

**FORT SHAW IRRIGATION DISTRICT  
FORT SHAW, MONTANA**

**FINANCIAL & COMPLIANCE  
REPORT**

**FOR THE YEAR ENDED  
December 31, 2013**

**DONALD NOLAN DAVIES**  
Certified Public Accountant

**FORT SHAW IRRIGATION DISTRICT,  
FORT SHAW, MONTANA**

DECEMBER 31, 2013

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**FORT SHAW IRRIGATION DISTRICT  
FORT SHAW, MONTANA**

ORGANIZATION

DECEMBER 31, 2013

BOARD OF COMMISSIONERS

President ..... Keith Rohrer  
Vice President ..... Todd Klick  
Commissioner ..... Phil Johnson  
Commissioner ..... Trevor McGurran  
Commissioner ..... Dick Eisenzimer

OFFICERS/EMPLOYEES

Manager ..... Rich Boyle  
Accountant ..... Charla Merja

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Fort Shaw Irrigation District  
Fort Shaw, Montana

### **REPORT ON THE FINANCIAL STATEMENTS**

I have audited the accompanying statement of net position as of December 31, 2013, of Fort Shaw Irrigation District, Fort Shaw, Montana (the "District") and the statement of changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Audit Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Fort Shaw Irrigation District, Fort Shaw, Montana, as of December 31, 2013, and the respective changes in financial position and cash flows, for the year then ended in accordance with U.S. generally accepted accounting principles.

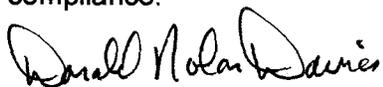
***Other Matters***

*Required Supplementary Information*

Fort Shaw Irrigation District has not presented a management's discussion and analysis to introduce the basic financial statements and provide an analytic overview of its financial activities as supplementary information to the basic financial statements. The Government Accounting Standards Board has determined that a management's discussion and analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, I have also issued my report dated December 19, 2014 on my consideration of Fort Shaw Irrigation District's internal control over financial reporting and on my 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 my 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 Fort Shaw Irrigation District's internal control over financial reporting and compliance.



December 19, 2014

**FORT SHAW IRRIGATION DISTRICT  
 FORT SHAW, MONTANA  
 STATEMENT OF NET POSITION  
 DECEMBER 31, 2013**

	Total
<b>ASSETS</b>	
Current Assets:	
Cash and Investments .....	\$213,682
Due from other Governments .....	20,024
Total Current Assets .....	233,706
Capital Assets .....	244,866
Less Accumulated Depreciation .....	(223,026)
Capital Assets - Net .....	21,840
Total Assets .....	255,546
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable .....	26,540
Unearned Revenue .....	128,887
Contract Payable - Bureau of Reclamation .....	4,955
Compensated Absences .....	7,623
Total Current Liabilities .....	168,005
Long-term Debt:	
Contract Payable - Bureau of Reclamation .....	71,352
Compensated Absences .....	1,571
Total Long-term Debt .....	72,923
Total Liabilities .....	240,928
<b>NET POSITION</b>	
Net Investment in Capital Assets .....	21,840
Unrestricted .....	(7,222)
Total Net Position .....	\$14,618

See Notes to Financial Statements

**FORT SHAW IRRIGATION DISTRICT  
FORT SHAW, MONTANA**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Total
<b>OPERATING REVENUE</b>	
Charges for Services- Irrigation .....	\$185,236
Miscellaneous .....	17,018
	202,254
<b>OPERATING EXPENSE</b>	
Personal Services .....	126,250
Utilities .....	8,423
Operations and Maintenance .....	22,128
Maintenance of Structures .....	18,431
Maintenance of Equipment .....	5,103
Fuel .....	16,607
Automobile Expenses .....	3,955
Insurance .....	8,549
Depreciation .....	2,730
Other .....	4,394
	216,570
<b>OPERATING INCOME</b> .....	<b>(14,316)</b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>	
Investment Earnings .....	568
Capital Grants for Infrastructure .....	332,078
Infrastructure Project expense .....	(323,525)
Water Smart Grant .....	(27,414)
	(18,293)
<b>CHANGE IN NET POSITION</b> .....	<b>(32,609)</b>
<b>NET POSITION</b>	
Beginning of the Year .....	47,227
End of the Year .....	<b>\$14,618</b>

See Notes to Financial Statements

**FORT SHAW IRRIGATION DISTRICT  
FORT SHAW, MONTANA**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Total</u>
<b>CASH FLOWS FROM OPERATIONS</b>	
Receipts from Customers .....	\$204,375
Miscellaneous .....	17,018
Payments to Employees .....	(128,388)
Payments to Suppliers .....	<u>(87,590)</u>
Net Cash Provided by Operations .....	<u>5,415</u>
<b>CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Cash payment for infrastructure projects .....	319,098
Payment of infrastructure project costs .....	<u>(350,939)</u>
Cash Flows (to) Capital Assets and Related Financing Activities .....	<u>(31,841)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Investment Earning Received .....	<u>568</u>
<b>INCREASE IN CASH</b> .....	(25,858)
<b>CASH BALANCE - Beginning of the Year</b> .....	<u>239,540</u>
<b>CASH BALANCE - End of the Year</b> .....	<u><u>\$213,682</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS</b>	
Operating Income .....	(\$14,316)
Adjustments to Reconcile to Cash Flow:	
Add-back Depreciation .....	2,730
Increase (Decrease) in Unearned Revenue .....	19,139
Increase (Decrease) in Compensated Absences .....	<u>(2,138)</u>
Net Cash Provided by Operations .....	<u><u>\$5,415</u></u>

See Notes to Financial Statements

**FORT SHAW IRRIGATION DISTRICT  
FORT SHAW, MONTANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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Fort Shaw Irrigation District - Notes to Financial Statements

**FORT SHAW IRRIGATION DISTRICT  
FORT SHAW, MONTANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Fort Shaw Irrigation District was established in the early 1900's to provide water for irrigation of cropland in the district, which irrigates 11,954 acres. It was formed under what is now Title 85, Chapter 7 of Montana Codes Annotated.

The District is governed by a Board of Commissioners, elected by the water users, and by a manager hired by and responsible to the Board.

The financial statements include all operations controlled by the District. A reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of the relationship are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on this criteria, the District is considered to be a primary government and has no component units. As required by generally accepted accounting principles the accompanying financial statements present Fort Shaw Irrigation District as an independent single enterprise fund.

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

The financial statements of the District are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Enterprise funds (business activities) are reported using the economic resources measurement focus and the accrual basis of accounting similar to the basis used for the government-wide financial statements. 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. Charges for services are reported as operating revenues; contributions, investment earnings, and capital grants are reported as non-operating revenues. All assets and liabilities are recorded in the enterprise fund financial statements including capital assets and long-term liabilities.

**C. Cash and Cash Equivalents**

The District's cash is invested as permitted by law. State law restricts investments to certificates of deposit, repurchase agreements, or direct obligations of the U.S. Government. Investments are reported at fair value which is based primarily on quoted market prices. The difference between cost and fair value is immaterial.

The District considers all investments of the enterprise funds to be highly liquid and cash equivalents for purposes of the statement of cash flows. The District limits exposure to credit risk (the risk that an issuer or other counter party to an investment will not fulfill its obligation) by following state law and ensuring as deposits are covered by FDIC insurance.

## Fort Shaw Irrigation District - Notes to Financial Statements

### D. Special Assessments

The assessments are based on acreage to be irrigated. Assessments are collected by the County Treasurer who credits to the Irrigation District its respective share of the collections. The assessments are collectable in two installments, which become delinquent after November 30 and May 31. An allowance for uncollectible assessment receivable has not been made as there are no long term receivables and water can be denied to an irrigator that does not pay.

The November assessment is for the following year's irrigation season and so the collections in November and December are recorded as unearned revenue and the District recognizes the assessment revenue in the year the service is provided.

### E. Inventories

Inventories are expensed at the time of purchase and are not considered material.

### F. Capital Assets

All capital assets are recorded at cost. Public domain (Infrastructure") assets such as canals, drainage system, dam repairs, bridges, etc., are immovable and are owned by the U.S. Department of Interior, Bureau of Reclamation. Only assets with a cost of \$1,000 or more are capitalized, smaller purchases are expensed when purchased. The Capital assets are depreciated using the straight line method over estimated useful lives. The District owned machinery, vehicles, and equipment are depreciated over 5 to 10 years.

### G. Compensated Absences

All District 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. The District records accrued vacation pay and 25% of accumulated sick pay. The District records vacation liability as due within one year, and sick leave is classified as non-current.

### H. Budgets

A legally adopted budget is not required for the District, therefore, a budget to actual statement is not included.

### I. Use of Estimates

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

### J. Net Position

Statement of Net Position include the following: Investment of capital assets net of related debt - The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets. Restricted - The components of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through

Fort Shaw Irrigation District - Notes to Financial Statements

constitutional provisions or enabling legislation. Unrestricted - the difference between the assets and liabilities that is not reported in other elements of net position. It is the District's policy to first apply restricted resource when an expense is incurred in which both unrestricted and restricted net positions are available.

**2. CASH AND INVESTMENTS**

All the District's cash and investments are insured in compliance with State law. Cash and investments held by the District (which are stated at fair value) are as follows:

Cash on hand and in banks .....	\$115,129
Cash held at the County .....	17,362
Certificates of deposit .....	<u>81,191</u>
Cash reported in the District's financial statements .....	<u>\$213,682</u>

**3. DUE FROM OTHER GOVERNMENTS**

The District has \$10,904 due from the Bureau of Reclamation and \$9,120 from the Montana Department of Natural Resource for work done on the infrastructure projects.

**4. CAPITAL ASSETS**

The changes in capital assets during 2013 were as follows:

	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013
Cost of Assets:				
Vehicles and Equipment .....	\$244,866			\$244,866
Accumulated Depreciation:				
Machinery and Equipment .....	(220,296)	(2,730)		(223,026)
Net Book Value .....	<u>\$24,570</u>	<u>(\$2,730)</u>	<u>\$0</u>	<u>\$21,840</u>

**5. LONG-TERM DEBT - Changes in long-term debt during 2013 are as follows:**

	Balance December 31, 2012	Payments	Additions and Other Changes	Balance December 31, 2013	Amount Due in One Year
Bureau of Reclamation Contract Payable .....	81,262	(4,955)		76,307	4,955
Compensated Absences .....	11,332		(2,138)	9,194	7,623
Total Long-term Debt .....	<u>\$92,594</u>	<u>(\$4,955)</u>	<u>(\$2,138)</u>	<u>\$85,501</u>	<u>\$12,578</u>

Fort Shaw Irrigation District - Notes to Financial Statements

The contract payable with the Bureau of Reclamation was the District's share of filtered berm and buttress modifications performed at Willow Creek Dam of \$71,929 and for emergency sinkhole repairs of \$52,949. The project costs were incurred from 1997 to 2005. The final contract cost determination, dated May 17, 2005, requires the District to pay \$4,955, due on January 1<sup>st</sup> of each year, with the final payment due in 2029. No interest charges are included in the contract.

**6. RESTRICTED NET POSITION**

The District had no restricted net position at December 31, 2013.

**7. RETIREMENT AND PENSION PLANS**

The District participates in the Montana Public Employees' Retirement Administration (MPERA) which is a multiple employer, cost-sharing, defined benefit, retirement plan covering all full-time employees. The plan provides retirement, disability and death benefits. The plan is established by State law and is administered by the State of Montana.

Contribution rates for the MPERA plan are required and determined by State Law. No changes in employee or employer contribution rates occurred in 2013.

Contribution rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
MPERS (for members hired before 7/1/2011) . . .	7.07%	6.90%	0.10%	14.07%
MPERS (for members hired after 7/1/2011) . . . .	7.07%	7.90%	0.10%	15.07%

The amounts contributed to MPERA during the year ended December 31, 2013 were equal to the required contribution for each year. The amounts contributed by the District and employees were as follows:

	<u>Employer</u>	<u>Employee</u>
2013 .....	\$7,739	\$7,806

The State's contribution to MPERA in 2013 was approximately \$101, which is not recorded in the financial statements.

The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained from the following:

Montana Public Employees Retirement Administration  
100 North Park Avenue, Suite 200  
Helena, Montana 59620-0131  
Telephone: (406) 444-3154

**8. RETIREE HEALTH CARE COSTS**

The District does not offer health insurance to its employees. As such, there is no retiree health care costs liability at December 31, 2013.

Fort Shaw Irrigation District - Notes to Financial Statements (concluded)

**9. SERVICES PROVIDED BY COUNTY**

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

**10. RISK MANAGEMENT**

The District faces a number of risks of loss including damage to and loss of property and contents, professional liability, errors and omissions, employee torts, environmental damage, and worker compensation. Several methods are used to provide insurance for these risks.

Coverage for the loss or damage to property, and professional liability insurance coverage is provided by the Montana Association of Counties (MaCO). The District is a member of the MaCO which is an intergovernmental agency to provide comprehensive liability insurance coverage on a pooled basis. Liability coverage limits are \$750,000 per claim and \$1,500,000 per occurrence. Workers compensation is provided by the Montana State Fund and unemployment insurance is provided through the State of Montana. The District has no coverage for potential losses from environmental damages.

Levels of insurance have not changed materially from the prior year and settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**11. SUBSEQUENT EVENTS**

In 2013, the District had a project to upgrade the A system pipeline by re-lining 2000 feet of canal and installing 2310 feet of pipeline. As of December 31, 2013 the District had substantially completed the project. Estimated total cost of the project was \$669,000.

In 2014, the District started the A-2-9 pipeline project which called for installing 6850 feet of pipe. The total estimated project cost was \$564,692, with the Bureau of Reclamation providing \$199,692 while the District and landowners were to provide \$365,153 of in-kind contributions. The purpose of the project is to conserve water by rehabilitation of the ditch and providing gravity-fed water for private pivot irrigation systems. No grant funds had been spent as of December 31, 2013. The District anticipates completion of the project in Spring 2015.

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Board of Commissioners  
Fort Shaw Irrigation District  
Fort Shaw, Montana

I have audited, in accordance with U.S. generally accepted auditing standards 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 Fort Shaw Irrigation District (District), Fort Shaw, Montana, 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 my report thereon dated December 19, 2014.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

My 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 below, I identified certain deficiencies in internal control that I 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 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. I consider item **2013-001** described below to be a material weakness.

A *significant deficiency* is a deficiency, or 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. I consider item **2013-002** described below to be a significant deficiency.

### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I 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 statements amounts. However, providing an opinion

on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

**FINDING - MATERIAL WEAKNESS:**

**2013-001 Financial Reporting**

Auditing standards require the auditor to determine whether the Fort Shaw Irrigation District's internal control system allows for the reliable reporting of financial data in accordance with generally accepted accounting principles (GAAP). The District does not have the expertise to prepare or to evaluate the auditor prepared financial statements to ensure proper preparation in accordance with GAAP.

*It may not be cost effective for the District to retain and train personnel to evaluate or prepare GAAP financial statements. However, I recommend the District consider correcting this material weakness in their internal controls over financial statement preparation by hiring a qualified consultant to evaluate the auditor prepared financial statements. Management should be aware of and continue to evaluate the impact of this deficiency.*

**FINDING - SIGNIFICANT DEFICIENCY:**

**2013-002 Segregation of Accounting Duties**

Ideal segregation of accounting duties is not always possible in an organization with a small staff as is the case with the District.

*Accordingly, I recommend the Board continue to monitor the District's activities and transactions.*

**ENTITY'S RESPONSE TO FINDINGS**

In accordance with State law (MCA 2-7-515) the Board is required to respond to the State of Montana's Department of Administration concerning audit findings within 30 days after receipt of the final audit report.

**PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.



December 19, 2014