

DRY PRAIRIE RURAL WATER AUTHORITY
ROOSEVELT, SHERIDAN, DANIELS,
AND VALLEY COUNTIES
CULBERTSON, MONTANA
FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED DECEMBER 31, 2014

DRY PRAIRIE RURAL WATER AUTHORITY
CULBERTSON, MONTANA
FOR THE YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS	<u>PAGE NO.</u>
ORGANIZATION	1
INDEPENDENT AUDITOR'S REPORT	2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-9
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Fund Net Position	11
Statement of Cash Flows	12
NOTES TO THE BASIC FINANCIAL STATEMENTS	13-22
SUPPLEMENTARY INFORMATION:	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	23
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	24-25
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO MAJOR PROGRAMS	26-28
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	29-30
AUDITEE RESPONSE TO FINDINGS	31

DRY PRAIRIE RURAL WATER AUTHORITY
CULBERTSON, MONTANA
ORGANIZATION
FOR THE YEAR ENDED DECEMBER 31, 2014

BOARD OF DIRECTORS

Rick Knick	Chairperson
Jon Bolstad	Vice Chairperson
Dana Berwick	Secretary/Treasurer
Marvin Tarum	Director
Laurel Clawson	Director
Charlie Cahill	Director
Allen Bunk	Director
Jim Tande	Director
Joni Sherman	General Manager
DeAnne Weeks	Office Manager

Smith, Lange & Halley, P.C.

Certified Public Accountants

Teresa M. Halley • Cory W. Wheeler • Richard A. Lange

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Dry Prairie Rural Water Authority
Culbertson, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Dry Prairie Rural Water Authority as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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.

INDEPENDENT AUDITOR'S REPORT

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 respective financial position of the business-type activities of Dry Prairie Rural Water Authority as of December 31, 2014, and the respective changes in financial position, and, its 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 on pages 5-9 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dry Prairie Rural Water Authority's basic financial statements. The organizational chart on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial

INDEPENDENT AUDITOR'S REPORT

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The organizational chart on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2015, on our consideration of Dry Prairie Rural Water Authority'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 Dry Prairie Rural Water Authority's internal control over financial reporting and compliance.

Smith, Lange & Halley, PC

Smith, Lange & Halley, PC
Sidney, Montana

May 6, 2015

Dry Prairie Rural Water Authority
Culbertson, MT 59218
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

This discussion and analysis of the financial performance of Dry Prairie Rural Water Authority provides an overall review of financial activities for the fiscal year ended December 31, 2014. The intent of this discussion and analysis is to look at the Project's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the financial statements.

Financial Highlights

Key Financial highlights for 2014 are as follows:

- Revised the 2014 Construction Projects and Budget to match existing funding
- Received inclusion in President Obama's 2014 Budget at \$4.3M for FP/DP
- Smith, Lange & Halley, P.C. provided an Unmodified FY 2013 Audit Report.
- Received notice of approval for \$100,000 SCADA Grant Amendment– DNRC
- Received notice of \$4.9M approval in supplemental funding for FP/DP
- Paid \$3,160 for a 5-year lease on COE tower east of Ft. Peck Dam – SCADA
- Received FY 2015 House Appropriations Committee mark of \$3.18M. President's Budget contained \$3.25M. House mark also contained \$21M in supplemental funding for all rural water in 2015.
- Received final drawdown of FY 2013 federal funds in the amount of \$14,979
- Received, reviewed, and executed Modification 3 for receipt of Federal FY 2014 funds
- Received notification that the FY '15 Omnibus Bill passed with \$31M being placed in the Rural Water Program and confirmation of \$3.2M in President's Budget for Ft. Peck/Dry Prairie
- Approved a 3% inflationary increase to the Salary and Wage Scale

Overview

The Fort Peck Reservation Rural Water System was signed into Law in October of 2000 by President Clinton. This rural water project was designed to solve the drinking water problems

Dry Prairie Rural Water Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

the rural residents and communities in Daniels, Roosevelt, Sheridan and Valley Counties have been dealing with for many years. The project is two water systems supplied by common facilities. The on-reservation system is the Assiniboine and Sioux Rural Water System and the off-reservation system is the Dry Prairie Rural Water Authority (DPRWA).

DPRWA is a Rural Water Authority and the Board of Directors consists of two appointed members from each of the four County Conservation Districts located within the service area.

The financial statements presented herein include all the activities of DPRWA. The basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows, as well as notes to the basic financial statements.

DPRWA performs its duties in a fashion similar to a private-sector business. It is regarded as a non-profit, local government entity, as per MCA 76-6-301. This authorization governs how Regional Water Authority's are formed and how they are operated.

The basic financial statements present the financial condition based on the accrual basis of accounting.

The statement of net position presents information on all of the DPRWA assets and liabilities, with the difference between the two reported as net position. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of DPRWA is improving or deteriorating. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The basic financial statements can be found on pages 10-12 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 13 through 22 of this report.

Financial Analysis

DPRWA is providing condensed financial information for fiscal years 2014 and 2013.

Dry Prairie Rural Water Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

Statement of Net Position
Proprietary Fund Activities

	2014	2013
Assets:		
Current Assets	\$ 1,485,863	\$ 1,674,227
Capital Assets	<u>39,515,790</u>	<u>35,540,064</u>
Total Assets	\$41,001,653	\$37,214,291
Liabilities:		
Current Liabilities	\$ 518,116	\$ 171,956
Long-Term Liabilities	<u>1,782,851</u>	<u>1,537,802</u>
Total Liabilities	\$2,300,967	\$ 1,709,758
Net Position:		
Invested in Capital Assets, Net of related Debt	\$37,318,163	\$33,941,064
Restricted	177,296	145,016
Unrestricted	<u>1,205,227</u>	<u>1,418,453</u>
Total Net Position	\$38,700,686	\$35,504,533

Change in Net Position
Proprietary Fund Activities

	2014	2013
Revenues		
Charges and fees	\$ 874,664	882,217
Miscellaneous	6,956	2,255
Interest	1,192	1,479
Operating grants	3,243,387	3,710,364
Capital contributions	<u>1,593,036</u>	<u>1,980,120</u>
Total Revenues	\$ 5,719,235	\$ 6,576,435
Expenses		
Enterprise	(2,523,082)	(1,965,791)
Change in Net Position	\$ 3,196,153	\$ 4,610,644

Dry Prairie Rural Water Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

Capital Assets

Capital assets, land, and equipment are owned by DPRWA. Capital asset additions during 2014 were \$4,958,247.

Debt Services

Dry Prairie has five loans through the State Revolving Fund Loan Program with the DNRC. Principal paid during 2014 was \$124,000 and interest paid was \$51,313 for a total debt service of \$175,313.

Special Activities

- Finalized the 2014 Work Plan and Master Plan
- Held Quarterly Project meetings with ASRWSS, BOR, DNRC, and Dry Prairie
- Approved the Strategic Planning Goals for 2014
- Held numerous meetings with Interior solicitors, BIA, Tribes along with respective attorneys regarding the Water Service Agreement
- Received a 5-year extension of Project Authorization from 2015 to 2020
- Participated in a Project Tour at the Water Treatment Plant for Secretary of Interior Sally Jewell
- Approved full implementation of AMR System
- Awarded MLPW Reservoir Contract to Engineering America
- Attended several meetings with Culbertson City Council to discuss timeline for Dry Prairie connecting to the Regional System
- Modified Medicine Lake to Plentywood Grant Agreement to include the Plentywood Reservoirs
- Requested all rural water users run a small amount of water for the months of March through May to prevent service lines from freezing

**Dry Prairie Rural Water Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited**

Contact about this Report

If you have any questions concerning this report, you may contact DeAnne Weeks, Office Manager, or Joni Sherman, General Manager, Dry Prairie Rural Water Authority, at 406-787-5382.

DRY PRAIRIE RURAL WATER AUTHORITY

BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 STATEMENT OF NET POSITION
 DECEMBER 31, 2014

	Enterprise Fund
ASSETS	
Current Assets	
Cash and cash equivalents	\$788,990
Restricted cash	177,296
Investments	136,730
Accounts receivable-customer	52,112
Accounts receivable-other	172,860
Prepays	10,659
Inventory	147,216
Total Current Assets	1,485,863
Noncurrent Assets	
Capital assets (net of accumulated depreciation)	39,515,790
Total Assets	41,001,653
LIABILITIES	
Current Liabilities	
Accounts payable	2,118
Unearned revenue	54,598
Current portion of compensated absences	12,000
Current portion of notes payable	449,400
Total Current Liabilities	518,116
Noncurrent Liabilities	
Compensated absences payable	34,624
Notes payable	1,748,227
Total Noncurrent Liabilities	1,782,851
Total Liabilities	2,300,967
NET POSITION	
Invested in capital assets, net of related debt	37,318,163
Restricted	177,296
Unrestricted	1,205,227
Total Net Position	\$38,700,686

See notes to the basic financial statements.

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Enterprise Fund <hr/>
OPERATING REVENUES	
Charges and fees	\$874,664
Miscellaneous	6,956
Total Operating Revenues	<hr/> 881,620
OPERATING EXPENSES	
Personal services	821,018
Supplies	142,333
Purchased services	271,306
Fixed charges	254,591
Depreciation	982,521
Total Operating Expenses	<hr/> 2,471,769
Operating Income (Loss)	(1,590,149)
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental revenues	3,243,387
Interest income	1,192
Debt service interest	(51,313)
Total Nonoperating Revenues (Expenses)	<hr/> 3,193,266
Income (loss) before contributions	1,603,117
Capital Contributions	<hr/> 1,593,036
Change in net position	3,196,153
TOTAL NET POSITION - JANUARY 1, 2014	<hr/> 35,504,533
TOTAL NET POSITION - DECEMBER 31, 2014	<hr/> <hr/> \$38,700,686

See notes to the basic financial statements.

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	\$892,218
Cash paid to suppliers	(753,931)
Cash paid to employees	(815,196)
Net cash provided (used) by operating activities	<u>(676,909)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from intergovernmental sources	3,243,387
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(4,958,248)
Capital contributions	1,593,036
Proceeds of long-term and short-term borrowing	722,627
Principal paid on bonds	(124,000)
Interest paid on bonds	(51,313)
Net cash provided (used) by capital and related financing activities	<u>(2,817,898)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds of maturities of investments	136,378
Purchase of investments	(136,730)
Investment income	1,192
Decrease in other receivables	48,240
Decrease in deferred revenue	(15,236)
Net cash provided by investing activities	<u>33,844</u>
Net increase (decrease) in cash and cash equivalents	(217,576)
Cash and cash equivalents - January 1, 2014	1,183,862
Cash and cash equivalents - December 31, 2014	<u>\$966,286</u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	(\$1,590,149)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	982,521
(Increase) decrease in customer receivables	10,598
(Increase) decrease in inventory	(85,049)
(Increase) decrease in prepaids	(2,648)
Increase (decrease) in accounts payable	1,996
Increase (decrease) in compensated absences	5,822
Total adjustments	<u>913,240</u>
Net cash provided (used) by operating activities	<u>(\$676,909)</u>

See notes to the basic financial statements.

DRY PRAIRIE RURAL WATER AUTHORITY
CULBERTSON, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS	<u>NOTE</u>
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:	
Reporting Entity	A1
Basis of Presentation and Basis of Accounting	A2
SPECIFIC ACCOUNTING POLICIES:	
Cash and Investments	A3
Inventories	A4
Capital Assets	A5
Prepays	A6
Long-term liabilities	A7
Accounts receivable	A8
Estimates	A9
CASH AND INVESTMENTS	B
ACCOUNTS RECEIVABLE	C
CAPITAL ASSETS	D
LIABILITIES	E
RESTRICTED NET ASSETS	F
UNEARNED REVENUE	G
CONTRIBUTED CAPITAL	H
RETIREMENT PLAN	I
RISK MANAGEMENT	J
OTHER POST-RETIREMENT EMPLOYMENT BENEFIT	K
CONTINGENCIES/SUBSEQUENT EVENTS	L

DRY PRAIRIE RURAL WATER AUTHORITY
CULBERTSON, MONTANA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Dry Prairie Rural Water Authority are prepared in accordance with U.S. generally accepted accounting principles as applied to governmental entities. The Authority's reporting entity applied all relevant Governmental Accounting Standards Board (GASB) pronouncements.

1. Reporting Entity - Dry Prairie Rural Water Authority was created on June 30, 1998 under the provisions of state law, as an association of the conservation districts in Roosevelt, Sheridan, Daniels and Valley Counties. In January, 2000, the association became a water authority. Dry Prairie Rural Water was formed in order to facilitate and organize a formal water distribution system in Northeastern Montana. The Authority is governed by a board of directors consisting of two representatives from each of the four conservation districts and is considered to be the primary government.

The financial statements include all funds, account groups, boards, commissions and authorities for which Dry Prairie Rural Water Authority is financially accountable and other organizations for which the nature and significance of the relationship are such that exclusion would cause the Authority's financial statements to be misleading or incomplete.

2. Basis of Presentation and Basis of Accounting - Dry Prairie Rural Water Authority engages in only business-type activities and thus report the financial statements required for proprietary funds. These financial statements include the statement of net position, statement of revenues, expenses and changes in fund net position, and statement of cash flows. Proprietary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. The accounting objectives are determination of net assets, financial position and cash flows. Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or 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 non-operating in the financial statements. These other revenues and expenses include intergovernmental revenues, interest income and interest expense.

DRY PRAIRIE RURAL WATER AUTHORITY
CULBERTSON, MONTANA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

3. Cash and Investments - For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. This includes unrestricted and restricted cash.

4. Inventories - Inventories are recorded as expenses at the time of purchase. A physical inventory is performed at the end of each fiscal year to determine the amount of materials and supplies to be reported. The value of the inventories is based on the First-in, First-out (FIFO) method.

5. Capital Assets - Capital assets purchased or acquired by proprietary funds are recorded in the fund. Any capital assets donated are also recorded in the fund.

Proprietary fund capital assets are recorded at cost or estimated historical cost and depreciated using the straight-line method. Estimated useful lives, in years, for depreciable assets are as follows:

Office/Equipment	3-10
Vehicles/Equipment	5-10
Pump Station Equipment	20
Pipeline and Buildings	50

Dry Prairie Rural Water Authority's policy is to capitalize office equipment with a cost in excess of \$500 and all other assets with a cost in excess of \$4,000.

6. Prepays - Prepays consist of certain payments to vendors that reflect costs applicable to future accounting periods. The Authority has liability insurance coverage that was paid in 2014 that also covers a portion of 2015.

7. Non-current Liabilities - Non-current liabilities include six general obligation bonds and accumulated vacation and sick leave. Expenses for bonds and vacation and sick leave benefits are recorded when accrued in the proprietary funds on the full accrual basis of accounting.

8. Receivables - The Authority records a receivable for charges for water that have not been collected. No reserve for estimated uncollectible accounts receivable is maintained. Although this is a departure from U.S. generally accepted accounting principles, the Authority has a very good

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

8. Receivables (con't) - collection record and therefore the effects of this departure is not material. All write-offs of receivables are approved by the Board of Directors. The Authority also recorded a receivable from Basin Electric Power Cooperative for amounts due the Authority for its system upgrades to provide water for power generation.

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

NOTE B - CASH AND INVESTMENTS

Cash and investments on December 31, 2014 were as follows:

First Community Bank:	
Water Operating	\$ 289,075
General Checking Account	202,284
Bureau of Reclamation Account	1,100
State Account	7,800
Basin Account	41,621
Savings Accounts	247,110
Restricted - Revenue Bond Payment	72
Restricted - Loan Reserve	<u>177,224</u>
Total cash	\$ 966,286
Investments - Certificate of Deposits	
Independence Bank, interest at 0.40%, maturing 2-06-15	24,942
Montana State Bank, interest at 0.20%, maturing 4-18-15	27,381
Valley Bank, interest at 0.25%, maturity 1-01-15	<u>84,407</u>
Total investments	<u>136,730</u>
Total cash and investments	<u><u>\$1,103,016</u></u>

State statutes stipulate that all amounts must be deposited in a financial institution situated and doing business within the state. In addition, state statutes authorize the Authority to invest in 1) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, 2) securities sold under agreements to repurchase written by financial

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE B - CASH AND INVESTMENTS (CON'T)

institution in which the underlying securities for the agreement to repurchase are of the type listed above, 3) certificates of deposit fully insured by the federal deposit insurance corporation or the state, 4) obligations of the state. Cash and cash equivalents are deposits with a maturity of three months or less when purchased.

The carrying amount of the Authority's deposits with financial institutions was \$1,103,016 and the financial institution's balance was \$1,129,781. The Authority's checking and savings account balances of \$716,286 covered by pledged securities. The Authority's investment in certificate of deposits are fully insured by FDIC.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rate. The Authority has three certificate of deposits with maturities of six months and interest rates that range from 0.20% to 0.40%.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment with a single issuer. The Authority does not have any investments subjected to concentration of credit risk.

The Authority has \$177,296 of restricted cash as required by the Water Revenue Bond agreement.

NOTE C - ACCOUNTS RECEIVABLE

As stated earlier, the Authority has amounts due from customers in the amount of \$52,112 as well as an amount due from Basin Electric Power Cooperative of Bismarck, North Dakota for \$172,860. The Basin Electric receivable is for system upgrades to provide water for their power generating plant north of Culbertson.

Repayment of this receivable calls for monthly payments from Basin Electric in the amount of \$4,020 for the next three and one-half years. A summary of these amounts follows:

Basin Electric contract amount	
at January 1, 2014	\$221,100
Current year payments received	(48,240)
Basin Electric Receivable	
at December 31, 2014 .	<u>\$172,860</u>

DRY PRAIRIE RURAL WATER AUTHORITY
CULBERTSON, MONTANA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE D - CAPITAL ASSETS

	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014
Nondepreciable capital assets				
Land	\$ 60,906	\$ 0	\$ 0	\$ 60,906
Depreciable capital assets				
Office/SCADA Equipment	451,341	558,268	0	1,009,609
Vehicles/Equipment	281,152	69,198	0	350,350
Pump Station Equipment	1,417,377	45,941	0	1,463,318
Pipeline, Buildings and Improvements	<u>37,163,024</u>	<u>4,284,840</u>	<u>0</u>	<u>41,447,864</u>
Total depreciable assets	39,312,894	4,958,247	0	44,271,141
Total capital assets	39,373,800	4,958,247	0	44,332,047
Less accumulated depreciation	(3,833,736)	(982,521)	0	(4,816,257)
Net Capital Assets	<u>\$35,540,064</u>	<u>\$3,975,726</u>	<u>\$ 0</u>	<u>\$39,515,790</u>

NOTE E - LIABILITIES

The following is a summary of the current and non-current loan transactions of Dry Prairie Rural Water Authority for the year ended December 31, 2014:

	Balance 1/1/14	New Debt	Retired	Balance 12/31/14	Current	Long- Term
Non-current Liabilities						
Rev Bond 04	\$ 188,000	\$ 0	(\$ 16,000)	\$ 172,000	\$ 16,000	\$ 156,000
Rev Bond 06	355,000	0	(25,000)	330,000	26,000	304,000
Rev Bond 09	167,000	0	(36,000)	131,000	36,000	95,000
Rev Bond 12B	747,000	0	(7,000)	740,000	8,000	732,000
Rev Bond 12	142,000	0	(6,000)	136,000	6,000	130,000
Rev Bond 14	<u>0</u>	<u>434,227</u>	<u>(34,000)</u>	<u>400,227</u>	<u>69,000</u>	<u>331,227</u>
Total Non-Current Liabilities	\$1,599,000	\$434,227	(\$124,000)	\$1,909,227	\$161,000	\$1,748,227
Current Liability						
Anticipation Loan	<u>0</u>	<u>288,400</u>	<u>0</u>	<u>288,400</u>	<u>288,400</u>	<u>0</u>
Total Loans	\$1,599,000	\$722,627	(\$124,000)	\$2,197,627	\$449,400	\$1,748,227

The anticipation loan is from the State of Montana's Coal Severance Tax Renewable Resources Bonds in the amount of \$288,400. This was intended to be a short-term loan in anticipation of other funds or grants that are pending receipt by Dry Prairie Rural Water Authority. The original maturity date of this note was July 1, 2015 with interest rate of 3%. Subsequent to December 31, 2014, the Authority extended the due date of this note to December 28, 2015. This note is classified as a current liability.

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE E - LIABILITIES (CON'T)

All six bonds are through the State of Montana Revolving Fund Program and are summarized as follows:

	Issue Date	Original Loan	Interest Rate	Maturity Date	Term	Outstanding 12-31-14
Rev Bond-04	09-15-04	\$ 313,000	2.25%	7-1-24	20 years	\$ 172,000
Rev Bond-06	11-03-06	507,000	2.25%	7-1-26	20 years	330,000
Rev Bond-09	04-14-09	368,000	1.25%	7-1-18	9 years	131,000
Rev Bond-12B	05-08-12	759,000	3.00%	7-1-32	20 years	740,000
Rev Bond-12	10-10-12	150,000	3.00%	7-1-32	20 years	136,000
Rev Bond-14	05-06-14	434,227	3.00%	7-1-34	20 years	400,227
Totals		<u>\$2,531,227</u>				<u>\$1,909,227</u>

The Water Revenue Bond Agreement requires the Authority to maintain a Reserve Account that maintains a balance of at least the principle and interest due in any future fiscal year. The balance maintained by the Authority at December 31, 2014 was \$177,224.

The Water Reserve Bond Agreement also requires a separate Revenue Bond Account be set up for the purpose of periodically depositing funds to this account to be used for bond payments. This account should be fully depleted at least once a year. The balance at December 31, 2014 was \$72.

Requirements to Amortize Debt - The Requirements to amortize long-term debt outstanding as of December 31, 2014 follows:

PRINCIPAL PAYMENTS

Year Ended 12-31	Rev Bond-04	Rev Bond-06	Rev Bond-09	Rev Bond-12B	Rev Bond-12	Rev Bond-14	Total
2015	\$ 16,000	\$ 26,000	\$ 36,000	\$ 8,000	\$ 6,000	\$ 69,000	\$ 161,000
2016	16,000	26,000	38,000	8,000	6,000	71,000	165,000
2017	18,000	26,000	38,000	9,000	6,000	73,000	170,000
2018	18,000	28,000	19,000	11,000	6,000	75,000	157,000
2019	18,000	28,000	0	37,000	6,000	78,000	167,000
Remaining	86,000	196,000	0	667,000	106,000	34,227	1,089,227
Total	<u>\$172,000</u>	<u>\$330,000</u>	<u>\$131,000</u>	<u>\$740,000</u>	<u>\$136,000</u>	<u>\$400,227</u>	<u>\$1,909,227</u>

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE E - LIABILITIES (CON'T)

Year Ended 12-31	INTEREST AND SURCHARGES						Total
	<u>Rev</u>	<u>Rev</u>	<u>Rev</u>	<u>Rev</u>	<u>Rev</u>	<u>Rev</u>	
	<u>Bond-04</u>	<u>Bond-06</u>	<u>Bond-09</u>	<u>Bond-12B</u>	<u>Bond-12</u>	<u>Bon-14</u>	
2015	3,780	7,279	1,525	22,140	4,035	13,017	51,776
2016	3,420	6,694	1,069	21,900	3,855	10,947	47,885
2017	3,049	6,079	594	21,660	3,675	8,817	43,874
2018	2,644	5,513	119	21,375	3,450	6,627	39,728
2019	2,239	4,883	0	20,850	3,315	4,377	35,664
Remaining	4,919	15,835	0	144,225	21,840	2,037	188,856
Total	<u>\$20,051</u>	<u>\$ 46,283</u>	<u>\$ 3,307</u>	<u>\$252,150</u>	<u>\$40,170</u>	<u>\$45,822</u>	<u>\$407,783</u>

Compensated Absences - The Authority's employees are permitted to accumulate vacation and sick leave. On termination of employment, an employee is paid for accumulated vacation and for 25% of accumulated sick pay based on the current hourly rate of pay. A portion of the compensated absences payable is classified as a current liability, with the remainder classified as long-term liability. A summary of compensated absences payable for the year ended December 31, 2014 follows:

Balance	Additions	Balance
<u>1-1-14</u>	<u>(Subtractions)</u>	<u>12-31-14</u>
\$40,802	\$5,822	\$46,624

Other current liabilities include accounts payable of \$2,118 and unearned revenue of \$54,598. Unearned revenue is more fully described in Note G.

NOTE F - RESTRICTED NET ASSETS

Net assets of \$177,296 were restricted per bond requirements for the year ended December 31, 2014.

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE G - UNEARNED REVENUE

Deferred revenue at December 31, 2014 consists of the portion of the Basin Electric Power Cooperative receivable (see Note C) that will be recognized as revenue over three and one-half years repayment schedule. This amount has been calculated as the amount by which Basin Electric Power Cooperative's repayment exceeds the cost of the improvements to the Authority's water system. A breakdown of these amounts follows:

Basin Electric Contract	
amount at January 1, 2009	\$ 462,300
Cost of water system improvements	<u>(310,143)</u>
Revenue to recognize	\$ 152,157
Unearned revenue at 1/1/14	\$ 69,834
Current year payments received \$48,240	
Current year revenue recognized	<u>(15,236)</u>
Unearned revenue at 12/31/14	<u>\$ 54,598</u>

NOTE H - CONTRIBUTED CAPITAL

A summary of amounts recorded as contributed capital on the statement of revenues, expenses and changes in fund net position include the following sources:

Bureau of Reclamation Federal Funds	\$1,593,036
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NOTE I - RETIREMENT PLAN

The Authority participates in a state-wide, cost-sharing multiple employer defined benefit retirement plan which covers all employees, except part-time employees. The plan is established by State law and is administered by the Department of Administration of the State of Montana.

The plan provides retirement, disability and death benefits to plan members and beneficiaries.

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE I - RETIREMENT PLAN (CON'T)

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

Public Employees Retirement System
 PO Box 200131
 1712 Ninth Avenue
 Helena, MT 59620-0131
 Phone: 406-444-3154

Contribution rates for the plan are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	Total
PERS	8.17%	7.90%	16.07%

The State contributes .1% to the plan on behalf of the employer. The State contribution has not been recorded in these financial statements.

The amounts contributed to the plan during the years ended December 31, 2014, 2013 and 2012 were equal to the required contribution. The amounts contributed by the Authority and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
PERS	\$92,679	\$70,598	\$52,551

NOTE J - RISK MANAGEMENT

The Authority faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e. errors and omissions, d) environmental damage, e) workers compensation, i.e. employee injuries, and f) medical insurance costs of employees.

A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, employee torts, and professional liabilities. The Authority participates in the State Compensation Fund for workers' compensation coverage. Given the lack of coverage available, the Authority has no coverage for potential losses from environmental damages.

DRY PRAIRIE RURAL WATER AUTHORITY
CULBERTSON, MONTANA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE J - RISK MANAGEMENT (CON'T)

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years and settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

NOTE K - OTHER POST-RETIREMENT EMPLOYMENT BENEFIT

According to Montana State Law, qualified retired employees may elect to remain on the Authority's health insurance plan until they attain the age for Medicare coverage. The retiree pays the cost of health insurance premiums, however they are insured together as a group with current employees. This causes the premiums paid by the retirees to be lower than they would have been if the retirees were insured separately. This results in an implicit rate subsidy. The Governmental Accounting Standards Board states that this implicit rate subsidy be considered an other post-retirement employment benefit (OPEB) and an accrual for the valuation of this benefit be included in the Authority's financial statements. There are numerous assumptions that are a part of the calculation for estimating this accrued liability. The Authority's management has elected not to accrue a liability for this OPEB because they feel the amount of any required accrual would not be material to the financial statements.

NOTE L - CONTINGENCIES/SUBSEQUENT EVENTS

Inquiry of management indicated that an events has occurred subsequent to December 31, 2014 and through the date of this audit report that required disclosure in the basic financial statements. As disclosed in Note E, the Authority extended the due date of the Grant Anticipation Loan from July 1, 2015 to December 28, 2015. There was no adjustment to the basic financial statements for this subsequent event.

DRY PRAIRIE RURAL WATER AUTHORITY

SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2014

DRY PRAIRIE RURAL WATER AUTHORITY
 CULBERTSON, MONTANA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of the Interior</i>			
Passed Through Bureau of Reclamation:			
Fort Peck Reservation Rural Water System Act of 2000	15.516	02FC601670	\$1,727,038

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

This schedule of expenditures of federal awards includes the federal grant activity of Dry Prairie Rural Water Authority under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because this schedule presents only a selected portion of the operations of Dry Prairie Rural Water Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Dry Prairie Rural Water Authority.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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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 Directors
Dry Prairie Rural Water Authority
Culbertson, 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 business-type activities of Dry Prairie Rural Water Authority as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Dry Prairie Rural Water Authority's basic financial statements and have issued our report thereon dated May 6, 2015.

Internal Control Over Financial Reporting

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

Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters
Page 2

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 14-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dry Prairie Rural Water Authority'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*.

Dry Prairie Rural Water Authority's Response to Finding

The Dry Prairie Rural Water Authority's response to the finding identified in our audit is described in a separate letter included as the last page of this financial and compliance report. Dry Prairie Rural Water Authority'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.

Smith, Lange & Halley, PC
Smith, Lange & Halley, PC
Sidney, Montana

May 6, 2015

Smith, Lange & Halley, P.C.

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INDEPENDENT AUDITORS REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Dry Prairie Rural Water Authority
Culbertson, Montana

Report on Compliance for Each Major Federal Program

We have audited Dry Prairie Rural Water Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Dry Prairie Rural Water Authority's major federal program for the year ended December 31, 2014. Dry Prairie Rural Water Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Dry Prairie Rural Water Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dry Prairie Rural Water Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Dry Prairie Rural Water Authority's compliance.

Opinion on Major Federal Program

In our opinion, Dry Prairie Rural Water Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Dry Prairie Rural Water Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Dry Prairie Rural Water Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Dry Prairie Rural Water Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirements of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 14-1 to be a significant deficiency.

Independent Auditors Report on
Compliance for Each Major Program and
on Internal Control over Compliance
Page 3

Dry Prairie Rural Water Authority's response to the internal control over compliance finding identified in our audit is described in a separate letter included as the last page of this financial and compliance report. Dry Prairie Rural Water Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Smith, Lange & Halley, P.C.

Smith, Lange & Halley, P.C.
Sidney, Montana

May 6, 2015

DRY PRAIRIE RURAL WATER AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

Material weakness identified? No

Significant deficiency identified not considered to be material weaknesses? Yes

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified? No

Significant deficiency identified not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.516	Fort Peck Reservation Rural Water System Act of 2000

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes

DRY PRAIRIE RURAL WATER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 14-1 Lack of Segregation of Duties

Condition:

The Authority has a limited number of office personnel and accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria:

An adequate system of internal accounting control provides for a proper segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect:

Risk of misappropriation of Authority assets and inaccurate financial records as a result of errors or fraud.

Cause:

Limited office staff.

Recommendation:

While we recognize that the office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective system of internal accounting control, management should review the assignment of accounting functions and segregate duties of receiving, recording, and reconciling to the extent possible.

No action is necessary.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 14-1 above is also a federal award finding.

Smith, Lange & Halley, P.C.

Certified Public Accountants

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To the Management and Board of Directors
Dry Prairie Rural Water Authority
Culbertson, Montana

In planning and performing our audit of the financial statements of the business-type activities of Dry Prairie Rural Water Authority as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Dry Prairie Rural Water Authority's internal control over financial reporting (internal control) as a basis for designing our auditing 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 Dry Prairie Rural Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Dry Prairie Rural Water Authority's internal control.

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

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiency in Dry Prairie Rural Water Authority's internal control to be a significant deficiency:

The Authority has a limited number of office personnel and accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

An adequate system of internal accounting control provides for a proper segregation of duties so that no one individual handles a transaction from its inception to its completion. The effect of this deficiency could be the risk of misappropriation of Authority assets and inaccurate financial records as a result of error or fraud. While we recognize that the office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective system of internal accounting control, it is important that you be aware of this condition.

This communication is intended solely for the information and use of management and Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Lange & Halley, PC

Smith, Lange & Halley, PC

Sidney, Montana

May 6, 2015