRY, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended December 31, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Buffalo Rapids Irrigation District II
Prairie County
Terry, Montana 59349

TABLE OF CONTENTS

	Page No
TABLE OF CONTENTS	1
ORGANIZATION - BOARD OF COMMISSIONERS AND OFFICIALS	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 5
INDEPENDENT AUDITOR'S REPORT	6 - 7
BASIC FINANCIAL STATEMENTS:	
Statement of Fund Net Position - Proprietary Funds	8
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	9
Statement of Cash Flow - Proprietary Funds	10
Notes to the Financial Statements	11 - 16
INDEPENDENT AUDITOR'S REPORTS:	
Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	17 - 18
SCHEDULE OF FINDINGS AND RESPONSES	19

Buffalo Rapids Irrigation District II
Prairie County
Terry, Montana 59349

ORGANIZATION

BOARD OF COMMISSIONERS

Barry Rakes	President
Scott Sackman	Vice President
Raymond Strasheim	Secretary
Patricia Davis	Treasurer
Lance Kalfell	Commissioner

OFFICIALS

Raymond Strasheim	Manager
Patricia Davis	Bookkeeper

MANAGEMENT DISCUSSION AND ANALYSIS BUFFALO RAPIDS IRRIGATION DISTRICT NO. 2

The General Manager of Buffalo Rapids Irrigation District No. 2 has provided this MD&A to give the reader of these statements an overview of the financial position and activities of the irrigation district for the year covered by this audit report (2014).

FINANCIAL HIGHLIGHTS

Buffalo Rapids Irrigation District No. 2 continues to monitor all aspects of the budget and expenditures. The assessments were not raised from \$40.00 per acre. It is not anticipated a raise will be necessary in 2015. Additional funds have been brought into the District through water overage. Additional funds have also been made available through U.S. Fish and Wildlife, and Department of Natural Resources and Conservation funding to make improvements. This increase in efficiency will result in lower O&M costs with the installation completed projects. The high river flows of the spring of 2011 caused some damages that were offset by funds from F.E.M.A.

USING THIS FINANCIAL REPORT

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). The components and purposes of the report are explained below.

Reporting of the District as a Whole

This report includes three statements that focus on operations of the District as a whole. These three statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

- A. The Statement of Net Position shows the “assets” (what is owned), “liabilities” (what is owed) and the “net position” (the resources that would remain if all obligations were settled) of the District. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in “fixed” or “capital” assets, such as buildings, land, equipment, and other long-lived property; and some assets are available to fund budgets of the following year.
- B. **The Statements of Revenues, Expenses, and Changes in Net Position** consists of three statements: **Operating Revenues, Operating Expenses, and Non-Operating Revenue (Expenses)**.
 - a. **Operating Revenues** are those revenues gained through assessments, sales of pipe, pipeline equipment, and miscellaneous revenue associated with operation of the District.
 - b. **Operating Expenses** are costs associated with personnel, property, insurance, supplies and materials, and depreciation. This also includes the purchase of pipe, fittings, and hardware used in the construction of projects or other grant programs.
 - c. **Non-Operating Revenue (Expenses)** is the interest from investments, grant money, and interest expense in relation to construction projects.

Reporting the District's Most Significant Funds

The fund statements provide detailed information about the funds used by the irrigation district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of irrigation districts. State law generally requires irrigation projects to segregate money generated for certain purposes, like equipment reserve, bond reserves, and system rehabilitation, in separate fund accounts.

The fund statements report balances and activities of the most significant, or “major” funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on proportional size of the funds, the relative importance of the activities of the funds to the irrigation district's operations and the existence of legal budget requirements.

The statement of Net Position and Statement of Revenues, Expenses, and Changes in net position, and Statement of Cash Flows are shown for proprietary (business-type) funds, covering district activities that generally provide services on a cost-recovery basis. Proprietary funds use the accrual basis of accounting.

Reporting the District's Trust and Fiduciary Responsibilities

The district has no trust or fiduciary responsibilities at this time.

THE DISTRICT AS A WHOLE

The 2014 fiscal year started out with normal maintenance of equipment and infrastructure of the District. The District was notified by the Burlington Northern Santa Fe Railroad (BNSF) that they would be installing a new siding at Terry and a syphon would need to be extended to accommodate the siding. The construction of the syphon extension was performed on a bid allocated by BNSF. The construction process was delayed and therefore delayed the water season for the Terry Division. The irrigation season did not start until the first part of June.

The Shirley Fish Screens were not reinstalled in 2014. The Board agreed along with the US Fish & Wildlife, that the purchase and installation of a variable frequency drive would be a beneficial addition to the Shirley Pumping Plant to help alleviate power usage. It was also agreed that the Shirley Fish Screens would be reinstalled in 2015 so as not to incur severe fines due to over peak demand on power caused by the fish screens. Internal seals were implemented at the Shirley Pumping Plant to alleviate leaks in one of the discharge lines, and were very successful.

A grant for the Terry Discharge Line Rehabilitation was approved to be funded by the Department of Natural Resources and Conservation, and supplies for the construction were purchased with work to begin in the fall of 2015.

All FEMA projects were completed with the final installation of the rip rap at the pumping plants.

The season was a productive one for producers due to substantial rainfall and good weather conditions. After the season, one pump from Shirley and one pump from Fallon were removed for maintenance.

1. Changes in Net Position

The District purchased a Variable Frequency Drive for the Shirley Pumping Plant

2. General and Program Revenues

The General and Program Revenue is provided in the Statement of Revenues, Expenses, and Changes in Net Position.

3. Spending Levels Compared to Resource Levels

The Buffalo Rapids Irrigation District No. 2 commissioners have made a commitment to improving the overall irrigation efficiency. To accomplish this, it is necessary to better utilize employees and equipment toward the effort. The District has been operating within the limits of annual revenue.

4. Changes in Finances Caused by Changes in Programs

NONE

5. Identifying and Resolving Financial Difficulties

There continues to be efforts to obtain grants for improvement projects which are designed for water conservation, decrease in energy consumption, and to reduce maintenance costs for the District.

6. Significant Events and Trends

Buffalo Rapids Irrigation District No. 2 will continue to be faced with challenges in increased energy costs and rising costs associated with the repair of the aging infrastructure of the District.

ANALYSIS OF FINANCIAL INFORMATION

The following information is provided to assist the reader in understanding the major operations of Buffalo Rapids Irrigation District No. 2, where the resources come from, what those resources are used for, and trends, decisions, and events that are expected to affect the District's financial situation in the future. Historical information from one or more prior years is shown to illustrate trends, problems, and achievement of the District's goals.

1. What Does Buffalo Rapids Irrigation District No. 2 Do?

Buffalo Rapids Irrigation District No. 2 is a Bureau of Reclamation irrigation project which was constructed in the late 1930's and 1940's. It begins at a point about 17 miles east of Miles City and follows the course of the Yellowstone River for approximately 33 miles where it terminates at Fallon, Montana. Three pumping plants divert irrigation water from the Yellowstone River for area producers. The total acreage is 11,529.91 acres. Crops raised are sugar beets, dry beans, alfalfa, corn, and small grains. Two ditch riders regulate water deliveries to producers and measure all water which is delivered. There is one heavy equipment operators.

2. Where Do the Resources Come From?

Operating revenue is generated by assessments which are paid by the producers based upon how many acres he/she farms. The current assessment is \$40.00 per acre, for a total O&M budget of \$403,546.

Two grants have been obtained to improve infrastructure and make improvements in operations. We have implemented US Fish and Wildlife Service funding in the amount of \$175,000.00 to complete the Shirley Fish Screen Project, and a grant from the Department of Natural Resources and Conservation for the Terry Discharge Line Rehabilitation in the amount of \$100,000.00. We have also applied for a grant from the Department of Natural Resources and Conservation in the amount of \$110,000.00 for a Shirley Main Canal Lining Project to alleviate seepage in that area.

3. What are the Challenges Facing the District in the Future?

The main challenges facing the District include, increasing energy costs, aging infrastructure and costs associated with employees. Energy costs for heating, lighting, and fuel continue to rise at an unparalleled rate. It will be a challenge to keep costs from rising disproportionately higher. A combination of measures have been planned out and implemented including possible reductions in work force, a reduction of mileage put on by ditch-riders, using more fuel efficient vehicles, and heating with wood and coal when possible.

With the installation of the fish screens the District's peak demand for power was more than our contract rate of delivery and it was assessed a substantial penalty. The District is working on methods and equipment to reduce the peak demand. Employees continue to be the single most expensive item for the District. Health insurance costs continue to rise, the living wage base continues upward, talented employees are harder to find and demand a higher wage, and withholding costs continue upward. In order to keep Buffalo Rapids Irrigation District No. 2 producers competitive, choices will have to be made to curb rising costs.

4. Who Runs Buffalo Rapids Irrigation District No. 2?

The Buffalo Rapids Irrigation District No. 2 Board is made up of three (3) commissioners from three (3) Divisions (Shirley Division, Terry Division, Fallon Division). Each of the three commissioners is elected for three year terms. There is a president, vice president, and commissioner member of each district. The District No. 2 Board hires a manager who, in turn, is responsible for all aspects of the daily operation of the District.

Contact:

Buffalo Rapids Irrigation District No. 2
P.O. Box 907
Terry, MT 59349
(406) 635-5586

STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Buffalo Rapids Irrigation District II
Prairie County
Terry, Montana 59349

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Buffalo Rapids Irrigation District II as of and for the year ended December 31, 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 the business-type activities of Buffalo Rapids Irrigation District II as of December 31, 2014, and the respective changes in financial position and, where applicable, 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 (pages 3-5) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing 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 inquires 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 June 30, 2015 on our consideration of Buffalo Rapids Irrigation District II 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 Buffalo Rapids Irrigation District II internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
June 30, 2015

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2014

	<u>MAJOR</u>
	<u>Enterprise Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 642,831
Assessments Receivable	37,397
Accounts Receivable - Net	569
Inventories	43,865
Total Current Assets	<u>724,662</u>
Noncurrent Assets:	
Capital Assets:	
Land	1,095,640
Construction in Progress	32,887
Net Depreciable Assets	873,917
Total Noncurrent Assets	<u>2,002,444</u>
Total Assets	<u>\$ 2,727,106</u>
LIABILITIES:	
Current Liabilities	
Current Portions Long-Term Obligations	\$ 18,265
Current Portions Compensated Absences	5,101
Prepaid Assessments	67,688
Total Current Liabilities	<u>91,054</u>
Noncurrent Liabilities:	
Compensated Absences	12,060
Total Noncurrent Liabilities	<u>12,060</u>
Total Liabilities	<u>103,114</u>
NET POSITION:	
Net investment in capital assets	2,002,444
Unrestricted (Deficit)	621,548
Total Net Position	<u>2,623,992</u>
Total Liabilities and Net Position	<u>\$ 2,727,106</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Buffalo Rapids Irrigation District #2
 Prairie County
 Terry, Montana 59349

STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2014

	<u>MAJOR</u>
	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Charges for Services - Irrigation	463,163
Pipe Sales	2,723
Miscellaneous	<u>2,740</u>
Total Operating Revenues	<u>468,626</u>
OPERATING EXPENSES:	
Personnel services - Salaries	161,291
Personnel Services - Benefits	78,984
Purchased Property Services	20,491
Insurance	23,659
Miscellaneous	2,421
Supplies & Materials	84,388
Depreciation	<u>61,721</u>
Total Operating Expense	<u>432,955</u>
OPERATING INCOME (LOSS)	<u>35,671</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	11,091
Debt service interest expense	<u>(1,585)</u>
Total nonoperating revenue (expenses)	<u>9,506</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	
Capital contributions	<u>188,477</u>
CHANGE IN NET POSITION	233,654
NET POSITION:	
Beginning of the Year	<u>2,390,338</u>
End of the Year	<u>\$ 2,623,992</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2014

Business-type Activities - Enterprise Funds

	<u>MAJOR</u>
	<u>Water Utility</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 462,901
Payments to Suppliers	(129,733)
Payments to Employees	(245,655)
Cash received from pipe sales	2,723
Miscellaneous	2,739
Net Cash Provided (Used) by Operating Activities	<u>92,975</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Subsidies from Taxes and Other Governments	<u>13,740</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>13,740</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of Capital Assets	(24,917)
Principal Paid on Capital Debt	(23,639)
Interest Paid on Capital Debt	(1,584)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(50,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and Dividends	<u>11,091</u>
Net Cash Provided (Used) by Investing Activities	<u>11,091</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>67,666</u>
BALANCE:	
Beginning of the Year	<u>575,165</u>
End of the Year	<u>\$ 642,831</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ 35,671
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	61,721
Bad debt expense	1,225
Changes In Assets and Liabilities:	
Accounts Receivable	(748)
Special Assessments Receivable	(20,731)
Inventory	1,225
Prepaid Assessments	19,992
Compensated Absences	(5,380)
Net Cash Provided (Used) by Operating Activities	<u>\$ 92,975</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BUFFALO RAPIDS IRRIGATION DISTRICT II

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year-Ended December 31, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Buffalo Rapids Irrigation District II (District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the District adopted the following:

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the District.
- GASB Statement No. 70 – Accounting and Financial Reporting for Non-exchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The District has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the District assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the District to expand its pension foot note disclosures. The District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The District is not merging with another District or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

Buffalo Rapids Project was financed under the Great Plains Act in 1939 and received Presidential approval under the Water Conservation and Utilization Act in 1940 under the name of Buffalo Rapids Project. In 2010, Buffalo Rapids Project was split into two districts; namely Buffalo Rapids irrigation District I and Buffalo Rapids Irrigation District II. Buffalo Rapids Irrigation District II, herein referred to as “the District” is located in Custer and Prairie Counties.

The District is controlled by an elected Board of Commissioners and the financial statements include all operations of the District under the control of the Board. The Irrigation District provides irrigation water to approximately 11,530 acres.

The criteria for including organizations as component units within the District’s reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board’s (GASB) “Codification of Government Accounting and Financial Reporting Standards.” The basic criteria include appointing a voting majority of an organization’s governing body, as well as the District’s ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the District. Based on those criteria this district has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 PROPRIETARY FUND TYPES:

Enterprise Fund – the enterprise fund is used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. All assets and liabilities associated with a proprietary fund’s activities are included on the statement of net position.

BUFFALO RAPIDS IRRIGATION DISTRICT II

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended December 31, 2014

1. b. 2 FUND ACCOUNTING

Proprietary fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Information regarding the collateral and security for cash is not available to the District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Prairie County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

1. c. 2 ASSESSMENTS

Assessments are collected by the County Treasurer who credits to the District their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds of any such auction.

Assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 3 INVENTORIES

Materials and supplies are carried in an inventory account at average cost and are subsequently charged to expenses when consumed. Inventories are expensed based on first in first out (FIFO) method of accounting. For the year ended December 31, 2014 an inventory count was performed and valued at \$43,865.

1. c. 4 CAPITAL ASSETS

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The District considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

BUFFALO RAPIDS IRRIGATION DISTRICT II

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended December 31, 2014

<u>Capital Asset Classes</u>	<u>Lives</u>
Improvements, Other	20 years
Pumps/Pumping Plant	20 years
Pipelines	20 years
Buildings	20 years
Machinery and Equipment	5 – 10 years

1.c. 5 VACATION AND SICK LEAVE

District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. The amount expected to be paid within one year is \$ 5,101.

1.c.6 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

1. d. OTHER

1. d. 1 USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.d. 2 COUNTY PROVIDED SERVICES

The District is provided various financial services by Prairie County. The Prairie County also serves as cashier and treasurer for the District for assessment collections and other revenues received by the Prairie County which are subject to distribution to the various taxing jurisdictions located in the Prairie County. The collections made by the Prairie County on behalf of the District are accounted for in an agency fund in the District's name and are periodically remitted to the District by the Prairie County Treasurer. No service charges have been recorded by the District or the Prairie County.

1.e BUDGET

Budgets are adopted and approved for each federal grant by the cooperative as a management tool only. Budgets are not legally binding and thus a budget and actual financial statement is not shown.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At December 31, 2014, the summary of cash, cash equivalents for business-type activities is as follows:

<u>Account Type</u>	<u>Business-type Activities</u>
Cash and Cash Equivalents	\$ <u>642,831</u>

BUFFALO RAPIDS IRRIGATION DISTRICT II

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended December 31, 2014

The carrying amount of cash on hand, deposits and investments at December 31, 2014, is as follows:

	<u>Amount</u>
County Investment Pool	\$ <u>642,831</u>

Cash resources of the District are held and managed by the Prairie County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Prairie County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of money market, certificates of deposit, and government securities and are carried at fair value. The District's exposure to credit risk is not available to the District. Risk in the event of loss is unclear in state law, but appears to be the liability of the Prairie County government. Because of the custodial involvement of the Prairie County government, and the commingling of cash in County deposits in the name of the Prairie County Treasurer, full risk classifications according to GASB 40 are available in the Prairie County's annual report. There is no known maturity and credit rating of the Prairie County Investment Pool.

NOTE 3. ASSESSMENTS RECEIVABLE

Assessments are collected by the County Treasurer who credits to the Irrigation District funds their respective share of the collections. The assessments are collectible in two installments, which become delinquent after November 30 and May 31. The Irrigation District recognizes revenue as service is rendered for services over the standard usage allotment. The assessments for the year ended December 31, 2014 were \$40 per acre. The minimum for small tracts of land, less than one acre, that are adjoining canals and laterals, and those that make beneficial use of water delivered through the system are charges the one acre fee. Assessments receivable at December 31, 2014 were as follows:

	<u>Receivable</u>
Total	\$ <u>37,397</u>

NOTE 4. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

At December 31, 2014, the schedule of changes in capital assets follows:

<u>Business-type Activities:</u>	<u>Balance</u> <u>December 31,</u> <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>December 31,</u> <u>2014</u>
<u>Non-depreciable:</u>					
Land	\$ 1,095,640	\$ 0	\$ 0	\$ 0	\$ 1,095,640
Construction In Progress	470,827	213,393	0	(651,333)	32,887
Total Non-depreciable	<u>\$ 1,566,467</u>	<u>\$ 213,393</u>	<u>\$ 0</u>	<u>\$ (651,333)</u>	<u>\$ 1,128,527</u>
<u>Depreciable:</u>					
Improvements, Other	\$ 70,010	\$ 0	\$ 0	\$ 651,333	\$ 721,343
Pipelines	195,327	0	0	0	195,327
Pumps/Pumping Plants	124,595	0	0	0	124,595
Buildings	44,210	0	0	0	44,210
Machinery and Equipment	335,261	0	(5,600)	0	329,661
Total Depreciable	<u>\$ 769,403</u>	<u>\$ 0</u>	<u>\$ (5,600)</u>	<u>\$ 651,333</u>	<u>\$ 1,415,136</u>
<u>Accumulated Depreciation:</u>					
Improvements, Other	\$ (3,501)	\$ (36,067)	\$ 0	\$ 0	\$ (39,568)
Pipelines	(123,128)	(4,515)	0	0	(127,643)
Pumps/Pumping Plants	(124,595)	0	0	0	(124,595)
Buildings	(44,210)	0	0	0	(44,210)
Machinery and Equipment	(189,664)	(21,139)	5,600	0	(205,203)
Total Depreciation	<u>\$ (485,098)</u>	<u>\$ (61,721)</u>	<u>\$ 5,600</u>	<u>\$ 0</u>	<u>\$ (541,219)</u>
Net Depreciable Assets	<u>284,305</u>	<u>(61,721)</u>	<u>0</u>	<u>651,333</u>	<u>873,917</u>
Net General Capital Assets	<u>\$ 1,850,772</u>	<u>\$ 151,672</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,002,444</u>

BUFFALO RAPIDS IRRIGATION DISTRICT II

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended December 31, 2014

NOTE 5. CURRENT LIABILITIES

PREPAID ASSESSMENTS

	<u>Amount</u>	<u>Reason</u>
Total	\$ <u>67,688</u>	Unearned prepayment on Assessments

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a At December 31, 2014, the schedule of changes in long-term debt follows:

<u>Business-Type Activities</u>	<u>Balance</u> <u>December 31,</u> <u>2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>December 31,</u> <u>2014</u>	<u>Due within</u> <u>One Year</u>
<u>Bonds and Notes Payable:</u>					
Notes payable	\$ 35,808	\$ 0	\$ (17,543)	\$ 18,265	\$ 18,265
<u>Other Liabilities:</u>					
Compensated Absences	\$ 22,541	\$ 0	\$ (5,380)	\$ 17,161	\$ 5,101
Total Long-Term Debt:	\$ 58,349	\$ 0	\$ (22,923)	\$ 35,426	\$ 23,366

6. b. NOTES PAYABLE

The District signed a note payable in April 2011 with Stockman Bank of Montana for \$68,000 to purchase an excavator. The note is for 4 years at 4.45% interest, with the first payment due in April 2012. A payment of \$19,217 was made in 2014 that included \$1,585 of interest. The outstanding balance at December 31, 2014 was \$18,265. Debt service requirements to maturity for principal on this contract are as follows:

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate</u>	<u>Length of</u> <u>Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>December 31,</u> <u>2014</u>
Stockman Note Payable	2011	4.45%	4 years	2015	\$ 68,000	\$ 18,265

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 12/31:	<u>Principal</u>	<u>Interest</u>
2015	\$ 18,265	\$ 831

NOTE 7. OTHER POST EMPLOYMENT BENEFITS

The District provides the same health care plan to four of its full time employees. The District does not allow retirees to remain on the healthcare plan, nor do they provide any other post employment benefits. Based on these assumptions the District believes its other post employment benefits liability is \$0.

NOTE 8. RISK MANAGEMENT

The District is exposed to various types of 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. Several 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 and contents damage, employee torts, professional liabilities, and employee medical insurance. The District has joined with other Districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating Districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums accessed. There is no other liability to the District other than timely payments of premiums. The District can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The District has no coverage for potential losses from environmental damages.

BUFFALO RAPIDS IRRIGATION DISTRICT II

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended December 31, 2014

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 9. EMPLOYEE RETIREMENT SYSTEM

The District participates in one state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all District employees. The Public Employee Retirement System (PERS) covers all employees. The plan is established under State law and administered by the State of Montana.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees Retirement System
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
Phone: 406-444-3154
www.state.mt.us/doa/perb/prb.htm

The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at 0.10%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 8.07%

Contribution rates for both plans are required and determined by State law. The amounts contributed to the plans during the years ended December 31, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
PERS	\$ <u>16,703</u>	\$ <u>18,717</u>	\$ <u>21,450</u>

STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Buffalo Rapids Irrigation District II
Prairie County
Terry, Montana 59349

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Buffalo Rapids Irrigation District II as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Buffalo Rapids Irrigation District II's basic financial statements and have issued our report thereon dated June 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Buffalo Rapids Irrigation District II'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 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 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 a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as item 2014-001.

Compliance and Other Matters

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

Buffalo Rapids Irrigation District II's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District'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.

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.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 30, 2015

SCHEDULE OF FINDINGS AND RESPONSES

The following is the status of prior year findings and updated for the fiscal year ended December 31, 2014.

Fiscal year 2013 finding 1: – Revenue and Receivable Reporting 2013 was not repeated for the current year.

2014-001 - Proper coding of expenditures for capital assets:

Criteria: Generally Accepted Accounting Principles (GAAP) requires revenues and capital assets to be correctly recognized.

Condition: Three invoices for the Terry Discharge Line Rehab project were miscoded as a reduction in revenues instead of being recorded as an asset of construction in process.

Effect: The effect was revenues being understated and under reported asset of construction in process.

Context: Revenues were under reported and asset of construction in process was underreported by \$13,168.

Cause: The cause was incorrectly posting expenditures against the revenue code instead of posting to an expenditure/Construction In Process Code.

Recommendation: We recommend that the Irrigation District correctly recognizing revenues and construction in process.

Auditee Response: We agree with the auditor's comments, and the following actions will be taken to correct the finding. A journal entry correctly recognizing Terry Discharge Line Rehab project revenue, expenditure, and construction in process code has already been posted. To ensure future revenues and construction is process codes of this kind are recognized in the proper process, the bookkeeper will maintain an Excel spreadsheet detailing all construction in process projects revenues and expenditures for the year. The spreadsheet will be updated when expenditures are incurred and when payments from other agencies are received. At the end of the fiscal year, the bookkeeper will create a journal entry to record the construction in process code for the project.