

**LAKESIDE COUNTY WATER
AND SEWER DISTRICT
LAKESIDE, MT**

AUDIT REPORT

JUNE 30, 2014

LAKESIDE COUNTY WATER AND SEWER DISTRICT

JUNE 30, 2014

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LAKESIDE COUNTY WATER AND SEWER DISTRICT
LAKESIDE, MT

OFFICIALS AT JUNE 30, 2014

BOARD OF DIRECTORS

Clifton (Tip) Clark, President

Marc Liechi

Rex Niles

John Thomson

Roxanne Wadman

GENERAL MANAGER

Rodney Olson

Nicole M. Noonan, CPA, P.C.

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St. Regis, Montana 59866

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lakeside County Water and Sewer District
Lakeside, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of each major fund of Lakeside County Water and Sewer District, Lakeside, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 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 opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Lakeside County Water and Sewer District, Lakeside, Montana, as of June 30, 2014, and the respective changes in financial position and 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 8 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 9, 2014, on my consideration of Lakeside County Water and Sewer District, Lakeside, Montana's internal control over financial reporting and on my 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 my 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 Lakeside County Water and Sewer District, Lakeside, Montana's internal control over financial reporting and compliance.

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.
St. Regis, Montana
December 9, 2014

LAKESIDE COUNTY WATER AND SEWER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2013- 2014

Introduction:

In compliance with the Government Accounting Standards Board Statement No. 34 (GASB-34), the Lakeside County Water and Sewer District's management is required to prepare an annual "Management Discussion and Analysis Report". That report is to help inform the general public as to how well the organization is maintaining infrastructure assets using preventative maintenance (versus replacement), and to provide information about the District's ability to meet its current and long-term obligations; and how the District is achieving its objectives of providing water and sewer service.

As management of the Lakeside County Water and Sewer District (LCWSD), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that is presented as part of the annual audit report.

Financial Highlights:

- The Lakeside County Water & Sewer District remains in strong financial condition.
- The assets of the LCWSD exceeded its liabilities at the close of the most recent fiscal year by \$10,271,394 (Net Position). Of this amount, \$1,254,415 may be used to meet the District's ongoing obligations to citizens and creditors in accordance with the District's fund designation and fiscal policies.
- The District's net position decreased by \$(97,207) or -0.9% over the previous year.
- Total Revenue for the year was up \$40,754 or 5.4%.
- Total Expenses, for the year was up \$54,992 or 6.1%.
- Net Income (W/O depreciation or contributed capital) was \$203,420 down 13.8% from FY 2013
- Cash funds decreased by \$188,565.89 during the past fiscal year.

Revenue: 87.7% of revenue came from charges for services. The remaining 12.3% (\$98,017) came from other non-subscriber sources such as: Farm Income, Misc. Sales, Inspection Fees & Somers County Water & Sewer District and other Revenue. Revenues were up 5.4% for the fiscal year.

Other Revenue: Plant Investment Fee and System Development Charge revenue was up \$7,660 over the previous year, for a 29.2% increase. The rebound of residential growth on our economy accounted for that revenue element. Plant investment Fees are a combination of "latecomer" fees assessed for a system that was initially sized for growth, plus an expansion element for out-of-district and in-district over density projects; both of which we experienced more of during this past year. System Development Charges are payments paid by developers for capacity allocations.

Expenses: Operating expenses, including depreciation, were up 6.1% for the year. Labor (wages, payroll taxes, benefits) accounted for 58.8% of the operating expenses, excluding depreciation. System repairs were 14.1% and utilities were 9.8% of operating expenditures. The remaining 17.3% of operating expenses were spread across a host of other categories such as office expense, vehicles, professional fees, etc. All expense categories are visible on the Statement of Revenue, Expenses, and Changes in Net Position.

Overview of the Financial Statements:

This “Discussion and Analysis” is intended to serve as an introduction to the Lakeside District’s basic financial statements and annual audit. This report also contains other supplementary information in addition to the basic financial statements. There are three main financial statements contained within the overall audit report: Statement of Net Position, Statement of Revenue, Expenses and Changes in Fund Net Position, and Statement of Cash Flows.

- The Statement of Net Position presents information on 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 Lakeside County Water & Sewer District is improving or deteriorating.
- The Statement of Revenue, Expenses and Changes in Fund 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 (accrual vs. cash reporting).
- The Statement of Cash Flows presents information by segment, of the District’s sources of cash and how the District utilized the available cash to meet the District’s objectives of providing reliable water and sewer service to our customers.

Fund Financial Statements

The Lakeside District accounts for the separate revenue and expenses of the water and sewer systems. Neither system subsidizes the other; each stands on its own. Restricted funds for long term debt reserves have been eliminated because the last remaining debt was retired during FY-2008.

Budgetary Highlights

The District’s Board of Directors approves an annual operating budget, for management purposes, for each fiscal year beginning July 1st. Year-to-date, previous year comparisons, and current account balances are reviewed at each monthly Director’s meeting. For the year, Operating Revenues exceeded expectations by .2% (\$1,449.90) and Operating Expenses were at 100.3% of budgeted amounts, or over budget by (\$1,720.67). The net effect was net operating income of 99.8% (\$270.77) under budgeted amounts.

Capital Assets and Debt Administration:

Fixed assets on the Balance Sheet are reduced by accumulated depreciation so the summary number is understated from the booked value of the systems. The actual book value of the water and sewer systems is \$15,133,120.37, an increase of \$282,899.45 from the previous year. The “Net Position” discussed previously incorporates accumulated depreciation and therefore reflects an “accounting system” Capital Assets correct value of \$9,062,058, a \$105,048 increase from the previous years.’

Capital Expenditures:

Expenditures that provide for new land, and/or plant and equipment for high priced repair items are not deducted on the income statement. They show up on the “Balance Sheet” because they are capitalized rather than expensed and are added to the assets of the District. During the past fiscal year, \$48,144.88 of District funds was spent on capitalized items, the remaining \$ 411,348.41 was spent on the lift station # 5 pump upgrade and the Mission View water system in FY2014 that will be reclassified to capital assets in future years when projects are completed.

Major Capital Expenditures For FY 2014 Were:

1. LCWSD Office Roof	\$ 9,585.00
2. Troutbeck Well Pump	\$ 12,001.63
3. 2014 F-250 Truck	\$ 26,558.25
4. Construction in Progress (various projects)	<u>\$ 411,348.41</u>
Total District Funded Items	\$ 459,493.29

Another item that affects the asset area on the balance sheet is “Contributed Capital” Income. Accounting for system additions paid for by developers and/or homeowners for such things as water or sewer mainline extensions, is counted as income under GASB-34. The methodology still increases assets on the Balance Sheet, but is also recorded as income on the Income Statement. It looks like a cash contribution, but it is not. Contributed Capital assets (system infrastructure provided by developers or other parties) amounted to \$60,000.00 for FY-2014.

Economic factors and next year’s budgets and rates:

The Lakeside District is in good financial shape. It has been the policy of the Board, as much as possible, to have growth pay for growth. That is to say, the existing users of our respective systems should not have to pay for system capacity increases due to boundary extensions for new customers and for over-density projects within the District that were not originally planned for. The current Plant Investment Fee (for new hook-ups) schedule accomplishes that to a great degree.

Growth on the sewer system tends to be greater than on the water system because the geographical area of the sewer system is approximately four times greater than the water systems that serve only the immediate area around Lakeside. The sewer system continues to connect existing "out-of-District" homes that have physical access to existing District conveyance or collection lines. Generally, more users equate to lower costs per user.

Nine (9) new sewer accounts were added to the system during the year. The slight increase over last year seems to follow the rebounding of our economy for the Lakeside, Montana community.

Three (3) new water accounts were added to the system.

As we continue to see an increase (38.1%), in Plant Investment Fee's and System Development revenues, along with Net Operating Income (W/O Depreciation) up 5.4% from FY 2013, the District as a whole remained relatively flat -0.9% in Total Net Position for the Fiscal Year.

The Board reviews rates and fees annually. Current rates and fees are sufficient to operate the District in a responsible manner for the upcoming period.

Contacting the Districts Financial Management:

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the funds and assets it receives. If you have any questions about this report, or should you need additional financial information, contact the District office at 253 Bierney Creek Road, Lakeside, Montana 59922.

LCWSD'S CHANGES IN NET POSITION

Fiscal Year:	<u>2013</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
REVENUES				
Charges for Service:				
Water	\$ 205,078	\$ 219,316	\$ 14,238	6.9%
Sewer	<u>460,860</u>	<u>483,902</u>	<u>23,042</u>	<u>5.0%</u>
Total Service Revenue	665,938	703,218	37,280	5.6%
Other Misc. Revenue	68,285	64,099	(4,186)	-6.1%
Assessment Revenue	-	-	-	N/A
Plant Inv. & System Dev. Fees	<u>26,258</u>	<u>33,918</u>	<u>7,660</u>	<u>29.2%</u>
Total Revenue	<u>760,481</u>	<u>801,235</u>	<u>40,754</u>	<u>5.4%</u>
EXPENSES				
Water	144,781	178,431	33,650	23.2%
Sewer	374,727	414,993	40,266	10.7%
Interest on Debt	5,069	4,391	(678)	-13.4%
Depreciation	<u>382,320</u>	<u>364,074</u>	<u>(18,246)</u>	<u>-4.8%</u>
Total Expenses	<u>906,897</u>	<u>961,889</u>	<u>54,992</u>	<u>6.1%</u>
Increase in Net Position Before				
Contributed Capital	(146,416)	(160,654)	(14,238)	9.7%
Contributed Capital	<u>126,000</u>	<u>60,000</u>	<u>(66,000)</u>	<u>-52.4%</u>
Change in Net Position	(20,416)	(100,654)	(80,238)	393.0%
Net Position on July 1st	10,389,017	10,368,601	(20,416)	-0.2%
Restatement	-	3,447	3,447	N/A
Net Position on July 1st, Restated	10,389,017	10,372,048	(16,969)	-0.2%
Net Position on June 30th	<u>\$10,368,601</u>	<u>\$10,271,394</u>	<u>\$ (97,207)</u>	<u>-0.9%</u>

LCWSD'S NET POSITION

	<u>2013</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Current and Other Assets	\$ 1,920,963	\$ 1,732,514	\$ (188,449)	-9.8%
Capital Assets	<u>8,957,010</u>	<u>9,062,058</u>	<u>105,048</u>	<u>1.2%</u>
Total Assets	<u>\$10,877,973</u>	<u>\$10,794,572</u>	<u>\$ (83,401)</u>	<u>-0.8%</u>
Long Term Liabilities	\$ 233,869	\$ 437,568	\$ 203,699	87.1%
Other Liabilities	<u>275,503</u>	<u>85,610</u>	<u>(189,893)</u>	<u>-68.9%</u>
Total Liabilities	<u>509,372</u>	<u>523,178</u>	<u>13,806</u>	<u>2.7%</u>
Net Position:				
Net Investment in Capital				
Assets	8,900,191	9,016,979	116,788	1.3%
Restricted Funds	181,692	-	(181,692)	-100.0%
Unrestricted Funds	<u>1,286,718</u>	<u>1,254,415</u>	<u>(32,303)</u>	<u>-2.5%</u>
Total Net Position	<u>10,368,601</u>	<u>10,271,394</u>	<u>(97,207)</u>	<u>-0.9%</u>
Total Liabilities & Net Position	<u>\$10,877,973</u>	<u>\$10,794,572</u>	<u>\$ (83,401)</u>	<u>-0.8%</u>

BASIC

FINANCIAL

STATEMENTS

Lakeside County Water and Sewer District
Statement of Net Position
June 30, 2014

<u>ASSETS</u>	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>
Current Assets:			
Cash and Investments	\$ 905,294	\$ (25,589)	\$ 879,705
Accounts Receivable	42,618	20,827	63,445
Assessment Receivable - Due Within One Year	-	61,537	61,537
Advance to Water - Due Within One Year	23,670	-	23,670
Loan to Cherry Hills - Due Within One Year	-	4,570	4,570
Total Current Assets	<u>971,582</u>	<u>61,345</u>	<u>1,032,927</u>
Noncurrent Assets:			
Assessment Receivable - Due After One Year	-	297,344	297,344
Advance to Water - Due After One Year	110,199	-	110,199
Loan to Cherry Hills - Due After One Year	-	64,675	64,675
Interfund Receivable	227,369	-	227,369
Nondepreciable Capital Assets	1,357,372	407,701	1,765,073
Depreciable Capital Assets, Net	5,150,762	2,146,223	7,296,985
Total Noncurrent Assets	<u>6,845,702</u>	<u>2,915,943</u>	<u>9,761,645</u>
 TOTAL ASSETS	 <u>7,817,284</u>	 <u>2,977,288</u>	 <u>10,794,572</u>
 <u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	15,228	11,899	27,127
Advance from Sewer - Due Within One Year	-	23,670	23,670
Compensated Absences	21,410	13,403	34,813
Total Current Liabilities	<u>36,638</u>	<u>48,972</u>	<u>85,610</u>
Long-term Liabilities:			
Prepaid Plant Investment Fee	100,000	-	100,000
Interfund Payable	-	227,369	227,369
Advance from Sewer - Due After One Year	-	110,199	110,199
Total Long-term Liabilities	<u>100,000</u>	<u>337,568</u>	<u>437,568</u>
 TOTAL LIABILITIES	 <u>136,638</u>	 <u>386,540</u>	 <u>523,178</u>
 <u>NET POSITION</u>			
Net Investment in Capital Assets	6,508,134	2,508,845	9,016,979
Unrestricted	1,172,512	81,903	1,254,415
 TOTAL NET POSITION	 <u>\$ 7,680,646</u>	 <u>\$ 2,590,748</u>	 <u>\$ 10,271,394</u>

See Accompanying Notes to the Financial Statements.

Lakeside County Water and Sewer District
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2014

	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>
<u>OPERATING REVENUE</u>			
Charges for Service	\$ 433,438	\$ 219,316	\$ 652,754
Inspection Fees	600	300	900
Farm Income	18,090	-	18,090
South Eighty H. O. Association	-	4,463	4,463
Somers District	50,464	-	50,464
Other	5,537	3,833	9,370
Total Operating Revenue	<u>508,129</u>	<u>227,912</u>	<u>736,041</u>
<u>OPERATING EXPENSES</u>			
Board Expense	1,836	1,129	2,965
Insurance	6,769	4,184	10,953
Miscellaneous Administration	9,789	7,077	16,866
Miscellaneous Operations	3,664	2,268	5,932
Office Equipment and Supplies	2,090	1,421	3,511
Personal Service Cost	259,548	89,394	348,942
Postage and Delivery	3,740	2,279	6,019
Professional Fees	2,966	1,834	4,800
Repairs and Maintenance	47,641	36,012	83,653
Safety Program	207	128	335
Self-Insured Deductible	8,044	4,963	13,007
System Fees	11,840	5,196	17,036
Travel and Training	2,732	1,059	3,791
Vehicle Expense	11,229	5,837	17,066
Utilities	42,898	15,650	58,548
Depreciation	222,940	141,134	364,074
Total Operating Expenses	<u>637,933</u>	<u>319,565</u>	<u>957,498</u>
OPERATING LOSS	<u>(129,804)</u>	<u>(91,653)</u>	<u>(221,457)</u>
<u>NON-OPERATING REVENUE (EXPENSE)</u>			
Plant Investment Fees	28,777	5,141	33,918
Assessment Interest	-	6,477	6,477
Cherry Hills Interest	-	2,853	2,853
Interest Income	10,809	237	11,046
Gain on Sale of Capital Assets	-	10,900	10,900
Interest Expense	-	(4,391)	(4,391)
Total Non-Operating Revenue (Expense)	<u>39,586</u>	<u>21,217</u>	<u>60,803</u>
Income (Loss) before Capital Contributions	(90,218)	(70,436)	(160,654)
Capital Contributed by Developers	<u>60,000</u>	<u>-</u>	<u>60,000</u>
Change in Net Position	(30,218)	(70,436)	(100,654)
Net Position, Beginning of Year	7,706,147	2,662,454	10,368,601
Restatements	4,717	(1,270)	3,447
Net Position, Beginning of Year, Restated	<u>7,710,864</u>	<u>2,661,184</u>	<u>10,372,048</u>
Net Position, End of Year	<u>\$ 7,680,646</u>	<u>\$ 2,590,748</u>	<u>\$ 10,271,394</u>

See Accompanying Notes to the Financial Statements.

Lakeside County Water and Sewer District
Statement of Cash Flows
For The Year Ended June 30, 2014

	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from Customers	\$ 482,676	\$ 223,521	\$ 706,197
Payments to Employees	(254,273)	(85,549)	(339,822)
Other Receipts	24,227	8,596	32,823
Payments to Suppliers of Goods or Services	(153,448)	(84,804)	(238,252)
Net Cash Provided by Operating Activities	<u>99,182</u>	<u>61,764</u>	<u>160,946</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>			
Plant Investment Fees	28,777	5,141	33,918
Principal Receipts (Payments) on Advance	22,972	(11,232)	11,740
Interest Receipts (Payments) on Advance	4,391	(2,847)	1,544
Interfund Loan to Water	(71,945)	-	(71,945)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(15,805)</u>	<u>(8,938)</u>	<u>(24,743)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Principal Received on Loan to Cherry Hills	-	4,392	4,392
Interest Received on Loan to Cherry Hills	-	2,853	2,853
Principal Payments on Advance	-	(11,740)	(11,740)
Interest Payments on Advance	-	(1,544)	(1,544)
Principal Received on Assessments	-	42,949	42,949
Interest Received on Assessments	-	6,477	6,477
Proceeds from Interfund Loan from Sewer	-	71,945	71,945
Proceeds from Sale of Capital Assets	-	10,900	10,900
Transfer of Capital Asset	(3,658)	3,658	-
Payment on Capital Accounts Payable	-	(55,717)	(55,717)
Capital Asset Purchases	(211,059)	(189,416)	(400,475)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(214,717)</u>	<u>(115,243)</u>	<u>(329,960)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest Income	<u>6,418</u>	<u>237</u>	<u>6,655</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(124,922)	(62,180)	(187,102)
Cash and Cash Equivalents, Beginning of Year	<u>1,030,216</u>	<u>36,591</u>	<u>1,066,807</u>
Cash and Cash Equivalents, End of Year	<u>\$ 905,294</u>	<u>\$ (25,589)</u>	<u>\$ 879,705</u>

See Accompanying Notes to the Financial Statements.

Lakeside County Water and Sewer District
Statement of Cash Flows (continued)
For the Year Ended June 30, 2014

	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>			
Operating Loss	\$ (129,804)	\$ (91,653)	\$ (221,457)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	222,940	141,134	364,074
Decrease (Increase) in Accounts Receivable	(1,226)	4,205	2,979
(Decrease) Increase in Accounts Payable	1,997	4,233	6,230
(Decrease) Increase in Compensated Absences	5,275	3,845	9,120
Net Cash Provided by Operating Activities	<u>\$ 99,182</u>	<u>\$ 61,764</u>	<u>\$ 160,946</u>

DISCLOSURE OF NON-CASH TRANSACTIONS

The Sewer fund had \$60,000 in capital assets contributed by developers. The Water fund had \$5,200 in capital asset additions that were financed with accounts payable.

See Accompanying Notes to the Financial Statements.

Lakeside County Water and Sewer District
Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the District are presented below.

a. The Reporting Entity

The Lakeside County Water District was formed in January 1976 under Montana law as a county water district. In 1978, a grant and loan were received to purchase two small private water systems and to construct mains, lines and a storage tank to serve the unincorporated community of Lakeside. In November 1976, the Lakeside County Sewer District was formed. In 1987, the Sewer District started construction of a sanitary sewer system to serve the Lakeside community, including areas along the shore of Flathead Lake. In June 1997, the voters of the two districts elected to consolidate them. The consolidated district was managed by the joint boards from the water and sewer districts until November 1997, when a five-member board was elected. The board hires a general manager and other employees to manage and operate the District. The District is not a component unit of any other government.

b. Basis of Presentation

The statement of net position presents the financial condition of the District at year end. The statement of revenues, expenses and fund net position presents the activity incurred during the year and the statement of cash flows presents the cash inflows and outflows for the year. The water and sewer funds are both considered major funds and are therefore reported separately. Each statement has a separate column for the water and sewer funds and a total column reporting the District as a whole.

c. Basis of Accounting

The accounting policies of the District conform to U.S. generally accepted accounting principles. As enterprise funds, financing and operation are similar to private business enterprises. The intent of the governing body is to recover costs of providing goods and services to the general public on a continuing basis primarily through user charges. The accrual basis of accounting is followed and under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred. All assets and liabilities associated with each fund are included on the statement of net position. Operating revenues for the water and sewer funds are primarily charges to customers for services. Revenues not meeting this definition are generally classified as non-operating revenues. When both restricted and unrestricted resources are available for an expense, the District first applies restricted resources, then unrestricted resources.

d. Budget

Preparation of a budget is not required by state law for water and sewer districts. The District annually adopts an operating budget for management purposes.

Lakeside County Water and Sewer District
Notes to the Financial Statements
June 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

e. Accounts Receivable

Amounts due from customers for water and sewer service are recorded as accounts receivable. No allowance is made for uncollectible accounts because all accounts are considered collectible. The District can have past due balances added to property taxes.

f. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits, the State's short-term investment pool (STIP), and all certificates of deposit, which can be converted to cash at the District's demand.

g. Investments

Investments in certificates of deposit are recorded using cost since any variance from fair value is immaterial. The District's investment in STIP is recorded at cost which equals the fair value of its underlying investments.

h. Capital Assets

All capital assets purchased or constructed by the District are recorded at historical cost. Assets received from developers are recorded at fair market value. Items with a cost of less than \$5,000 are expensed when purchased.

i. Depreciation

Depreciation is provided over the estimated useful life of capital assets using the straight-line method. The useful lives of the assets have been determined as follows:

Buildings	15-40 Years
Water system	5-50 Years
Vehicles	5-10 Years
Tools and equipment	5-20 Years
Sewer system	10-50 Years
Lift stations	10-50 Years

j. Compensated Absences

Liabilities incurred due to unused vacation and sick leave accumulated by employees, payable upon termination, are recorded in the financial statements. The liability is computed at the current rate of pay times hours payable at termination, including payroll taxes and benefits.

Lakeside County Water and Sewer District
Notes to the Financial Statements
June 30, 2014

2. CASH AND INVESTMENTS

The District's cash is kept in demand and savings accounts. The District also has investments in certificates of deposit and the State's short-term investment pool (STIP). The District does not have a formal investment policy, but limits its 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.

The State short-term investment pool is an external investment pool administered by the State of Montana in a manner similar to money market funds under SEC Rule 2a7. Montana statutes (MCA Title 17, chapter 6) and related administrative rules govern the operation of STIP, which is managed by the Montana Board of Investments. The reported share value of STIP (\$1) is equal to the fair value of its underlying investments.

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned or the District will not be able to recover the collateral securities in the possession of an outside party. The District minimizes custodial credit risk by restrictions set forth in State law and District policy. At June 30, 2014, the carrying amount of the District's deposits with financial institutions was \$861,773 and the bank balance was \$853,062. Of the bank balance, \$672,942 was covered by federal depository insurance and \$180,120 was covered by securities held by the pledging financial institution's trust department or agent in the District's name.

Credit risk information is required to be disclosed for external investment pools. Although STIP has not been rated, its investment portfolio has been rated as detailed below:

Short-Term Investment Pool

Asset Backed Commercial Paper	\$ 777,417,680	A1
Corporate Commercial Paper	138,958,389	A1
Corporate Variable Rate	658,894,083	A1
Certificates of Deposit Fixed Rate	100,000,000	A1
Certificates of Deposit Variable Rate	391,996,239	A1+
Other Asset Backed	38,440,281	Not Rated
U.S. Government Agency Fixed Rate	75,003,275	A1+
U.S. Government Agency Variable Rate	200,003,406	A1+
Money Market Funds (Unrated)	133,439,814	Not Rated
Money Market Funds (Rated)	21,000,000	A1+
	<u>\$ 2,535,153,167</u>	A1

A1+ rating is the highest short-term rating provided by Standard and Poors.

Lakeside County Water and Sewer District
Notes to the Financial Statements
June 30, 2014

2. CASH AND INVESTMENTS (Continued)

Interest rate risk is the risk that the fair value of investments could decrease in a rising interest rate environment. To limit the District's exposure to this risk, management limits long-term investments and has varied maturity dates for certificates of deposit.

The District's investments contain an element of concentration of credit risk since certain investments represent over 5% of the District's total investments. The District does not further diversify because the investments are conservative and further diversification does not significantly reduce credit risk for the District.

The District's cash and investments consisted of the following:

Cash on Hand	\$ 200
Demand Deposits	50,140
Certificates of Deposit	811,633
State Short-Term Investment Pool	17,732
Total Cash and Investments	<u>\$ 879,705</u>

3. SUBDISTRICTS

The District took ownership of the Mission View Subdivision Water System January 1, 2012. A subdistrict, consisting of Mission View Subdivision landowners, was created to fund repairs necessary to bring the system up to District standards. The improvements were estimated to cost \$385,000, with the cost amortized over 10 years, with an interest rate of 3%. At June 30, 2014, the assessment receivable balance was \$312,575.

During fiscal year 2012, the District also established a subdistrict to fund improvements already made on the Spurwing subdivision. The assessment was \$67,448, to be amortized over 5 years, with an interest rate of 1%. At June 30, 2014, the assessment receivable balance was \$46,306.

Annual assessments for these two subdistricts are billed to the property owners as part of their tax bills by Flathead County with payments due November 30th and May 31st.

Lakeside County Water and Sewer District
Notes to the Financial Statements
June 30, 2014

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Restatements	Ending Balance
WATER					
Nondepreciable Capital Assets:					
Construction in Progress	\$ 405,687	\$ 164,397	\$ (158,725)	\$ (3,658)	\$ 407,701
Depreciable Capital Assets:					
Vehicles	\$ 23,307	\$ 26,558	\$ (23,307)	\$ -	\$ 26,558
Water System	3,603,096	162,386	-	2,307	3,767,789
Less Accumulated Depreciation	(1,526,720)	(141,134)	23,307	(3,577)	(1,648,124)
Total Depreciable Capital Assets, Net	<u>\$ 2,099,683</u>	<u>\$ 47,810</u>	<u>\$ -</u>	<u>\$ (1,270)</u>	<u>\$ 2,146,223</u>
SEWER					
Nondepreciable Capital Assets:					
Land	\$ 1,099,733	\$ -	\$ -	\$ -	\$ 1,099,733
Construction in Progress	48,844	205,137	-	3,658	257,639
Total Nondepreciable Capital Assets	<u>\$ 1,148,577</u>	<u>\$ 205,137</u>	<u>\$ -</u>	<u>\$ 3,658</u>	<u>\$ 1,357,372</u>
Depreciable Capital Assets:					
Buildings	\$ 91,609	\$ 5,922	\$ -	\$ -	\$ 97,531
Tools and Equipment	650,567	-	-	1,458	652,025
Lift Stations	1,984,806	-	-	6,998	1,991,804
Vehicles	101,169	-	(5,416)	-	95,753
Sewer System	7,295,934	60,000	-	45,993	7,401,927
Less Accumulated Depreciation	(4,821,022)	(222,940)	5,416	(49,732)	(5,088,278)
Total Depreciable Capital Assets, Net	<u>\$ 5,303,063</u>	<u>\$ (157,018)</u>	<u>\$ -</u>	<u>\$ 4,717</u>	<u>\$ 5,150,762</u>

5. REFUNDABLE PLANT INVESTMENT FEE

During fiscal year 2006, the District received \$100,000 from a developer that may be refunded as dwellings within the subdivision are added to the sewer system. This refunding is contingent upon adequate development of the property to support the up-front costs to the district of reserving sewer system capacity. The agreement to reserve capacity ends December 2020, at which time the prepayment may be forfeited to the District, at the District's discretion.

**Lakeside County Water and Sewer District
Notes to the Financial Statements
June 30, 2014**

6. INTERFUND TRANSACTIONS

During fiscal year 2013, the sewer fund loaned the water fund \$155,424, an additional \$71,945 was loaned in fiscal year 2014 to fund Mission View water project. This loan has been reported as a noncurrent interfund receivable/payable. Once the Mission View water project is complete, a resolution will be prepared outlining loan terms and repayment will begin. Repayment will be funded with payments received for assessments made on Mission View Subdivision property owners.

During fiscal year 2011, the sewer fund advanced the water fund \$121,500 for the long-term financing of operating expenses. The advance has an interest rate of 3% and is scheduled to be repaid in monthly installments of \$1,173, maturing June 2021. The balance of the advance at June 30, 2014 was \$88,790.

In fiscal year 2008, the sewer fund advanced \$109,691 to the water fund to pay off the water fund revenue bonds. Repayment of the advance is due in monthly installments of \$1,107, which includes 3% interest, maturing January 2018. The balance of the advance at June 30, 2014 was \$45,079.

7. COMPENSATED ABSENCES

All full-time employees accumulate vacation and sick leave hours in proportion to the hours they work. Employees earn annual leave at the rate of 15 days per year for each year of their first ten years of employment. Between ten and twenty years of employment, they earn increasing rates up to 21 days per year, with a maximum of 24 days after 20 years of employment. There is no requirement that annual leave be taken. However, the maximum accumulation is two times the annual rate, determined at the end of the calendar year. At termination, employees are paid for any accumulated annual leave. Sick leave is earned at the rate of twelve days per year. There is no limit on the accumulation of sick leave. At termination, employees are paid for one-fourth of their accumulated sick leave.

Changes in compensated absences during the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due within one year
Compensated Absences	\$ 25,693	\$ 9,120	-	\$ 34,813	\$ 34,813

8. RETIREMENT

The District participates in the Public Employees Retirement System (PERS), a multiple employer, cost-sharing, defined benefit retirement plan. The plan is established by State law and is administered by the State Department of Administration. The plan provides retirement, disability and death benefits to plan members and their beneficiaries as defined by State law. The PERS plan has an option for newly hired employees to make an irrevocable transfer to a defined contribution plan within the first year of employment. The contribution rates are the same for both PERS plans.

**Lakeside County Water and Sewer District
Notes to the Financial Statements
June 30, 2014**

8. RETIREMENT (Continued)

Contribution rates are determined by State law. The contribution rates for the year ended June 30, 2014, expressed as a percentage of covered payroll were:

Employer	8.07%
Employee	7.90%
State of Montana	.10%

The amounts contributed to the plan during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution each year. The amounts contributed by the District were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
PERS	\$ 15,426	\$ 16,289	\$ 19,174

Above contributions do not include the 0.1% contribution by the State of Montana.

The financial information for the retirement plan is reported in the Public Employees' Retirement Board's comprehensive annual financial report. This report is available from MPERA at 100 North Park Ave, P.O. Box 200131, Helena, MT 59620-0131, (406)444-3154, or www.mpera.mt.gov.

9. RISK MANAGEMENT

The 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 general liability, property and contents damage, and tort liability. The District purchases workers' compensation insurance from the State Fund. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages. Coverage limits and deductibles on the commercial policies have stayed relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the last three fiscal years.

For medical costs of employees and their dependents, the District purchases commercial insurance, paying 100% of the premium. In addition, the District covers the insurance deductible and out-of-pocket limit for individuals or families. After the out-of-pocket limit is met, commercial insurance covers 100% of additional costs. For calendar year 2014 the maximum out of pocket limit was \$6,350 for individuals and \$12,700 for families. For 2015 the District has changed to a plan with an out-of-pocket limit of \$4,000 for individuals and \$8,000 for families.

Lakeside County Water and Sewer District
Notes to the Financial Statements
June 30, 2014

10. WATER SYSTEM

The District has agreed to operate, with the intent to own, the South Eighty Water System. The addition of this system will add 23 users, with the potential for 20 more, to the Lakeside Water System.

11. INTERLOCAL COOPERATIVE AGREEMENT

The District and Somers County Water and Sewer District entered into an interlocal cooperative agreement in February 1993 whereby the District will provide sewer treatment service to the Somers District. The agreement was amended in November 2012, effective for fifty years from this date. Somers District may expand sewer service within its boundaries and may annex additional properties outside its boundaries with Lakeside District's approval. The amendment includes a rate of \$2 per 1000 gallons of effluent for treatment services with an additional base rate for capital investments. The base rate for fiscal year 2014 was \$6.42 per EDU. The amendment provides the method for adjustment of these rates.

12. RELATED PARTIES

For the year ended June 30, 2014, the District paid \$55,505 to an engineering firm that is owned by one of the board members.

13. RESTATEMENTS

Beginning net position was restated in the Sewer and Water funds by \$4,717 and \$(1,270), respectively, for corrections to capital asset activities in the general ledger.

14. COMMITMENTS

At June 30, 2014, the District had commitments for engineering and constructions services for the Mission View Cherry Hills water project in the amount of \$47,056.

15. SUBSEQUENT EVENTS

After June 30, 2014, the District approved the replacement of the center pivot at the sewer treatment site. The new equipment is estimated to cost \$130,000. Also, the water fund had to replace the pump and motor for their largest well after the equipment failed at a cost of \$26,000.

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**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Lakeside County Water and Sewer District
Lakeside, Montana

I 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 each major fund of Lakeside County Water and Sewer District, Lakeside, Montana as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lakeside County Water and Sewer District, Lakeside, Montana's basic financial statements and have issued my report thereon dated December 9, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Lakeside County Water and Sewer District, Lakeside, Montana'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 Lakeside County Water and Sewer District, Lakeside, Montana's internal control. Accordingly, I do not express an opinion on the effectiveness of Lakeside County Water and Sewer District, Lakeside, Montana'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 in the accompanying schedule of findings and responses, 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 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. I consider the deficiency described as item 2014-1 in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described as items 2014-2 through 2014-4 in the accompanying schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lakeside County Water and Sewer District, Lakeside, Montana'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 statement 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 *Government Auditing Standards*.

Lakeside County Water and Sewer District, Lakeside, Montana's Response to Findings

Lakeside County Water and Sewer District, Lakeside, Montana's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. Lakeside County Water and Sewer District, Lakeside, Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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 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.

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.
St. Regis, Montana
December 9, 2014

Lakeside County Water and Sewer District
Schedule of Findings and Responses
June 30, 2014

2014-1 Capital Assets

There were several discrepancies noted during my review of capital assets. They are detailed below:

- Capital assets reported in the general ledger should be supported by a detailed depreciation schedule. There were several differences between the information in the general ledger and in the supporting depreciation schedule. These differences were considered material prior to correction. The errors indicate a lack of appropriate internal controls over the accuracy of the capital asset information. Management corrected the depreciation schedule, which was then reconciled to the general ledger as part of the audit, with a correcting entry provided to the District. Going forward the general ledger and depreciation schedule should be reconciled and adjustments made to correct any differences.
- The detailed depreciation schedule should include all capital assets of the District over the capitalization threshold. During fiscal year 2014, several fully depreciated items were incorrectly taken off of the depreciation schedule. These capital assets were still in use and therefore should continue to be included on the depreciation schedule. These items were added back to the schedule by management.
- Depreciation expense for each fund should agree to the detailed depreciation schedule. An estimate of depreciation expense is recorded by the District each month. At the end of the year the estimate recorded in the general ledger should be adjusted to agree with the actual depreciation expense calculated on the depreciation schedule. To correct depreciation expense at June 30, 2014, an adjustment of \$12,348 was made to the water fund and \$27,285 to the sewer fund.
- Proceeds from the sale of capital assets should be reported in a separate account titled Gain (loss) on Sale of Capital Assets. The District received \$10,900 in proceeds from the sale of capital assets in fiscal year 2014 and recorded the receipt as other miscellaneous revenues. The amount was reclassified for financial statement reporting. In the future, receipts from the sale of capital assets should be reported in the proper account.

District Response

- The general ledger and depreciation schedule will be reviewed periodically to ensure accuracy and account balance agreement.
- Proceeds from sale of capital assets will be accounted for in the “Gain/Loss on Sale of Capital Assets” account, not miscellaneous revenues.

2014-2 Accounts Payable

During subsequent disbursement testing, accounts payable items were noted. Accounts payable are expenses incurred prior to the end of the fiscal year, where payment is not made until after the end of the year. When expenses are incurred they should be recorded under generally accepted accounting principles. For June 30, 2014, accounts payable of \$15,520 for the Water fund were noted. This resulted in accounts payable and construction in progress being understated. This error was not corrected for the financial statements. In the future, subsequent payments should be reviewed for expenses that were incurred in the prior fiscal year.

**Lakeside County Water and Sewer District
Schedule of Findings and Responses
June 30, 2014**

District Response

Expenses and subsequent payments will be recorded in the period incurred, rather than by the date received.

2014-3 Reconciling Subsidiary Ledger Information

General ledger accounts receivable and service revenue accounts should be reconciled to subsidiary ledger information on a regular basis. During fiscal year 2014, management made an adjustment to reconcile the accounts receivable accounts to the subsidiary ledger. This adjustment increased sewer receivables by \$13,949 and decreased water receivables by \$7,791, a net effect of \$6,158. For the year ended June 30, 2014, service revenues in the general ledger were more than the net revenues in the subsidiary ledger by \$3,929 in sewer and \$745 in water. A lack of proper reconciling procedures resulted in this difference. The general ledger control accounts should be reconciled to the subsidiary ledger daily to ensure any differences are corrected in a timely manner.

District Response

The general ledger control accounts will be reconciled to the subsidiary ledger daily to ensure any differences are corrected in a timely manner.

2014-4 Knowledge of Generally Accepted Accounting Principles

The District does not prepare the financial statements and disclosures in accordance with generally accepted accounting principles (GAAP) for the audit. The auditor assists in drafting these documents from the trial balance and the client reviews, approves, and accepts responsibility for them. Although management is knowledgeable in the affairs of the District and provides monthly financial reports for the board of directors, management does not have adequate knowledge of GAAP to prepare financial statements and disclosures that meet these requirements without assistance. If the District did not receive assistance in the completion of these financial statements and disclosures the financial statements could be misstated if new or unusual transactions occurred or new pronouncements were issued that affect the District.

District Response

Small districts like the LCWSD may not have the expertise on staff to possess full knowledge of GAAP. We may always have to rely on our Auditor for education and compliance.

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Directors
Lakeside County Water and Sewer District
Lakeside, Montana

The prior audit report contained four recommendations. The action taken on these recommendations is as follows:

<u>Number</u>	<u>Recommendation</u>	<u>Action Taken</u>
2013-1	Accounts Payable	Repeated
2013-2	Knowledge of Generally Accepted Accounting Principles	Repeated
2013-3	Capital Assets	Repeated
2013-4	Transaction Dating	Implemented

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St. Regis, Montana
December 9, 2014

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December 9, 2014

Board of Directors
Lakeside County Water and Sewer District
Lakeside, Montana

In planning and performing my audit of the financial statements of Lakeside County Water and Sewer District for the year ended June 30, 2014, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control. This letter does not affect my report on those financial statements dated December 9, 2014.

However, I noted certain matters involving internal control and its operation that I consider opportunities for improvement. These and other matters are summarized below.

Cash Reconciliation

Cash should be reconciled each month with the reconciliation balancing to zero as part of a good internal control system. At June 30, 2014, cash did not reconcile to the bank by \$799. This was due to credit card payments being posted to the general ledger that had not yet been deposited at the bank. This results in cash being overstated at year end. In the future, cash should be reconciled to zero and transactions recorded as they occur.

District Response

Staff now has a better understanding of the balancing process and will ensure a daily reconciliation between the account receivable accounts and the general ledger.

Board Approval of Checks

To improve segregation of duties, the board of directors should approve all disbursements. As part of that approval, the sequence of checks should be reviewed by the board to ensure that all disbursements are being reviewed and approved. During the audit we noted there were gaps in the sequence of checks approved by the board of directors. This weakens internal controls over disbursements. We suggest the directors review check numbers to be approved to determine if there are gaps in the sequence from month to month. If gaps do occur, voided checks should be presented to support the missing check numbers. The minutes can also be used to document the starting and ending check numbers approved each month to further document this information.

District Response

The directors will review check numbers to determine if there are gaps in the sequence from month to month and will document the review in the minutes.

Balance Sheet Allocation

The balance sheet allocation worksheet is necessary to allocate cash by fund since the District pools their checking account cash. At June 30, 2014, the allocation of equity on this worksheet was not correct. This resulted in the water fund having a negative cash balance of \$25,589. In the future, additional care should be taken in allocating equity in the balance sheet allocation worksheet so negative cash does not result.

District Response

Additional care will be taken in the future of allocating equity in the balance sheet allocation worksheet so negative cash does not result.

Findings from the June 30, 2013 management letter are shown below with their status as of June 30, 2014.

<u>Finding</u>	<u>Status</u>
Fund Reporting	Implemented
Accounts Receivable	Repeated in Audit Report

* * * * *

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

Respectfully,

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.