

EAST BENCH IRRIGATION DISTRICT
Dillon, Montana

Financial Statements

For the Year Ended December 31, 2013

EAST BENCH IRRIGATION DISTRICT
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For the Year Ended December 31, 2013

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Organization

As of December 31, 2013

Board of Commissioners

Gil Stoddard	President
Matt Christiansen	Vice President
Pete Rebish	
Ron Nye	
Larry Martin	

Administration

Dennis Miotke	Manager
Susanna Ruby	Secretary



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INDEPENDENT AUDITOR'S REPORT

Honorable Judge, Fifth Judicial District and Commissioners
East Bench Irrigation District
Dillon, Montana 59725

Report on the Financial Statements

We have audited the accompanying financial statements of East Bench Irrigation District, Dillon, Montana (the District), as of and for the year ended December 31, 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 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 District, as of December 31, 2013, and the results of its respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion 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 December 30, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

PECK & PECK, CPAs PC

Peck & Peck, CPAs PC

Dillon, Montana
December 30, 2014

**EAST BENCH IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2013**

The Project Manager and Business Manager of East Bench Irrigation District (the District) have provided this MD&A to give the reader of these statements an overview of the financial position and activities of the District for the year covered by this audit report.

FINANCIAL HIGHLIGHTS

- Operating revenues accounted for \$794,649 in revenue, or 99 percent of all fiscal year 2013 revenues. Investment income accounted for \$3,713 or 1 percent of total fiscal year 2013 revenues.
- The District had \$463,284 in operating expenses, and \$4,619 in interest expense.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise four components: 1) statement of net position, 2) statement of revenues, expenses and changes in net position, 3) statement of cash flows, and 4) notes to the financial statements.

Basic financial statements. The basic *financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's 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 the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how the District's net position changed during the most recent fiscal year. 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*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables and earned but unused compensated absences).

The *statement of cash flows* reports the changes in cash and cash equivalents from operating, financing, and investing activities.

The basic financial statements can be found on pages 7-9 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 page 10-15 of this report.

FINANCIAL ANALYSIS

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$8,062,729 as of December 31, 2013.

By far the largest portion of the District's net assets (76.6 percent) reflects its investment in capital assets (e.g., water distribution system and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide water to its members; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**EAST BENCH IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2013**

The District's financial position is the product of several financial transactions including the net results of operations, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Changes in the District's net assets (in thousands of dollars) were as follows:

	<u>2012</u>	<u>2013</u>	<u>Percent Change</u>
Current assets	\$ 1,020.9	\$ 1,266.2	24.0%
Other assets	671.9	702.6	4.6%
Capital assets, net	<u>7,736.1</u>	<u>7,750.7</u>	0.2%
Total assets	<u>9,428.9</u>	<u>9,719.5</u>	3.1%
Current liabilities	154.7	211.5	36.7%
Long-term debt outstanding	<u>1,542.0</u>	<u>1,445.3</u>	-6.3%
Total liabilities	<u>1,696.7</u>	<u>1,656.8</u>	-2.4%
Net position consist of:			
Investment in capital assets, net of related debt	6,098.4	6,177.9	1.3%
Restricted	410.2	526.1	28.3%
Unrestricted	<u>1,223.6</u>	<u>1,358.7</u>	11.0%
Total net position	<u>\$ 7,732.2</u>	<u>\$ 8,062.7</u>	4.3%

The following is a significant current year transactions that has had an impact of the Statement of Net Position.

- The principal retirement of \$64,955.

Changes in net position. The District's total revenues for the fiscal year ended December 31, 2013, were \$794,649. The total cost of operations was \$463,284. The following table presents a summary of the changes in net position (in thousands of dollars).

	<u>2012</u>	<u>2013</u>	<u>Percent Change</u>
Revenues:			
Operating revenues:			
Water assessments	\$ 664.8	\$ 665.4	0.1%
Operation subsidies, reimbursements	<u>102.7</u>	<u>129.3</u>	25.9%
Total operating revenues	<u>767.5</u>	<u>794.7</u>	3.5%
Operating Expenses:			
Administration and general	176.0	141.4	-19.7%
Operation and maintenance of system	272.9	261.7	-4.1%
Equipment operation	61.3	52.7	-14.0%
Canyon Ferry supply works	<u>16.2</u>	<u>7.5</u>	-53.7%
Total operating expenses	<u>526.4</u>	<u>463.3</u>	-12.0%
Income from operations	241.1	331.4	37.5%
Non-Operating Revenues (Expenses):			
Investment income	4.8	3.7	-22.9%
Interest expense	<u>(5.6)</u>	<u>(4.6)</u>	-17.9%
Total non-operating revenues (expenses)	<u>(0.8)</u>	<u>(0.9)</u>	12.5%
Increase (decrease) in net position	<u>\$ 240.3</u>	<u>\$ 330.5</u>	37.5%

**EAST BENCH IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2013**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of December 31, 2013, the District had invested \$8,237,966 in capital assets, including water distribution system, vehicles, and other equipment. Total depreciation expense for the year was \$12,682.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended December 31, 2013.

	<u>Amount</u>
Water distribution system	\$ 7,668,413
Vehicles and equipment	<u>569,553</u>
Total	<u>\$ 8,237,966</u>

Additional information on the District's capital assets can be found in on page 13 of this report.

Debt Administration. At year-end, the District had \$1,572,695 in debt outstanding, of which \$127,410 is due within one year.

Additional information on the District's long-term debt can be found on page 13-14 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Many factors were considered by the District's administration during the process of developing the fiscal year 2013 budget. The primary factor was the District's operating cost and debt payment requirements.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our members and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Business Office, East Bench Irrigation District, 1100 Hwy 41, Dillon, MT 59725.

EAST BENCH IRRIGATION DISTRICT

Statement of Net Position

As of December 31, 2013

ASSETS

Current Assets

Cash and cash equivalents	\$ 928,934
Assessments receivable	325,921
Unbilled work in progress	<u>11,369</u>
Total Current Assets	<u><u>1,266,224</u></u>

Other Assets

Restricted investments	<u>702,578</u>
Total Other Assets	<u><u>702,578</u></u>

Non-Current Assets

Capital assets	8,237,966
Less: accumulated depreciation	<u>(487,292)</u>
Total Non-Current Assets	<u><u>7,750,674</u></u>
Total Assets	<u><u>9,719,476</u></u>

LIABILITIES

Current Liabilities

Accrued liabilities	41,014
Vacation and sick leave payable	43,038
Current portion of long-term debt	<u>127,410</u>
Total Current Liabilities	211,462

Long-Term Liabilities

Organization contracts and loans payable	1,572,695
Less: current portion	<u>(127,410)</u>
Total Long-Term Liabilities	<u><u>1,445,285</u></u>
Total Liabilities	<u><u>1,656,747</u></u>

NET POSITION

Investment in capital assets, net of related debt	6,177,979
Restricted for:	
Construction	189,363
Gravity 1	253,113
Gravity 2	83,585
Unrestricted	1,358,689
Total Net Position	<u><u>\$ 8,062,729</u></u>

The notes to the financial statements are an integral part of this statement.

EAST BENCH IRRIGATION DISTRICT
Statement of Revenues, Expenses and
Changes in Net Position
For the Year Ended December 31, 2013

Operating Revenues	
Water assessments	\$ 662,526
Penalties and interest on delinquent assessments	2,855
Operation subsidies, reimbursements and other income	129,268
Total Operating Revenues	<u>794,649</u>
 Operating Expenses	
Administrative and general	141,353
Operation and maintenance of system	261,705
Equipment operation	52,758
Canyon Ferry supply works	7,468
Total Operating Expenses	<u>463,284</u>
Income From Operations	331,365
 Non-Operating Revenues (Expenses)	
Investment income	3,713
Interest expense	(4,619)
Total Non-Operating Revenues (Expenses)	<u>(906)</u>
Increase (Decrease) In Net Position	330,459
Net Position, Beginning of Year	<u>7,732,270</u>
Net Position, End of Year	<u><u>\$ 8,062,729</u></u>

The notes to the financial statements are an integral part of this statement.

EAST BENCH IRRIGATION DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2013

Cash Inflows (Outflows) From Operating Activities:	
Cash received from water users	\$ 633,060
Cash paid to suppliers and employees	(436,973)
Cash received from subsidies and other income	<u>129,268</u>
Net Cash Inflows (Outflows) From Operating Activities	<u><u>325,355</u></u>
Cash Inflows (Outflows) From Capital and Related Financing Activities:	
Payment on Construction Debt:	
Principle	(64,955)
Interest	<u>(4,619)</u>
Net Cash Inflows (Outflows) From Financing Activities	<u><u>(69,574)</u></u>
Cash Inflows (Outflows) From Investing Activities:	
Change in restricted cash and cash equivalents	(57,862)
Investment income	<u>3,713</u>
Net Cash Inflows (Outflows) From Investing Activities	<u><u>(54,149)</u></u>
Net Increase (Decrease) in Cash and Cash Equivalents	201,632
Cash and Cash Equivalents at Beginning of Year	<u>727,302</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 928,934</u></u>

Reconciliation of Net Income to Net Cash	
Provided by Operating Activities:	
Income from operations	\$ 331,365
Depreciation of fixed assets	12,682
(Increase) decrease in assessments receivable	(32,322)
(Increase) decrease in work in progress	(19,963)
Increase (decrease) in accrued liabilities	
Increase (decrease) in vacation and sick benefits payable	<u>5,372</u>
Net Cash Inflows (Outflows) From Operating Activities	<u><u>\$ 297,134</u></u>

The notes to the financial statements are an integral part of this statement.

EAST BENCH IRRIGATION DISTRICT

Dillon, Montana

Notes to the Financial Statements

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the East Bench Irrigation District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and reporting principles.

In the fiscal year 2005, the District adopted GASB Statement No. 34, "*Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments.*"

The more significant of the District's accounting policies are described below.

A. **Reporting Entity**

The East Bench Irrigation District was created October 8, 1958, as a part of the Missouri River Basin Project, for the purpose of furnishing water for the irrigation of lands within the District and the construction, operation and maintenance of distribution works necessary for the irrigation of such lands. The District operated from October 8, 1958, until January 1, 1976, as an agency of the Bureau of Reclamation. As of January 1, 1976, the responsibility for the maintenance and operation of the water supply works was transferred to the present East Bench Irrigation District, created in accordance with Montana law, along with operation and maintenance equipment. Although the District has the responsibility for operation and maintenance, Article 14 of the Organization Contract stipulates that title of such distribution works will remain with the United States Government.

The financial statements include all of the operations controlled by the Board of Commissioners (the primary government). The District has no component units as defined by Generally Accepted Accounting Principles.

B. **Fund Accounting**

The activities of the District are organized and the accompanying financial statements are presented with the District being considered an independent Proprietary Fund, specifically an Enterprise Fund. A brief description follows:

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital management, public policy, management control, accountability, or other purposes.

C. **Basis of Accounting**

Basis of accounting refers to when revenues and/or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accrual basis of accounting is used by the District. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

D. **Budget**

The District is required by State law to adopt a budget, primarily to support assessments levied on water users in the District. The budget is adopted pursuant to State law. It is not presented herein because the activities of the District are treated as an enterprise fund.

EAST BENCH IRRIGATION DISTRICT

Dillon, Montana

Notes to the Financial Statements - Continued

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prior to the second Monday of July, the District Commissioners ascertain the total levy amount required to fund district activities. The Commissioners are required to adopt the final budget, fix the assessment levy and present the information to the assessors of the two counties by the third Monday in August.

E. Cash and Investments

Cash and investments are held by the Beaverhead County Treasurer. Federal deposit insurance and adequate collateralization is maintained by the Beaverhead County Treasurer. State law requires only 50% collateralization of deposits in excess of federal deposit insurance. Investments are stated at cost plus interest added since investment date.

The District has no formal investment policy, but follows State law.

F. Inventories

Supplies inventory is valued at actual cost, with cost being determined using the first in first out method.

G. District Assessments

The District assessments are based upon operating requirements and are levied based on irrigable acres.

	Per Acre	Acres	Total
Operation and maintenance	\$ 18.00	22,687	\$ 408,366
Payment-original contract	\$ 2.60	22,687	\$ 58,986
Water payment	\$ 1.20	22,687	\$ 27,224
Canyon Ferry contract	\$ 2.00	22,687	\$ 45,374
Gravity #1	\$ 10.00	6,511	\$ 65,110
Gravity #2	\$ 17.40	2,670	\$ 46,458
			<u>\$ 651,519</u>

The assessments are billed and collected in the same fashion as county property taxes, i.e. they are billed and collected along with property taxes for the respective counties.

Delinquent assessment records are maintained by the County Treasurer and by the District. The District has the right to withhold water for nonpayment of assessments.

Since irrigation water can be withheld for nonpayment, uncollectible assessments rarely occur. Accordingly, District policy is that assessments are to be written off when deemed uncollectible. No provision has been made for uncollectible assessments receivable.

H. Capital Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with a fund are determined by its measurement focus. Enterprise funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported total net position is segregated into investment in capital assets, restricted and unrestricted. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

EAST BENCH IRRIGATION DISTRICT

Dillon, Montana

Notes to the Financial Statements - Continued

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. These assets are capitalized at cost or estimated historical cost. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Distribution Works Equipment	Not Depreciated 4-20 years
Depreciation expense charged:	\$12,682

I. Vacation and Sick Leave

The District allows employees to accumulate unused vacation and sick leave. Upon termination payment is required for all vacation and 25% of sick leave. All sick leave is paid only upon illness while in the employment of the District. The amounts provided for accrued vacation, sick leave and employment taxes related to the accrued vacation and sick leave are charged to expense and a corresponding liability.

J. Statement of Cash Flows

For the purpose of the Statement of Cash Flows all highly liquid investments, with a maturity of three months or less when purchased, are cash equivalents.

2. CASH AND INVESTMENTS

As discussed in I above, the District has no formal investment policy but follows State law for deposits and investments are held by the County Treasurer. The District directs the investment of money pursuant to the provisions of state statutes. Monies with the County Treasurer are invested in the Montana State Short Term Investment Pool.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. The County Treasurer has the fiduciary responsibility to ensure that adequate collateral is pledged for all investments that are not fully covered by Federal Deposit Insurance. Montana code allows the County Treasurer to take collateral up to 50% of deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%. Risk in the event of loss is unclear in State law, but may be the liability of the County government. Risk classification of the District's deposits and pooled investment can be obtained from the Beaverhead County Treasurer

At December 31, 2013, the District had the following outstanding cash and investments:

Unrestricted:	<u>Carrying Value</u>	<u>Market Value</u>
Demand accounts	\$ 249,110	\$ 249,110
Montana State STIP	679,824	679,824
Total cash and investments	<u>\$ 928,934</u>	<u>\$ 928,934</u>
Restricted:	<u>Carrying Value</u>	<u>Market Value</u>
Investments	<u>\$ 702,578</u>	<u>\$ 702,578</u>

EAST BENCH IRRIGATION DISTRICT

Dillon, Montana

Notes to the Financial Statements - Continued

December 31, 2013

3. RESTRICTED ASSETS

Restricted assets are composed as follows:

	<u>Amount</u>	<u>Authority</u>
Operation & maintenance:		
Emergency	\$ 393,910	USBR Contract #14-06-600-3593 Sec. 13, as amended 6/29/78
Depreciation	148,638	East Bench ID SOP
US Contract	<u>160,030</u>	MCA 85-7-2133(1)
	<u>\$ 702,578</u>	

4. CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2013, follows:

	<u>Balance</u>			<u>Balance</u>
	<u>January 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2013</u>
Distribution system	\$ 7,668,413	\$ 27,255	\$ -	\$ 7,695,668
Machinery and equipment	<u>542,298</u>	<u>-</u>	<u>-</u>	<u>542,298</u>
	8,210,711	27,255	-	8,237,966
Less: accumulated depreciation	<u>(474,610)</u>	<u>(12,682)</u>	<u>-</u>	<u>(487,292)</u>
Net capital assets	<u>\$ 7,736,101</u>	<u>\$ 14,573</u>	<u>\$ -</u>	<u>\$ 7,750,674</u>

5. VACATION AND SICK LEAVE

Employees earn vacation leave at the rate of 15 days per year for the first 10 years. Between 10 years and 20 years, employees earn vacation leave at an increasing rate, reaching 24 days per year after 20 years. There is no requirement that annual leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two year period. At termination employees are paid for any accumulated annual leave.

Employees earn sick leave at the rate of 13 days per year. There is no limit on the accumulation of sick leave. At termination, employees are paid one day for every four days of accumulated sick leave earned.

6. LONG-TERM DEBT

Long-Term Debt at December 31, 2013, is composed of the following individual items:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
USBR Contract (#14-06-600-3593)	No interest	\$ 142,168

USBR Contract (#14-06-600-3593) debt service requirements to maturity are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2014	71,088	-
2015	47,392	-
2016	<u>23,688</u>	<u>-</u>
	<u>\$ 142,168</u>	<u>\$ -</u>

EAST BENCH IRRIGATION DISTRICT

Dillon, Montana

Notes to the Financial Statements - Continued

December 31, 2013

6. LONG-TERM DEBT - CONTINUED

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Gravity 2	3%	\$ 128,219

Gravity 2 debt service requirements to maturity are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2014	35,281	3,584
2015	36,347	2,517
2016	37,446	1,419
2017	19,145	287
	<u>\$ 128,219</u>	<u>\$ 7,807</u>

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
USBR Water Supply #0969F670010	No interest	\$ 1,302,308

USBR Water Supply #0969F670010 debt service requirements to maturity are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 21,041	\$ -
2015	14,027	-
2016	14,027	-
2017	14,027	-
2018	14,027	-
2019-2046	1,225,159	-
	<u>\$ 1,302,308</u>	<u>\$ -</u>

Long-term liability activity for the year ended December 31, 2013, was as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
USBR Contract #14-06-600-3593	\$ 165,864	\$ -	\$ (23,696)	\$ 142,168	\$ 71,088
Gravity 2	162,465	-	(34,246)	128,219	35,281
USBR Contract #0969F670010	1,309,322	-	(7,014)	1,302,308	21,041
Compensated absences	37,666	5,372	-	43,038	43,038
Long-term liabilities	<u>\$ 1,675,317</u>	<u>\$ 5,372</u>	<u>\$ (64,956)</u>	<u>\$ 1,615,733</u>	<u>\$ 170,448</u>

EAST BENCH IRRIGATION DISTRICT

Dillon, Montana

Notes to the Financial Statements - Continued

December 31, 2013

7. DEFERRED COMPENSATION PLAN

The District provides employees a Deferred Compensation Plan (Internal Revenue Code Section 457), effective December 31, 1999, which covers all employees. Employees are eligible to participate from the date of employment. The District contributes an amount equal to 6.7% of the employee's monthly salary. An equal amount is withheld monthly from the employee, with voluntary additional contributions also allowable. Both the District and the covered employees made the required contributions, amounting to \$11,241 from each source, or \$25,435 in total which includes voluntary contributions.

8. RISK MANAGEMENT

The East Bench Irrigation District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, 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 torts, and professional liabilities. Workers' compensation is obtained from the State Compensation Insurance Fund. Employee medical insurance is obtained for the Districts employees. And, given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

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



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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

Honorable Judge, Fifth Judicial District and Commissioners
East Bench Irrigation District
Dillon, Montana 59725

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 East Bench Irrigation District (the District), as of and for the year ended December 31, 2013, 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 30, 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.

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 described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses. (Item 2013-1)

Compliance and Other Matters

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

The District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PECK & PECK, CPAs PC

Peck & Peck, CPAs PC

Dillon, Montana
December 30, 2014

EAST BENCH IRRIGATION DISTRICT
Dillon, Montana
Schedule of Findings and Recommendations
For the Year Ended December 31, 2013

SECTION I – SUMMARY OF THE AUDITOR’S RESULTS

Financial Statements

- | | |
|--|-------------------------------|
| 1. Type of auditor’s report issued: | Unqualified Opinion |
| 2. Internal control over financial reporting: | |
| Material weakness(es) identified? | <u> X </u> yes <u> </u> no |
| Significant deficiency(s) identified not considered to be material weaknesses? | <u> </u> yes <u> X </u> no |
| 3. Noncompliance material to financial statements noted? | <u> </u> yes <u> X </u> no |

SECTION II – FINANCIAL STATEMENTS FINDINGS

Material Weakness:

2013 -1 Preparation of draft financial statements and related footnotes was performed by Auditor

Criteria:

Generally accepted auditing standards require that financial statements to be a product of a financial reporting system that offers reasonable assurance that the management is able to produce financial statements that are in accordance with generally accepted accounting principles.

Condition:

While the auditor maintained independence under the AICPA Ethics Interpretation of 101-3, Performance of Non-Attest Services, the auditor assisted in posting client approved adjusting journal entries to the trial balance and in the preparation of draft financial statements and notes.

Effect:

A significant internal control deficiency exists that results in a more than remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the District’s internal control.

Cause:

Auditor assistance in the preparation of financial statements and notes is a matter of necessity rather than of convenience.

Recommendation:

We recommend that the District correct the material weakness in the internal control system over financial reporting by hiring a qualified consultant to evaluate the presentation in accordance with GAAP for financial statements and notes.

Response:

We take your recommendation under advisement but the District does not have the in house expertise or the financial resources available to hire a consultant for the preparation of draft financial statements and related notes at this time.

**EAST BENCH IRRIGATION DISTRICT
Dillon, Montana
Schedule of Prior Report Recommendations
For the Year Ended December 31, 2013**

2012-1 Preparation of draft financial statements by Auditor

Not implemented.