

COOKE CITY, PARK COUNTY, WATER DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2014

COOKE CITY, PARK COUNTY, WATER DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Cooke City, Park County, Water District  
Cooke City, Montana

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express 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 above present fairly, in all material respects, the financial position of the Cooke City, Park County, Water District, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

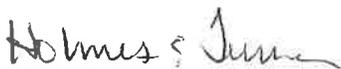
**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3-6 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 January 7, 2015, on our consideration of Cooke City, Park County, Water 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 Cooke City, Park County, Water District's internal control over financial reporting and compliance.



January 7, 2015

**COOKE CITY, PARK COUNTY, WATER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

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The discussion and analysis of the Cooke City, Park County, Water District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

**Financial Highlights**

Key financial highlights for 2014 are as follows:

- The assets of the District exceeded its liabilities by approximately \$1,627,211.
- \$2,912,001 is invested in capital assets.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These financial statements are comprised of two parts: Management's Discussion and Analysis and Basic Financial Statements. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

**Required Financial Statements**

The Financial Statements of the District 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 District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Revenues, Expenses, and Changes in Net Position identifies the District's revenues and expenses for the fiscal year ended June 30, 2014. This statement provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the sources and uses of cash and changes in cash and cash equivalents for the past fiscal year.

**COOKE CITY, PARK COUNTY, WATER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

**Financial Analysis of the District**

Table 1 provides a summary of the District's net assets as of June 30, 2014 and corresponds to the Statement of Net Position.

(Table 1)		
<b>NET POSITION</b>		
	<u><b>2014</b></u>	<u><b>2013</b></u>
<b><u>ASSETS</u></b>		
Current & Other Assets	\$ 78,516.00	\$ 202,321.00
Capital Assets ,Net	\$ 3,011,996.00	\$ 2,991,211.00
Total Assets:	\$ 3,090,512.00	\$ 3,193,532.00
<b><u>LIABILITIES</u></b>		
Current Liabilities	\$ 13,999.00	\$ 13,393.00
Long Term Liabilities		
Due within 1 Year	\$ 22,194.00	\$ 21,474.00
Due in more than 1 year	\$ 1,427,108.00	\$ 1,449,312.00
Total Liabilities	\$ 1,463,301.00	\$ 1,484,179.00
<b><u>NET POSITION</u></b>		
Invested in Capital Assets		
Net of Related Debt	\$ 1,462,699.00	\$ 1,520,425.00
Restricted for Debt Service	\$ 48,268.00	\$ 42,148.00
Unrestricted	\$ 116,244.00	\$ 146,780.00
Total Net Position	\$ 1,627,211.00	\$ 1,709,353.00

**COOKE CITY, PARK COUNTY, WATER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

Table 2 shows the changes in net position for the fiscal year 2014 and corresponds to the Statement of Revenues, Expenses, and Changes in Net Position.

(Table 2)		
<b>CHANGES IN NET POSITION</b>		
	<u>2014</u>	<u>2013</u>
<b><u>PROGRAM REVENUES</u></b>		
Charges for Services	\$ 86,472.00	\$ 84,160.00
Total Program Revenues:	\$ 86,472.00	\$ 84,160.00
<b><u>GENERAL REVENUES</u></b>		
Property Taxes	\$ 31,528.00	\$ 31,488.00
Program Operating Grants	\$ 20,000.00	\$ 20,000.00
Other Miscellaneous Revenues	\$ 760.00	\$ -
Total Revenues:	\$ 52,288.00	\$ 51,488.00
<b><u>PROGRAM EXPENSES</u></b>		
General Operating Expenses	\$ 59,970.00	\$ 44,594.00
Loan Interest Expense	\$ 50,159.00	\$ 51,013.00
Depreciation	\$ 65,356.00	\$ 64,429.00
Non-operating Revenue	\$ -	\$ (456.00)
Loss on Disposal of Capital Assets	\$ -	\$ 72,299.00
Total Expenses:	\$ 175,485.00	\$ 231,879.00
Change in Net Position	\$ (36,725.00)	\$ (96,231.00)
Net Position, Beginning, as restated	\$ 1,663,936.00	\$ 1,805,584.00
<b>Net Position, Ending</b>	<b>\$ 1,627,211.00</b>	<b>\$ 1,709,353.00</b>

**COOKE CITY, PARK COUNTY, WATER DISTRICT**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

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**Operating Funds:**

Charges for services were slightly elevated in this fiscal year due to additional EDUs and a hookup fee from a new user. Generally speaking, we continue to receive an annual grant from the Resort Tax fund and there are no other significant deviations from normal. Operating expenses increased slightly in FY14 mostly due to operating system repairs at the pumps and meters.

**Capital Assets:**

In FY14, a new user in the District was tapped into the water system. Much time and investment was made to get the pumps operating properly and in getting meters repaired and ready for reading. There is still work to be done in addressing freezing issues at the far end of the system and another user within the District may be ready to tap into the system within the next year. There is also indication that annexation of more users may be in the future after we have enough readings to confirm that there would be enough water produced to support the addition of more users.

**Long-term Debt:**

The District is responsible for 4 bonds/loans with Rural Development related to construction of the new system in 2009/2010. The original total of the 4 bonds was in excess of \$1.5 million which is very significant for a small town of approximately 100 full-time residents. Regardless, the District continues to meet its commitment and retired \$21,485 of that debt in FY14.

**COOKE CITY, PARK COUNTY, WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

**ASSETS**

Current assets:

Cash	\$ 44,198
Taxes receivable	35,031
Total current assets	79,229

Noncurrent assets:

Restricted cash	99,995
Capital assets (net of accumulated depreciation, where applicable)	2,912,001
Total noncurrent assets	3,011,996

Total assets	3,091,225
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**LIABILITIES**

Current liabilities:

Advanced payments	713
Payroll liabilities	768
Interest payable	13,232
Current portion of long-term debt	22,194
Total current liabilities	36,907

Noncurrent liabilities:

Long-term debt	1,427,107
Total noncurrent liabilities	1,427,107

Total liabilities	1,464,014
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**NET POSITION**

Net investment in capital assets	1,462,700
Restricted for debt service	48,268
Unrestricted	116,243
	1,627,211

Total net position	\$ 1,627,211
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The accompanying notes are an integral part of these financial statements.

**COOKE CITY, PARK COUNTY, WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

Operating revenues:	
Charges for services	\$ 86,472
Total operating revenue	<u>86,472</u>
Operating expenses:	
General administration	
Contract services	484
Depreciation	65,356
Dues and subscriptions	639
Legal and professional services	7,473
Licenses and permits	137
Office supplies	544
Payroll benefits	962
Postage and shipping	572
Salaries and wages	10,200
Travel and schooling	180
Utilities	<u>158</u>
Total general administration	<u>86,705</u>
Water source and plumbing	
Contract services	270
Operating supplies	13
Payroll benefits	367
Repairs and maintenance	4,219
Salaries and wages	2,700
Utilities	16,007
Water source testing	<u>1,923</u>
Total water source and plumbing	<u>25,499</u>
Transmission and distribution	
Bad debt	527
Contract services	6,197
Operating supplies	37
Payroll benefits	323
Printing	6
Repairs and maintenance	3,157
Salaries and wages	<u>2,875</u>
Total transmission and distribution	<u>13,122</u>
Total operating expenses	<u>125,326</u>
Operating loss	<u>(38,854)</u>

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

**COOKE CITY, PARK COUNTY, WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

Nonoperating revenues (expenses):	
Miscellaneous income	525
Interest expense	(50,159)
Revenues from taxes	31,528
Revenues from resort tax funds	20,000
Interest income	<u>235</u>
 Total nonoperating revenues (expenses)	 <u>2,129</u>
 Change in net position	 <u>(36,725)</u>
Net position, beginning of year	1,709,353
Prior period adjustment	<u>(45,417)</u>
Net position, beginning of year as restated	<u>1,663,936</u>
Net position, end of year	<u>\$ 1,627,211</u>

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

**COOKE CITY, PARK COUNTY, WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014**

Cash flows from operating activities:	
Cash received from customers	\$ 88,681
Cash paid to suppliers	(43,588)
Cash paid to employees	<u>(15,775)</u>
Net cash used by operating activities	<u>29,318</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(31,563)
Interest paid on capital debt	(50,159)
Principal payments on long-term debt	(21,485)
Insurance proceeds	<u>525</u>
Net cash used by capital and related financing activities	<u>(102,682)</u>
Cash flows from noncapital financing activities:	
Property and other taxes received	<u>19,355</u>
Cash flows from investing activities:	
Interest on savings account	<u>235</u>
Net change in cash	(53,774)
Cash and cash equivalents, beginning	<u>197,967</u>
Cash and cash equivalents, ending	<u>\$ 144,193</u>
Cash and cash equivalents, as presented on the statement of net position:	
Cash	\$ 44,198
Restricted cash	<u>99,995</u>
	<u>\$ 144,193</u>

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

**COOKE CITY, PARK COUNTY, WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014**

Reconciliation of operating loss to net  
cash used by operating activities:

Operating loss		\$ (38,854)
Adjustments:		
Depreciation	65,356	
(Increase) decrease in assets:		
Accounts receivable	1,496	
(Decrease) increase in liabilities:		
Advanced payments	713	
Interest payable	(250)	
Payroll payable	<u>857</u>	
Total adjustments		<u>68,172</u>
Net cash used by operating activities		<u>\$ 29,318</u>

Supplemental disclosure of noncash investing and financing activities:

None.

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

COOKE CITY, PARK COUNTY, WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The District was formed pursuant to Title 7, Chapter 13, Parts 22 and 23 of the Montana Code Annotated.

On July 2, 1986, the Park County Commissioners signed a resolution to create a Rural Special Improvement District No. 7. On December 22, 1986, an agreement was signed between the District, Park County, Montana, and Cooke City Water Users Association to transfer the control and duty to maintain the improvements constructed by the Rural Special Improvement District No. 7 to the District and to transfer the water rights, easements and the control and duty of maintaining the Association's improvements to the District.

The District currently contains approximately 60 acres and has a population of approximately 140 year-round and 175 summer persons.

**B. Measurement Focus and Basis of Accounting**

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

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

Pursuant to GASB 62, Cooke City, Park County, Water District follows all GASB pronouncements and may apply Financial Accounting Standards Board (FASB) pronouncements for accounting issues not addressed by GASB literature, unless it conflicts or contradicts GASB pronouncements.

COOKE CITY, PARK COUNTY, WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Cash and Investments**

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

As of June 30, 2014, the District did not have investments as defined by GASB Statement 40. For purposes of the statement of cash flows, the District considers all cash deposits in checking and savings accounts to be cash.

**D. Accounts Receivable**

No allowance has been made for uncollectible accounts because the District submits any delinquent accounts to the County Treasurer for collection.

**E. Restricted Cash/Net Position**

Rural Development/Rural Utilities Services (RUS) requires that certain reserves be maintained by the District for repayment of the outstanding bonds. The reserve requirements are as follows:

- Series A bond: A debt reserve of \$15,079 was funded at the time the bond was closed and must be maintained as a reserve;
- Series B and Series C bonds: the amount of the monthly reserve requirement is ten percent of the loan installments up to the amount of one annual payment;
- Series D bond: A debt reserve of \$15,648 was funded at the time the bond was closed and must be maintained as a reserve;
- The 2009 payment of \$20,000 from resort taxes was restricted to the debt service reserve and must be maintained as a reserve; and
- RUS also requires a short lived asset replacement fund be maintained, which can be used for purchasing assets which have been preapproved by RUS. At the time the bond was closed, \$21,000 was deposited and \$292 must be added to the reserve monthly until a total of \$66,000 has been accumulated.

The following is a summary of the required reserves and the amount the District had in reserves as of June 30, 2014:

	<u>Required reserve</u>	<u>Actual reserve</u>
Debt reserve	\$ 62,935	\$ 62,935
Short lived asset replacement fund	37,060	37,060
	<u>\$ 99,995</u>	<u>\$ 99,995</u>

COOKE CITY, PARK COUNTY, WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Restricted Cash/Net Position (continued)**

The amounts in the debt reserve and short lived asset replacement fund are reflected on the balance sheet as restricted cash. The amounts that have been added to this reserve and replacement fund from the District's revenue are shown on the statement of net position as restricted net position.

**F. Capital Assets**

The District's capital assets are capitalized at historical cost or estimated historical cost. Depreciation of capital assets is calculated with methods and estimated useful lives as follows:

Software	Straight-line	3 years
Machinery & equipment	Straight-line	5 years
Water system	Straight-line	50 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Replacements, which improve or extend the life of an asset, are capitalized.

**G. Use of Restricted/Unrestricted Net Position**

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

**H. Revenues and Expenses**

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

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

COOKE CITY, PARK COUNTY, WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Tax Revenue**

Property tax levies are set by the County according to the rates approved by the voters and are based on taxable values listed as of January 1 for all real property located in the District. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable one half by November 30 and one half by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month from the time of delinquency until paid plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is seized and sold after the taxes become delinquent.

**J. Budget**

The District is not legally required to adopt a budget; therefore management has decided not to present the budget in the financial statements.

**K. Use of Estimates**

The preparation of the basic 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.

**L. Net Position**

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

Proprietary fund net position is divided into three components:

- **Net investment in capital assets** – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus capital asset related deferred outflows of resources less capital asset related deferred inflows of resources related to those assets.

COOKE CITY, PARK COUNTY, WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Net Position (continued)**

- **Restricted net position**– consists of assets that are restricted as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – all other net position is reported in this category.

**NOTE 2. DEPOSITS**

*Custodial credit risk.* The District does not have a policy to minimize credit risk in relation to the District's deposits. As of June 30, 2014, the carrying amount of the District's deposits (checking and savings accounts) at local banks was \$144,193 and the bank balance was \$147,664. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution.

**NOTE 3. CHANGES IN CAPITAL ASSETS**

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

	<u>Balance</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2014</u>
Capital assets being depreciated:				
Water infrastructure	\$ 3,224,440	\$ 31,563	\$ 50,000	\$ 3,206,003
Machinery & equipment	2,794	-	-	2,794
Software	2,948	-	-	2,948
	<u>3,230,182</u>	<u>31,563</u>	<u>50,000</u>	<u>3,211,745</u>
Total capital assets being depreciated	3,230,182	31,563	50,000	3,211,745
Accumulated depreciation	<u>(238,971)</u>	<u>(65,356)</u>	<u>4,583</u>	<u>(299,744)</u>
Net depreciable capital assets	<u>2,991,211</u>	<u>(33,793)</u>	<u>54,583</u>	<u>2,912,001</u>
Total capital assets	<u>\$ 2,991,211</u>	<u>\$ (33,793)</u>	<u>\$ 54,583</u>	<u>\$ 2,912,001</u>

COOKE CITY, PARK COUNTY, WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 4. OUTSTANDING DEBT**

The following is a summary of water system revenue bonds outstanding at June 30, 2014:

*Water system special assessment bond, Series 2009A.*

Issued on November 5, 2009 for \$577,500. Proceeds used for constructing improvements to the Water System. The interest rate is 4.25% and the bond is payable with semi-annual payments of \$15,079 until July 1, 2050.

\$ 540,051

*Water system revenue bond, Series 2009B.* Issued on November 5, 2009 for \$257,500 and tax backed. Proceeds used for constructing improvements to the Water System. The interest rate is 4.25% and the bond is payable with monthly payments of \$1,118 until November 5, 2049.

244,983

*Water system revenue bond, Series 2009C.* Issued on November 5, 2009 for \$320,000 and tax backed. Proceeds used for constructing improvements to the Water System. The interest rate is 2.5% and the bond is payable with monthly payments of \$1,056 until November 5, 2049.

297,315

*Water system revenue bond, Series 2009D.* Issued on November 5, 2009 for \$395,000. Proceeds used for constructing improvements to the Water System. The interest rate is 2.5% and the bond is payable with monthly payments of \$1,304 until November 5, 2049.

366,952

Total debt

\$ 1,449,301

COOKE CITY, PARK COUNTY, WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 4. OUTSTANDING DEBT (CONTINUED)**

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014	Amounts Due Within One Year
Bonds payable:					
Series 2009A	\$ 547,036	\$ -	\$ (6,985)	\$ 540,051	\$ 7,285
Series 2009B	247,919	-	(2,936)	244,983	3,062
Series 2009C	302,484	-	(5,169)	297,315	5,299
Series 2009D	373,347	-	(6,395)	366,952	6,548
 Total bonds payable	 <b>\$ 1,470,786</b>	 <b>\$ -</b>	 <b>\$ (21,485)</b>	 <b>\$ 1,449,301</b>	 <b>\$ 22,194</b>

Debt service requirements at June 30, 2014 were as follows:

June 30	Principal	Interest
2015	\$ 22,194	\$ 49,700
2016	22,939	48,955
2017	23,711	48,183
2018	24,511	47,583
2019	25,339	46,555
2020-2024	140,214	219,256
2025-2029	165,942	193,528
2030-2034	196,754	162,716
2035-2039	233,716	125,754
2040-2044	278,127	81,343
2045-2049	302,100	27,202
2050	13,754	84
	<b>\$ 1,449,301</b>	<b>\$ 1,050,859</b>

**NOTE 5. NET POSITION – RESTRICTED**

Net position is restricted as follows:

Restricted for debt service \$ 48,268

**NOTE 6. RISK MANAGEMENT**

The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) professional liability (i.e. errors and omissions), and c) environmental damage. The District has purchased commercial insurance to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

COOKE CITY, PARK COUNTY, WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 7. RELATED PARTY TRANSACTIONS**

The District transacted with a company owned by a Board member in engagements totaling \$27,042 for a water system construction project and snow plow services.

**NOTE 8. PRIOR PERIOD ADJUSTMENTS**

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

Another aspect of implementing Statement 65 resulted in the reclassification of the beginning net position of the water fund. The deferred charges for issuance costs of \$45,417 were reclassified as expense of prior periods and resulted in the adjustment below.

A summary of this adjustment is as follows:

Net position at June 30, 2013	\$ 1,709,353
Change in reporting for deferred charges for debt issuance costs	<u>(45,417)</u>
Net position at June 30, 2013, restated	<u>\$ 1,663,936</u>

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

To the Board of Directors  
Cooke City, Park County, Water District  
Cooke City, 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 Cooke City, Park County, Water District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Cooke City, Park County, Water District's basic financial statements, and have issued our report thereon dated January 7, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cooke City, Park County, Water 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 Cooke City, Park County, Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cooke City, Park County, Water 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 certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency [14-01].

January 7, 2015  
Board of Directors  
Page two

### **Compliance and Other Matters**

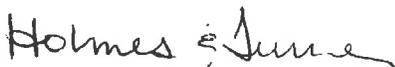
As part of obtaining reasonable assurance about whether Cooke City, Park County, Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 14-02.

### **Cooke City, Park County, Water District's Response to Findings**

Cooke City, Park County, Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Cooke City, Park County, Water 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.



January 7, 2015

**COOKE CITY, PARK COUNTY, WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2014**

14-01 Segregation of duties

Internal controls should be in place to allow the bookkeeper or the board of directors, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. The District has one person who handles all of the accounting functions and who has sole access to the accounting software. A possible effect of this is that misstatements may not be detected in a timely manner. It would be inefficient, considering the size of the District, for the District to hire additional personnel to achieve optimal internal controls. But, the District has taken several steps to involve Board members and management to obtain the best internal controls possible.

*Response:* The District has taken numerous steps to obtain the best internal controls possible. We believe we have achieved the best internal controls possible by adding levels of management and governing body member reviews, oversight and approval.

14-02 Non-compliance with debt requirement

According to the bond covenants, controls should be in place to assure that net revenues are sufficient to provide not less than 110% of the maximum principal and interest requirements for the current or any future fiscal year. As of June 30, 2014, net revenues of the system were \$78,789 and the maximum principal and interest requirements were \$79,083; this resulted in a shortfall of \$294. The District is required to meet compliance standards as part of their governmental bond agreements. A possible effect of this shortfall would be the inability to make timely debt payments.

*Response:*

The District has scheduled a special meeting to meet with an employee from Montana Rural Water Systems to discuss the District's rate system.

**COOKE CITY, PARK COUNTY, WATER DISTRICT  
SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Comment</u>	<u>Status</u>
13-01 Segregation of duties	See current year finding 14-01