

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**



**EAST MISSOULA COUNTY  
SEWER DISTRICT**

**FINANCIAL REPORT**

**June 30, 2014 and 2013**



## C O N T E N T S

	<u>PAGE</u>	
INDEPENDENT AUDITOR'S REPORT .....	1 and 2	
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3 to 5	
 FINANCIAL STATEMENTS		
Statements of Net Position .....	6	
Statements of Revenues, Expenses and Changes in Net Position .....	7	
Statements of Cash Flows .....	8 and 9	
Notes to Financial Statements .....	10 to 15	
 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 <i>GOVERNMENT AUDITING STANDARDS</i> .....		16 and 17

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
East Missoula County Sewer District  
Missoula, Montana

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

We have audited the accompanying financial statements of East Missoula County Sewer District (the District) as of and for the years ended June 30, 2014 and 2013, 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 audits. We conducted our audits 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 audits 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 risk 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 East Missoula County Sewer District as of June 30, 2014 and 2013, and its changes in financial position and cash flows for the years 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 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing 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 a report dated December 17, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Anderson Zurmuehlen & Co., P.C.*

Missoula, Montana  
December 17, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014 and 2013

Our discussion and analysis of the East Missoula County Sewer District's (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2014 and 2013. It should be read in conjunction with the District's financial statements, which begin on page 6.

### Financial Reporting

The District has issued a complete set of financial statements for the two fiscal years ended June 30, 2014 and 2013, in accordance with United States generally accepted accounting principles. These financial statements are designed to provide readers with a broad view of the District's finances in a manner similar to a private sector business. While this document contains information about the funds used by the District to provide services to our citizens, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the year?" The Statement of Net Position and the Statement Revenues, Expenses, and Change in Net Position answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies. The basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

### Financial Highlights

#### Condensed Financial Information

The following tables summarize financial condition and operating results for 2014, 2013, and 2012:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>2012</u>	<u>Change</u>
<b>ASSETS</b>					
Current assets	\$ 459,571	\$ 488,535	\$ (28,964)	\$ 509,120	\$ (20,585)
Capital assets, net	2,756,101	2,850,888	(94,787)	2,945,675	(94,787)
Other assets	<u>866,688</u>	<u>963,402</u>	<u>(96,714)</u>	<u>1,056,865</u>	<u>(93,463)</u>
Total assets	<u>4,082,360</u>	<u>4,302,825</u>	<u>(220,465)</u>	<u>4,511,660</u>	<u>(208,835)</u>
<b>LIABILITIES</b>					
Current liabilities	145,003	135,111	9,892	132,690	2,421
Long-term liabilities	<u>888,853</u>	<u>1,002,750</u>	<u>(113,897)</u>	<u>1,111,425</u>	<u>(108,675)</u>
Total liabilities	<u>1,033,856</u>	<u>1,137,861</u>	<u>(104,005)</u>	<u>1,244,115</u>	<u>(106,254)</u>
<b>NET POSITION</b>					
Net investment in capital assets	1,753,350	1,739,463	13,887	1,730,559	8,904
Restricted	962,141	1,059,853	(97,712)	1,158,733	(98,880)
Unrestricted	<u>333,013</u>	<u>365,648</u>	<u>(32,635)</u>	<u>378,253</u>	<u>(12,605)</u>
Net position	<u>\$ 3,048,504</u>	<u>\$ 3,164,964</u>	<u>\$ (116,460)</u>	<u>\$ 3,267,545</u>	<u>\$ (102,581)</u>

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>2012</u>	<u>Change</u>
Operating Expenses					
Accounting and audit fees	\$ 7,900	\$ 7,700	\$ 200	\$ 7,500	\$ 200
Depreciation	94,787	94,787	-	94,787	-
Other operating expenses	21,954	6,671	15,283	7,517	(846)
	<u>124,641</u>	<u>109,158</u>	<u>15,483</u>	<u>109,804</u>	<u>(646)</u>
Loss from operations	(124,641)	(109,158)	(15,483)	(109,804)	646
Nonoperating Expenses					
Interest expense	<u>(48,937)</u>	<u>(54,038)</u>	<u>5,101</u>	<u>(58,906)</u>	<u>4,868</u>
	<u>(48,937)</u>	<u>(54,038)</u>	<u>6,851</u>	<u>(58,906)</u>	<u>4,868</u>
Nonoperating Revenues					
Property taxes	11,103	12,131	(1,028)	12,299	(168)
Investment income	978	1,549	(571)	1,935	(386)
Interest on assessments	43,423	46,013	(2,590)	53,810	(7,797)
Assessments	1,614	922	692	2,383	(1,461)
	<u>57,118</u>	<u>60,615</u>	<u>(3,497)</u>	<u>70,427</u>	<u>(9,812)</u>
Change in net position	(116,460)	(102,581)	(12,129)	(98,283)	5,514
Net Position					
Beginning of year	3,164,964	3,267,545	(102,581)	3,343,953	(76,408)
Restatement	-	-	-	21,875	(21,875)
Beginning of year as restated	<u>3,164,964</u>	<u>3,267,545</u>	<u>(102,581)</u>	<u>3,365,828</u>	<u>(98,283)</u>
End of year	<u>\$ 3,048,504</u>	<u>\$ 3,164,964</u>	<u>\$ (114,710)</u>	<u>\$ 3,267,545</u>	<u>\$ (102,581)</u>

### Discussion of Financial Results

Current assets include cash and receivables. Current assets decreased between 2013 and 2014 due to a decrease in cash. Capital assets consist principally of the cost of the sewer system net of depreciation. The decrease in capital assets is due to current year depreciation. Other assets are long-term assessments receivable. The decrease in other assets in 2014 and 2013 is due to current year scheduled payments received combined with the elimination of bond issuance costs due to implementation of GASB Statement No. 65 Items Previously Reported as Assets and Liabilities.

Current liabilities include accounts payable, accrued interest, and the current portion of long-term debt. The increase in current liabilities between 2013 and 2014 is primarily due to an increase in accounts payable and the current portion of long-term debt. Long-term debt consists of the Series 2003 revenue bonds, which are being retired in accordance with their stated terms.

### **Discussion of Financial Results (Continued)**

As a result of these activities, net assets (equity) decreased by \$116,460 and \$102,581 in 2014 and 2013, respectively. Restricted net position in 2014 and 2013 consisted of \$162,335 and \$162,020 of cash, respectively, for debt service in accordance with the bond covenants. Assessments receivable are also reported as restricted net assets as these receivables are pledged revenues to satisfy the bond payments.

Operating expenses consist primarily of audit fees, legal fees, depreciation expense, and board member expenses.

Nonoperating revenues primarily represent interest earnings on assessments and interest on investments.

Substantially all of the nonoperating expense is bond interest.

### **Currently Known Conditions**

On July 1, 2014, the District refinanced the revenue bonds in order to obtain a lower interest rate. With the refinancing, the District respread the assessments over the properties that have not been paid off, resulting in lower assessment balances for each property and a savings to the property owners of approximately \$290,000.

FINANCIAL STATEMENTS

EAST MISSOULA COUNTY SEWER DISTRICT  
STATEMENTS OF NET POSITION  
June 30, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 363,628	\$ 391,379
Taxes receivable	490	705
Current portion of assessments receivable	<u>95,453</u>	<u>96,451</u>
Total current assets	459,571	488,535
Nondepreciable Capital Assets	48,774	48,774
Depreciable Capital Assets, Net	2,707,327	2,802,114
Designated Cash - Debt Service Reserve	162,335	162,020
Assessments Receivable, Less Current Portion	<u>704,353</u>	<u>801,382</u>
Total assets	<u>\$ 4,082,360</u>	<u>\$ 4,302,825</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 7,290	\$ 40
Accrued interest	23,815	26,396
Current portion of revenue bonds payable	<u>113,898</u>	<u>108,675</u>
Total current liabilities	145,003	135,111
Long-Term Liabilities		
Revenue bonds payable, less current portion	<u>888,853</u>	<u>1,002,750</u>
Total liabilities	<u>1,033,856</u>	<u>1,137,861</u>
NET POSITION		
Net investment in capital assets	1,753,350	1,739,463
Restricted for debt service	962,141	1,059,853
Unrestricted	<u>333,013</u>	<u>365,648</u>
Net position	<u>3,048,504</u>	<u>3,164,964</u>
Total liabilities and net position	<u>\$ 4,082,360</u>	<u>\$ 4,302,825</u>

The Notes to Financial Statements are an integral part of these statements.

EAST MISSOULA COUNTY SEWER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Expenses		
Accounting and audit fees	\$ 7,900	\$ 7,700
Depreciation	94,787	94,787
Other operating expenses	<u>21,954</u>	<u>6,671</u>
Total operating expenses	<u>124,641</u>	<u>109,158</u>
Operating loss	<u>(124,641)</u>	<u>(109,158)</u>
Nonoperating Expenses		
Interest	<u>(48,937)</u>	<u>(54,038)</u>
Total nonoperating expenses	<u>(48,937)</u>	<u>(54,038)</u>
Nonoperating Revenues		
Property taxes	11,103	12,131
Interest income	978	1,549
Interest on assessments	43,423	46,013
Assessments	<u>1,614</u>	<u>922</u>
Total nonoperating revenues	<u>57,118</u>	<u>60,615</u>
Change in net position	(116,460)	(102,581)
Net Position		
Beginning of year	3,164,964	3,287,670
Restatement	<u>-</u>	<u>(20,125)</u>
Beginning of year as restated	<u>3,164,964</u>	<u>3,267,545</u>
End of year	<u>\$ 3,048,504</u>	<u>\$ 3,164,964</u>

The Notes to Financial Statements are an integral part of these statements.

EAST MISSOULA COUNTY SEWER DISTRICT  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash payments for administration	\$ (22,604)	\$ (14,471)
Net cash flows from operating activities	<u>(22,604)</u>	<u>(14,471)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash received from interest on assessments	43,423	46,013
Cash received from property taxes	11,318	12,381
Interest paid	(51,518)	(56,501)
Principal paid on revenue bonds	(108,674)	(103,691)
Change in debt service reserve	(315)	(500)
Assessments received	<u>99,641</u>	<u>100,302</u>
Net cash flows from capital and related financing activities	<u>(6,125)</u>	<u>(1,996)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>978</u>	<u>1,549</u>
Net cash flows from investing activities	<u>978</u>	<u>1,549</u>
Net change in cash and cash equivalents	(27,751)	(14,918)
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>391,379</u>	<u>406,297</u>
End of year	<u>\$ 363,628</u>	<u>\$ 391,379</u>

The Notes to Financial Statements are an integral part of these statements.

EAST MISSOULA COUNTY SEWER DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (124,641)	\$ (109,158)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Change in accounts payable	7,250	(100)
Depreciation	<u>94,787</u>	<u>94,787</u>
Net cash flows from operating activities	<u>\$ (22,604)</u>	<u>\$ (14,471)</u>

The Notes to Financial Statements are an integral part of these statements.

EAST MISSOULA COUNTY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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

**Reporting Entity**

The East Missoula County Sewer District (the District) was established on January 4, 1993, through the result of an election pursuant to the Montana Code Annotated, Title 7, Chapter 13, Parts 22 and 23. The five-member governing board is elected by the residents of the District. The District contains approximately 250 acres and has a population of approximately 12,000.

**Sewer Operations**

The District's operations consist of the construction of a sewer system that will benefit and serve all of the property in the District. Construction of the system was financed through grants and revenue bonds. Assessments on the properties within the District are collected to meet the debt service on the bonds. An interlocal agreement between the City of Missoula and the District stipulates that operations, maintenance, repair, and replacement of the sewer system will be provided by the City of Missoula and that ownership of the system transfers to the City upon retirement of the District's indebtedness. Under this agreement, the City charges fees to the users of the system to cover the cost of operation.

**Basis of Accounting**

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, and follow proprietary fund reporting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District's financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized.

**Property Taxes**

The District is authorized to levy property taxes to fund operating expenses. Property tax levies are set in August and are billed in November by the County. Taxes are due 50% by November 30 and 50% by May 31 of the following year. After those dates, they become delinquent and a lien is placed on the property. After three years, the District can exercise the lien and take title to the property. No allowance for uncollectible taxes is provided since it is assumed that the proceeds from any sale of tax deed property will equal or exceed the lien amount. Property taxes are reported as nonoperating revenues of the District.

EAST MISSOULA COUNTY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014 and 2013

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

**Budgets**

Although not statutorily required, the District legally adopts an annual budget based primarily on the cash basis. Information related to budget development procedures and budget and actual information is available in the Missoula County's comprehensive annual financial report.

**New Accounting Pronouncements**

The District has adopted the provisions of the following GASB pronouncements for fiscal year 2014:

Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities and deferred outflows or deferred inflows, respectively.

**Assessments Receivable**

Receivables consist of hookups to the sewer system that have been assessed through the Missoula County Property Tax system. Based on historical collections, management has determined that an allowance for doubtful accounts is not necessary.

**Classification of Net Position**

The District classifies its fund net position as follows:

***Net investment in Capital Assets***

The District's investment in property and equipment, net of depreciation and related outstanding debt.

***Restricted***

Resources that are not expendable due to bond covenants are reported as restricted net assets. Restricted net assets are principally assessments receivable that are to be used for debt service when billed and received, and cash designated for debt service reserve.

***Unrestricted***

Resources over which the governing board has discretionary control.

EAST MISSOULA COUNTY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014 and 2013

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

**Cash, Investments and Investment Income**

Cash and cash equivalents consist principally of funds on deposit with the Missoula County Treasurer. Such funds consist of demand and time deposits that are commingled with funds of other taxing districts. Information regarding credit risk, insurance, and collateral relating to cash equivalents can be found in Missoula County's annual financial report for the years ended June 30, 2014 and 2013. For purposes of the statements of cash flows, the District considers all pooled cash with the County Treasurer to be cash equivalents. Interest revenue consists of allocations of income on funds held by the Missoula County Treasurer and bank account interest.

**Capital Assets and Depreciation**

Fixed assets are recorded at cost including capitalization of interest cost during construction. Straight-line depreciation is calculated based on the following useful lives:

Sewer System	40 years
Capitalized Interest	40 years

Maintenance and repairs are charged to expense as incurred and all betterments are capitalized.

**Designated Cash**

The District's board has designated cash to service future bond payments, in accordance with the Series 2003 Sewer System Revenue Bond covenants. At June 31, 2014 and 2013, the District had \$162,335 and \$162,020 in designated cash, respectively.

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

EAST MISSOULA COUNTY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

**NOTE 2. CAPITAL ASSETS**

Changes in capital assets were as follows:

2014

	<u>7/1/2013</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2014</u> <u>Balance</u>
Capital Assets not being Depreciated				
Land	\$ 48,774	\$ -	\$ -	\$ 48,774
Capital Assets being Depreciated				
Sewer system	3,791,474	-	-	3,791,474
	3,791,474	-	-	3,791,474
Less accumulated depreciation	(989,360)	(94,787)	-	(1,084,147)
Total depreciable capital assets, net	2,802,114	(94,787)	-	2,707,327
Capital assets, net	<u>\$ 2,850,888</u>	<u>\$ (94,787)</u>	<u>\$ -</u>	<u>\$ 2,756,101</u>

2013

	<u>7/1/2012</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2013</u> <u>Balance</u>
Capital Assets not being Depreciated				
Land	\$ 48,774	\$ -	\$ -	\$ 48,774
Capital Assets being Depreciated				
Sewer system	3,791,474	-	-	3,791,474
	3,791,474	-	-	3,791,474
Less accumulated depreciation	(894,573)	(94,787)	-	(989,360)
Total depreciable capital assets, net	2,896,901	(94,787)	-	2,802,114
Capital assets, net	<u>\$ 2,945,675</u>	<u>\$ (94,787)</u>	<u>\$ -</u>	<u>\$ 2,850,888</u>

EAST MISSOULA COUNTY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014 and 2013

**NOTE 3. LONG-TERM DEBT**

On October 17, 2003, the District issued \$2,053,200 of Series 2003 Sewer System Revenue Bonds. The bonds were issued at par, bear interest of 4.75%, and are secured by assessments charged to all properties within the District. The bonds were purchased by the U.S. Department of Agriculture Rural Utility Service. Proceeds from the bonds were used to finance the construction of a new public sewer system in East Missoula.

Changes in long-term debt were as follows:

<u>2014</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	\$ 1,111,425	\$ -	\$ 108,674	\$ 1,002,751	\$ 113,898

<u>2013</u>	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	\$ 1,215,116	\$ -	\$ 103,691	\$ 1,111,425	\$ 108,675

A total of \$12,653 of interest on the revenue bonds was capitalized into the cost of the sewer system in 2003.

Debt service requirements to maturity on the revenue bonds at June 30, 2014, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 113,898	\$ 46,294	\$ 160,192
2016	119,372	40,820	160,192
2017	125,110	35,082	160,192
2018	131,123	29,069	160,192
2019	137,426	22,766	160,192
2020	144,031	16,161	160,192
2021	150,954	9,239	160,193
2022	80,837	1,983	82,820
Total	<u>\$ 1,002,751</u>	<u>\$ 201,414</u>	<u>\$ 1,204,165</u>

EAST MISSOULA COUNTY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

**NOTE 3. LONG-TERM DEBT (CONTINUED)**

The revenue bond limits the amount of indebtedness for the district to \$2,400,000, as well as provides requirements related to the collection, management, and accounting procedures for the sewer operations. At June 30, 2014 and 2013, the District was in compliance with all covenants.

**NOTE 4. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, damage or loss of assets, errors and omissions, and natural disasters. The District manages these risks through participation with the City of Missoula's risk management program. Information related to the City's risk management is available in its comprehensive annual financial report.

**NOTE 5. CHANGE IN ACCOUNTING PRINCIPLE**

In 2014, the District implemented GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. As part of the implementation, the District eliminated the Bond Issuance Cost asset. Comparative financial statements of prior years have been adjusted to apply the change in accounting principle retrospectively. Bond issuance costs were written off due to the change in accounting principle.

**NOTE 6. SUBSEQUENT EVENT**

On July 1, 2014, the District refinanced the outstanding revenue bonds with a bank loan for \$600,000 and \$387,258 in cash payments. Assessments were reassessed in conjunction with the refinancing, saving the District property owners approximately \$290,600.

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 Trustees  
East Missoula County Sewer District  
Missoula, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Missoula County Sewer District (the 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, and have issued our report thereon dated December 17, 2014.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free 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*.

### **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.

*Anderson Zurmuehlen & Co., P.C.*

Missoula, Montana  
December 17, 2014



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