

**GORE HILL COUNTY WATER DISTRICT
GREAT FALLS, MONTANA**

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2014 AND 2013**

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Douglas Wilson & Company, P.C.

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GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**OFFICIALS
JUNE 30, 2014**

OFFICERS

President
Vice President
Treasurer
Secretary (Employee)

David Schuler
Dennis Peppenger
Lori Eby
Christi Walter

DIRECTORS

Lori Eby
David Schuler
Dennis Peppenger
Gerald Ulmen
Mercy Padgett

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

This section of the Gore Hill County Water District's (the District) annual financial report presents management's analysis of the District's financial performance as of and for the year ended June 30, 2014. Readers should review this section in conjunction with the financial statements and notes to financial statements to enhance their understanding of the District's financial performance.

FINANCIAL STATEMENT HIGHLIGHTS AND OVERVIEW

- a) Total assets decreased \$59,763.
- b) Total liabilities decreased \$41,850.
- c) Operating revenues, consisting of charges for services, decreased \$1,448.
- d) Non-operating revenues, consisting of grants, interest, and lease income increased \$529.
- e) Change in net position decreased \$3,142.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two parts – management's discussion and analysis (this section), and the basic financial statements. The basic financial statement include a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and notes to the financial statements. The District is categorized as a special-purpose entity engaged in business-type activities. As the District utilizes the accrual basis of accounting, no difference in presentation exists between government-wide and fund financial reporting, as described in GASB Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Therefore, the statement of revenues and expenditures and changes in net position is presented in a single format appropriate for government-wide financial statements. See Note 1 of the notes to financial statements for further discussion of the District's basis of accounting.

FINANCIAL ANALYSIS

The statement of net position reflects all of the District's assets and liabilities, with the difference between the two reported as position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the District is improving or deteriorating.

	<u>06/30/14</u>	<u>06/30/13</u>
Assets		
Current	\$ 45,622	\$ 59,175
Capital	832,547	831,522
Other	226,734	273,969
Total Assets	<u>\$ 1,104,903</u>	<u>\$ 1,164,666</u>

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

	<u>06/30/14</u>	<u>06/30/13</u>
Liabilities		
Current	\$ 13,350	\$ 34,200
Long-term	101,000	122,000
Total Liabilities	<u>114,350</u>	<u>156,200</u>
Net Position		
Net Investment in Capital Assets	725,547	682,522
Unrestricted	265,006	325,944
Total Net Position	<u>990,553</u>	<u>1,008,466</u>
 Total Liabilities and Net Position	 <u><u>\$ 1,104,903</u></u>	 <u><u>\$ 1,164,666</u></u>

Significant differences in the statement of net position are as follows:

- Current assets decreased by \$13,553 due to a land purchase during the year.

The following information summarizes the changes in net position during the fiscal year.

	<u>06/30/14</u>	<u>06/30/13</u>
Operating Revenues	\$ 161,168	\$ 162,616
Operating Expenses	176,794	174,571
Operating Income (Loss)	<u>(15,626)</u>	<u>(11,955)</u>
Non-Operating Revenue (Expense)	<u>(2,287)</u>	<u>(2,816)</u>
Change in Net Position	<u>(17,913)</u>	<u>(14,771)</u>
Net Position, Beginning of Year	<u>1,008,466</u>	<u>1,023,237</u>
Net Position, End of Year	<u><u>\$ 990,553</u></u>	<u><u>\$ 1,008,466</u></u>

Significant changes in the statement of revenue, expenditures, and changes in net position are as follows:

- Professional Fees increased by \$18,804, due to increased engineering fees.

GORE HILL COUNTY WATER DISTRICT
GREAT FALLS, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

CAPITAL ASSETS

Capital assets, consisting of the original water system, improvements and construction work-in-progress, increased by \$62,458 (increased by \$1,025 when recorded net of accumulated depreciation). In arriving at the net figure, additions are reduced by depreciation expense. See Note 3 of the notes to financial statements for specific information regarding these changes.

CURRENTLY KNOWN FACTS AND/OR CONDITIONS/EXPECTATIONS

Upon review of the District's budget and after holding a public hearing, the water rates were increased by about 10% for the upcoming fiscal year. The current bond repayment rate of \$18.56 per customer per month remained unchanged. To date, the District has paid off close to 60% of the 20 year Bond loan with the funds collected and allocated from the customers in 5 years.

Great West Engineering performed a preliminary study on the feasibility of installing variable speed drives on its well and distribution pump motors. A formal preliminary engineering report was procured and two grants were awarded to the district for this purpose- \$6,500 from the Treasure State Endowment Program and \$5,000 from the Department of Natural Resources Conservation Service. The total for the report was \$18,634. Upon completion, The District contracted with Great West Engineering to pursue a \$125,000 grant from the Department of Natural Resources Conservation Service to install soft starts on the well pumps and variable speed drives on the distribution pumps as well as a telemetry system to automate the back-up generator.

The District purchased nearly one additional acre adjacent to the land at pump house #2 for \$18,950. This land was necessary to ensure enough property if/when a new well needs to be drilled at that location. Approximately half of the new property was fenced for a cost of \$8,147.

Some of the administrative or management updates were a safety policy and a standard operating procedures manual.

CONTACTING THE GORE HILL COUNTY WATER DISTRICT'S MANAGEMENT

The financial report is designed to provide a general overview of the District's finances for all those with an interest. If you have any questions concerning any of the information provided in the report or would like to request additional information, contact Lori Eby, Gore Hill County Water District Treasurer, P.O. Box 263, Great Falls, MT 59403.



Douglas WILSON
and Company, PC

Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
Michael A. Diekhans, CPA
Myra L. Bakke, CPA

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA
Dixie L. Swanson, CPA

To the Board of Directors
Gore Hill County Water District
Great Falls, Montana

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Gore Hill County Water 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 opinions 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 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, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Gore Hill County Water District, as of June 30, 2014, and the 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 and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the Gore Hill County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Gore Hill County Water District's internal control over financial reporting and compliance.



Great Falls, Montana
December 22, 2014

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013**

	<u>6/30/14</u>	<u>6/30/13</u>
ASSETS		
Current Assets:		
Cash	\$ 31,375	\$ 44,521
Accounts Receivable	14,247	14,654
Total Current Assets	<u>45,622</u>	<u>59,175</u>
Property, Plant and Equipment:		
Land	21,156	2,206
Water System	887,513	844,005
Filtration System	826,370	826,370
Meters	54,965	54,965
Furniture and Fixtures	2,851	2,851
	<u>1,792,855</u>	<u>1,730,397</u>
Less: Accumulated Depreciation	(960,308)	(898,875)
Net Property, Plant and Equipment	<u>832,547</u>	<u>831,522</u>
Other Assets:		
Investments	226,604	273,839
Deposits	130	130
Total Other Assets	<u>226,734</u>	<u>273,969</u>
Total Assets	<u>\$ 1,104,903</u>	<u>\$ 1,164,666</u>

See accompanying notes to the financial statements.

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013

	<u>6/30/14</u>	<u>6/30/13</u>
<i>(Continued)</i>		
LIABILITIES AND NET POSITION		
Current Liabilities:		
Customer Deposits	\$ 7,350	\$ 7,200
Current Portion of State Revolving Fund Loan Payable	6,000	27,000
Total Current Liabilities	<u>13,350</u>	<u>34,200</u>
Long-Term Liabilities:		
Long-term Portion of State Revolving Fund Loan Payable	<u>101,000</u>	<u>122,000</u>
Total Liabilities	<u>114,350</u>	<u>156,200</u>
Net Position:		
Net Investment in Capital Assets	725,547	682,522
Unrestricted	<u>265,006</u>	<u>325,944</u>
Total Net Position	<u>990,553</u>	<u>1,008,466</u>
Total Liabilities and Net Position	<u>\$ 1,104,903</u>	<u>\$ 1,164,666</u>

See accompanying notes to the financial statements.

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	6/30/14	6/30/13
Operating Revenues:		
Water Fees	\$ 55,771	\$ 58,734
Operating and Maintenance Fees	53,760	53,640
Tap Fees	1,748	446
Special Assessments - Revenue Bonds	49,889	49,796
Total Operating Revenues	161,168	162,616
Less Operating Expenses:		
Bank Charges	10	26
Bookkeeping	6,519	6,391
Depreciation	61,433	54,081
Directors' Fees	8,850	8,850
Engineering Expense	15,960	15,685
Insurance	3,084	2,928
Material and Supplies	8,624	30,519
Miscellaneous	440	200
Office Supplies and Printing	2,764	2,761
Professional Fees	22,348	3,544
Repairs and Maintenance	5,563	8,546
Secretarial Expense	3,911	3,834
Taxes and Licenses	4,387	5,159
Training	825	790
Utilities	31,514	31,257
Water Testing	562	-
Total Operating Expenses	176,794	174,571
Income (Loss) from Operations	(15,626)	(11,955)
Non-Operating Revenues (Expenses):		
Interest Income	2,666	3,552
Interest Expense	(5,214)	(6,891)
Other Income	261	523
Total Non-Operating Revenue (Expense)	(2,287)	(2,816)
Change in Net Position	(17,913)	(14,771)
Net Position, Beginning of Year	1,008,466	1,023,237
Net Position, End of Year	\$ 990,553	\$ 1,008,466

See accompanying notes to the financial statements.

GORE HILL COUNTY WATER DISTRICT
GREAT FALLS, MONTANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>6/30/14</u>	<u>6/30/13</u>
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 181,964	\$ 170,266
Payments to Employees	(35,240)	(34,760)
Payments to Suppliers	<u>(100,357)</u>	<u>(100,649)</u>
Net Cash Provided by (Used in) Operating Activities	<u>46,367</u>	<u>34,857</u>
Cash Flows from Investing Activities:		
Change in Investments	47,232	(131,031)
Interest Income	2,666	3,552
Interest Expense	(5,214)	(6,891)
Other Income	261	470
Net Cash Provided by (Used in) Investing Activities	<u>44,945</u>	<u>(133,900)</u>
Cash Flows from Capital and Related Financing Activities:		
Payments Made on State Revolving Fund Loans	(42,000)	(45,000)
Costs Incurred for Acquisition of Capital Assets	<u>(62,458)</u>	<u>(26,217)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(104,458)</u>	<u>(71,217)</u>
Net (Decrease) Increase in Cash	(13,146)	(170,260)
Cash at Beginning of the Year	<u>44,521</u>	<u>214,781</u>
Cash at End of the Year	<u><u>\$ 31,375</u></u>	<u><u>\$ 44,521</u></u>

See accompanying notes to the financial statements

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>6/30/14</u>	<u>6/30/13</u>
<i>(Continued)</i>		
Reconciliation of Operating Income (Loss) to Net Cash		
(Used in) Provided by Operating Activities:		
Income (Loss) from Operations	\$ (15,626)	\$ (11,955)
Adjustment to Reconcile Operating Income (Loss)		
Depreciation Expense	61,433	54,081
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	410	1,336
Increase (Decrease) in Customer Deposits	150	(7,500)
Increase (Decrease) in Member Advances	-	(1,105)
Total Adjustments	<u>61,993</u>	<u>46,812</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 46,367</u>	<u>\$ 34,857</u>
 Schedule of Non-Cash Financing Activities:		
Cash Paid During the Year for:		
Interest	<u>\$ 5,214</u>	<u>\$ 6,891</u>

See accompanying notes to the financial statements

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations - Gore Hill County Water District (the District) was created in 1974. The District operates a water system for subdivisions located within the District, primarily Cascade County.

Reporting Entity - The District is a primary government, meeting the criteria embodied in GASB 14, *The Financial Reporting Entity*, of a separately elected governing body, having a separate legal standing and being fiscally independent. There are no component units for which the District's board is financially accountable.

Basis of Presentation - The District follows generally accepted accounting principles (GAAP), as embodied in GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis –for State and Local Governments*, as a special-purpose entity engaged only in business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties. As such, only those financial statements required for enterprise funds under GASB 34 are included in the financial statements. Those financial statements – the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows – are presented in a format defined under GASB 34 as fund financial statements. The District adopted provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The Statement resulted in presentation changes in the financial statements.

Fund Accounting - The activity of the District is accounted for within a single fund, treated for financial reporting purposes as an enterprise fund. An enterprise fund accounts for operations that are financed and operated in a manner similar to private business enterprises, or for operations where periodic determination of revenues, expenses, and net income is considered desirable. An enterprise fund accounts for services rendered to the general public on a user charge basis.

Measurement Focus/Basis of Accounting - The basic financial statements of the District are reported using the economic resources measurement focus under the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Operating revenues and expenses generally arise from operations of the water system. All other revenues and expenses are classified as non-operating. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchanges, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Cash and Equivalents - For the purpose of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments - Authorized investments allowed by Section 7-6-201, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in the U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

The District determined the fair value of its investments through the application of Accounting Standards Codification (ASC) No. 820 *Fair Value Measurements*. The District carries investments at their fair values in the statement of financial position.

As required by ASC No. 820, which provides a framework for measuring fair value under GAAP, investments are classified within the level of lowest significant input considered in determining fair value. ASC No. 820 also establishes a fair value hierarchy, which prioritizes the valuation of inputs into three broad levels as described below:

Level 1 – quoted prices in active markets as of the measurement date

Level 2 – quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability

Level 3 – significant unobservable prices or inputs where there is little or no market activity for the asset or liability at the measurement date

Substantially all of the investments held by the District were valued using Level 1 inputs. The District's investments are summarized in Note 2.

Accounts Receivable - Accounts receivable at June 30, 2014 and 2013, represent amounts due from water customers of the District's water system. The district uses the allowance method for bad debts. All accounts are considered to be collectible as of June 30, 2014 and 2013, and, accordingly, no allowance was recorded.

Capital Assets - Property, plant, and equipment of the water system are recorded at historical cost. Depreciation is computed using the straight-line method with an estimate life of three to twenty years for pumps, pipe, equipment, and meter systems, and five years for furniture and equipment.

Compensated Absences - The District does not pay its employees any form of compensation for absences, therefore, no liability for any such amount exists at June 30, 2014 and 2013.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax - The District is a tax-exempt organization per IRC regulation 115(a) and is not required to file Form 990.

Net Position - Net position represents the difference between assets and liabilities and is classified into three categories:

- **Net Investment in Capital Assets** - This reflects the net position of the District that are invested in capital assets, net of related debt. This indicates that the net position is not accessible for other purposes.
- **Restricted Net Position** - this represents the net position that is not accessible for general use because its use is subject to restrictions enforceable by third parties. The District had no restricted net position as of June 30, 2014 and 2013.
- **Unrestricted Net Position** - This represents the net position that is available for general use.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Reclassifications - Certain prior period amounts have been reclassified in order to comply with the current year presentation.

Subsequent Events - In accordance with ASC No. 855, the District evaluated subsequent events through December 22, 2014, the date these financial statements were available to be issued.

NOTE 2: CASH AND INVESTMENTS:

Cash and investments accounts consisted of the following:

	<u>6/30/2014</u>	<u>6/30/2013</u>
Cash - Checking and Savings	\$ 31,375	\$ 44,521
Investments - Certificates of Deposit	226,604	273,839
	<u>\$ 257,979</u>	<u>\$ 318,360</u>

Cash and investments were held for the following purposes:

Construction Fund - The board has designated these funds for water system construction purposes. Effective May 1, 1995, \$10 of the monthly operating and maintenance assessments collected is transferred to this fund. Funds held for this purpose were as follows:

	<u>6/30/2014</u>	<u>6/30/2013</u>
Cash - Checking and Savings	\$ 295	\$ 9,520
Investments - Certificates of Deposit	226,604	234,449
	<u>\$ 226,899</u>	<u>\$ 243,969</u>

Operating and Maintenance - These funds are designated for maintaining the existing water system. In addition, effective May 1, 1995, \$5 of the monthly operating and maintenance assessments collected is transferred to this fund. Funds held for this purpose were as follows:

	<u>6/30/2014</u>	<u>6/30/2013</u>
Cash - Checking and Savings	\$ 5,023	\$ 10,455
Investments - Certificates of Deposit	-	39,390
	<u>\$ 5,023</u>	<u>\$ 49,845</u>

Customer Deposits - These funds are deposits from customers who are receiving water service in the District. Funds held for this purpose were as follows:

	<u>6/30/2014</u>	<u>6/30/2013</u>
Cash - Checking and Savings	<u>\$ 7,055</u>	<u>\$ 7,050</u>

Bond Repayment Account - The Board has designed these funds for payments on revenue bonds to be offered for future construction. Effective June 1, 2010, \$18.56 of the monthly bond assessments collected are transferred to this fund. Funds held for this purpose were as follows:

	<u>6/30/2014</u>	<u>6/30/2013</u>
Cash - Checking and Savings	<u>\$ 19,002</u>	<u>\$ 17,496</u>

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of or guaranteed by the U.S. government do not require disclosure of credit quality. The certificates of deposit are all fully insured by the NCUA and FDIC.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a formal investment policy limiting the amount the District may invest in any one issuer.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the local government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

The carrying value of demand deposits and certificates of deposit at June 30, 2014 and 2013 was \$257,978, and \$318,359, respectively. The bank balance was \$359,825, and \$416,980, respectively. All cash and investments were fully insured by the NCUA and FDIC.

NOTE 3: CAPITAL ASSETS:

A summary of the changes in property and equipment during the year ended June 30, 2014, is as follows:

	<u>6/30/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2014</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,206	\$ 18,950	\$ -	\$ 21,156
Capital Assets Being Depreciated:				
Water System	844,005	43,508	-	887,513
Filtration System	826,370	-	-	826,370
Meters	54,965	-	-	54,965
Furniture and Fixtures	2,851	-	-	2,851
Total	<u>1,728,191</u>	<u>43,508</u>	<u>-</u>	<u>1,771,699</u>
Accumulated Depreciation:				
Water System	759,814	19,557	-	779,371
Filtration System	82,637	41,318	-	123,955
Meters	53,990	308	-	54,298
Furniture and Fixtures	2,434	250	-	2,684
Total	<u>898,875</u>	<u>61,433</u>	<u>-</u>	<u>960,308</u>
Capital Assets Being Depreciated (Net)	<u>829,316</u>	<u>(17,925)</u>	<u>-</u>	<u>811,391</u>
Total Capital Assets (Net)	<u>\$ 831,522</u>	<u>\$ 1,025</u>	<u>\$ -</u>	<u>\$ 832,547</u>

A summary of the changes in property and equipment during the year ended June 30, 2013, is as follows:

	<u>6/30/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2013</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,206	\$ -	\$ -	\$ 2,206
Capital Assets Being Depreciated:				
Water System	817,788	26,217	-	844,005
Filtration System	826,370	-	-	826,370
Meters	54,965	-	-	54,965
Furniture and Fixtures	2,851	-	-	2,851
Total	<u>1,701,974</u>	<u>26,217</u>	<u>-</u>	<u>1,728,191</u>
Accumulated Depreciation:				
Water System	747,609	12,205	-	759,814
Filtration System	41,319	41,318	-	82,637
Meters	53,682	308	-	53,990
Furniture and Fixtures	2,184	250	-	2,434
Total	<u>844,794</u>	<u>54,081</u>	<u>-</u>	<u>898,875</u>

(Continued)

	<u>6/30/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2013</u>
Capital Assets Being Depreciated (Net)	857,180	(27,864)	-	829,316
Total Capital Assets (Net)	<u>\$ 859,386</u>	<u>\$ (27,864)</u>	<u>\$ -</u>	<u>\$ 831,522</u>

NOTE 4: RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. A variety of methods are used to provide insurance for these risks. Commercial insurance policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. The District participates in the Montana State Fund for workers' compensation coverage.

Coverage limits and the deductibles on the commercial policies and the workers' compensation have stayed relatively constant for the last several years. Settled claims resulting from these risks have not exceeded insurance coverage.

NOTE 5: NOTES PAYABLE:

Long-term debt is summarized as follows:

	<u>6/30/2014</u>	<u>6/30/2013</u>
Note payable to the State of Montana, 3.75% interest rate, paid bi-annually, matures January 2031	\$ 107,000	\$ 149,000
Less Current Portion	<u>(6,000)</u>	<u>(27,000)</u>
	<u>\$ 101,000</u>	<u>\$ 122,000</u>

Each required debt payment consists of principle, interest, administrative fees, and debt service fees. Future maturities of debt are as follows:

	<u>Principle</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>
6/30/2015	\$ 6,000	\$ 3,220	\$ 2,818	\$ 12,038
6/30/2016	6,000	2,890	2,529	11,419
6/30/2017	5,000	2,770	2,424	10,194
6/30/2018	6,000	2,670	2,336	11,006
6/30/2019	7,000	2,250	2,232	11,482
Thereafter	77,000	1,780	15,557	94,337
	<u>\$ 107,000</u>	<u>\$ 15,580</u>	<u>\$ 27,896</u>	<u>\$ 150,476</u>

The following is a summary of debt transactions of the district for the year ended June 30, 2014.

	<u>Balance 7/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2014</u>
State Revolving Loan Fund	<u>\$ 149,000</u>	<u>\$ -</u>	<u>\$ 42,000</u>	<u>\$ 107,000</u>

The following is a summary of debt transactions of the district for the year ended June 30, 2013.

	<u>Balance 7/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2013</u>
State Revolving Loan Fund	<u>\$ 194,000</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ 149,000</u>



Douglas WILSON
and Company, PC

Randal J. Boysun, CPA
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Myra L. Bakke, CPA

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA
Dixie L. Swanson, CPA

To the Board of Directors
Gore Hill County Water District
Great Falls, Montana

**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**

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 Gore Hill County Water District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Gore Hill County Water District's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 Gore Hill County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.



Great Falls, Montana
December 22, 2014

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

None noted.

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

None noted.



Douglas WILSON
and Company, PC

December 22, 2014

Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
Michael A. Diekhans, CPA
Myra L. Bakke, CPA

Board of Directors
Gore Hill County Water District
P.O. Box 263
Great Falls, MT 59403

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA
Dixie L. Swanson, CPA

We have audited the financial statements of the business-type activities of Gore Hill County Water District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 24, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gore Hill County Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements are management's estimate of depreciation of fixed assets, which is based on the estimated useful life of an asset, and the estimate of allowance for uncollectible accounts receivable. We evaluated the key factors and assumptions used to develop the above mentioned estimates in determining the reasonableness of the estimate in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjustments, in the attached schedule, are considered material, in the aggregate, to the financial statements as a whole. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 22, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the

prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Statement of Auditing Standards (SAS) #115 Disclosures

In planning and performing our audit of the financial statements of Gore Hill County Water District as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Gore Hill County Water District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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.

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 deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

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

Sincerely,



DOUGLAS WILSON & COMPANY, P.C.