

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Malta Irrigation District

December 31, 2013 and 2012

Malta Irrigation District

December 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Malta Irrigation District
Malta, Montana

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of Malta Irrigation District, Phillips County, Malta, Montana, (the District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The District's 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the District, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

OTHER MATTERS

The financial statements of Malta Irrigation District, for the year ended December 31, 2012, were audited by another auditor who expressed an unmodified opinion on those statements dated July 22, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as referenced in the table of contents, 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 supplemental 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.

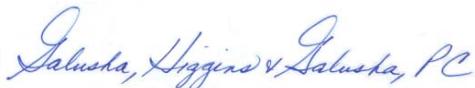
OTHER INFORMATION

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The District's basic financial statements. The accompanying supplemental information, the Bond Compliance Schedules, as referenced in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Bond Compliance Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Bond Compliance Schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Havre, Montana
December 31, 2014

Malta Irrigation District

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

December 31, 2013 and 2012

Introduction

The management of the Malta Irrigation District (the District) offers readers of these financial statements this overview and summary analysis of the financial activities of the District for the year January 1, 2013 through December 31, 2013. This section of the financial report is designed to assist the reader in focusing on significant financial activities and issues, as well as important changes in the District's financial position and results in operations, which may affect the District's ability to address subsequent years' challenges. This discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

The District accounts for its revenues and expenses on a flow of economic resources measurement focus. Revenue received from charges for services and investing activities are used to pay District liabilities.

Financial Highlights

The District's financial condition is strong. The District operates well within the financial policies of and guidelines set by the Board and management. The following are key financial highlights:

- The long term debt for the irrigation system is related to a note agreement with the Department of Natural Resources and Conservation (DNRC) at \$2,274,950, which started in July 2003. The proceeds were used to fund construction and improvements done to the District's Dodson Dam Rehabilitation Project. The note has semi-annual payments of \$61,714 for 20 years, with blended interest at .8%. The District uses a special assessment of \$3.06 per irrigated acre to fund the loan payments. Total outstanding debt is \$1,183,390.
- Total assets of the District at year-end were \$4,980,048 and exceeded the liabilities by \$3,662,461 (i.e. net position). In comparison to the prior fiscal year, total assets and total net position increased by \$2,471 and \$165,947 respectively.
- The District's long term debt of \$1,183,390 was a decrease from the prior year by \$113,166.
- The District's total liabilities, which consist of current liabilities in the amount of \$134,197, current portion of long term debt of \$114,084 and long term debt in the amount of \$1,069,306, was a decrease from the prior year by \$163,476.
- Total operating revenue for the year was down \$517,492 (27.7%) from 2012 due to decreases in water toll revenues and lower penalty/interest fees resulting from timelier assessment payments by water users. Also, in 2012 the District received insurance funds to assist with repairs at Dodson Dam; the District did not receive any insurance funds in 2013.
- Total operating expenses, excluding depreciation, for the year were down \$91,889 or 7.5% from 2012 due to slightly lower maintenance requirements and any associated costs.

IRRIGATION SYSTEM REVENUE: For the year ending December 31, 2013, net income was down 62.6% compared to the previous year.

IRRIGATION SYSTEM EXPENSES: Operating expenses for the irrigation system, for the year ending December 31, 2013, were down 7.5% from the previous period. Labor (wages, payroll taxes, benefits, director fees and training) accounted for 38% of the operating expenses for the period. System repairs (42%), utilities (1%), insurance (2%), professional services (3%), depreciation (9%) and other operating expenses (5%), make up the remainder of the water operations expenses. The other operating expenses are spread over a host of categories such as advertising, fuel, office expense, postage, supplies and travel. All expense categories are reflected on the Statement of Revenue, Expenses, and Changes in Net Position in the accompanying financial statements.

continued

Malta Irrigation District

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

December 31, 2013 and 2012

NON-OPERATING REVENUES: Non-operating revenues for the year ending December 31, 2013 included \$6,546 in interest income, gain on sale of assets of \$1,926 and \$81,492 in grant income.

NON-OPERATING EXPENSES: Non-operating expenses for the year ending December 31, 2013 totaled \$9,562. This expense is the interest payments on the note agreement with the Department of Natural Resources and Conservation.

Required Financial Statements

This annual report consists of a series of financial statements. The *Statement of Net Position*, *Statement of Revenues and Expenses and Changes in Net Position* and *Statement of Cash Flows* provide information about the activities and performance of the District.

The *Statement of Net Position* includes all of the District's assets and liabilities. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the *Statement of Revenues and Expenses and Changes in Net Position*. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its assessments and other charges. The final required financial statement is the *Statement of Cash Flows*, which provides information about the District's cash receipts, cash payments and net changes in cash resulting from operations and capital and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The *Statement of Net Position* and the *Statement of Revenues and Expenses and Changes in Net Position* report information about the District in a way which helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in weather and water availability.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found as referenced in the table of contents.

Statement of Net Position

	Condensed Statement of Net Position	
	<u>2013</u>	<u>2012</u>
Assets		
Current Assets	\$2,416,714	\$1,936,675
Current Assets, Board Reserved	\$123,428	\$585,827

continued

Malta Irrigation District

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

December 31, 2013 and 2012

	2013	2012
Non-current Assets	\$2,439,906	\$2,455,075
Total Assets	\$4,980,048	\$4,977,577
Liabilities		
Payable from Current Assets	\$248,281	\$297,673
Non-Current Liabilities	\$1,069,306	\$1,183,390
Total Liabilities	\$1,317,587	\$1,481,063
Net Position		
Net Investment in Capital Assets	\$1256,516	\$1,158,519
Unrestricted	\$2,405,945	\$2,337,995
Total Net Position	\$3,662,461	\$3,496,514
Total Liabilities and Net Position	\$4,980,048	\$4,977,577

As noted earlier, net position may serve over time as a useful indicator of financial position. During the 2013 fiscal year, the District's assets exceeded liabilities by \$3,662,461.

The largest portion of the District's total assets reflects non-current assets such as equipment and vehicles, lots and land, buildings and land improvements. The non-current assets are roughly 49% of total assets and the District uses these assets to provide assistance and infrastructure for the supply of irrigation services to members of the District. Current assets make up 49% of total assets and are used for the day-to-day operations such as payroll, canal and vehicle maintenance and other expenses. Restricted current assets make up approximately 2% of total assets; this number has decreased from 2012 to reflect normal operations. In 2012, proceeds from an insurance claim were flagged as unrestricted since it was to be used in 2013 for repair/maintenance of the Dodson Dam facility.

The District shows a positive balance in unrestricted net position of \$2,405,945 which may be utilized in future years. The District has taken action to reserve aspects of the unrestricted net position for specific uses in water supply, asset replacement and forecasted capital requirements.

Statement of Revenues and Expenses and Changes in Net Position

Condensed Statement of Revenues and Expenses and Changes in Net Position

	2013	2012
Revenues		
Assessments	\$1,149,070	\$1,157,171
Water Tolls	\$165,242	\$199,773
Fees and Other	\$31,535	\$508,321
Non-operating Revenues	\$89,964	\$31,964
Total Revenues	\$1,435,811	\$1,897,229
Expenses		
Operating Expenses	\$1,260,302	\$1,298,649
Interest on Long Term Interest on Debt	\$9,562	\$11,813
Total Expenses	\$1,269,864	\$1,310,462
Change in Net Position	\$165,947	\$586,767
Net Position, Beginning of Year	\$3,496,514	\$2,909,747
Net Position, End of Year	\$3,662,461	\$3,496,514

Malta Irrigation District

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

December 31, 2013 and 2012

The *Statement of Revenues and Expenses and Changes in Net Position* shows how the District's net position changed during the fiscal year. Net position decreased by \$420,820 during the fiscal year ending December 31, 2013.

Total revenues decreased from 2012 by \$461,418; in 2012 the District received insurance claims – no insurance claims were received in 2013. In addition, total expenses decreased by \$40,598 primarily due to an overall decrease in canal maintenance and any costs associated with this maintenance.

Capital Asset Administration

At the end of the fiscal year 2013, the District's net investment in capital assets amounted to \$1,256,516. This net investment in capital assets includes land, irrigation infrastructure, buildings, equipment and vehicles.

Conditions Affecting Current Financial Position

There are some conditions which may have impact on the District's future financial position, net position, or operating results.

The District experienced a decrease in irrigation water tolls due to an exceptionally wet irrigation season. Wet conditions generally decrease the demand for irrigation water.

The flooding in 2011 caused damage to canals and irrigation structures. The District continued repairs into 2013 with the replacement of Bladder #3 on Dodson Dam; the funds for these repairs came from the District's Dodson Dam Rehab funds.

Also, in 2011 the District contracted with the Department of Natural Resources & Conservation (DNRC) for a \$100,000 Renewable Resource Grant for replacement of irrigation infrastructure. This project commenced in 2012 and will continue into 2015. The District also contracted with DNRC for an additional \$100,000 in 2013 for another irrigation infrastructure replacement project. This project will potentially be completed in 2016 but the funds are available once materials are purchased.

Contacting the District's Management

This financial report is designed to provide the District's funding sources, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Office Manager at PO Box 1340, 509 South 3rd Street East, Malta, MT 59538 or by telephone at (406) 654-1440 or (406) 654-7380.

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Malta Irrigation District

STATEMENTS OF NET POSITION

as of December 31,

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash & cash equivalents	\$ 1,806,952	\$ 1,793,647
Accounts receivable, assessments	606,771	585,827
Accounts receivable, water tolls	81,783	103,116
Inventories	44,636	39,912
Total current assets	<u>2,540,142</u>	<u>2,522,502</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation	<u>2,439,906</u>	<u>2,455,075</u>
TOTAL ASSETS	<u>\$ 4,980,048</u>	<u>\$ 4,977,577</u>

The accompanying notes are an integral part of these financial statements.

Malta Irrigation District

STATEMENTS OF NET POSITION

as of December 31,

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable	\$ 82,981	\$ 133,861
Payroll taxes payable	1,029	765
Accrued Interest	5,143	5,843
Compensated absences payable	45,044	44,038
Current portion of long-term debt	114,084	113,166
Total current liabilities	<u>248,281</u>	<u>297,673</u>
LONG TERM DEBT	<u>1,069,306</u>	<u>1,183,390</u>
TOTAL LIABILITIES	1,317,587	1,481,063
NET POSITION		
Net investment in capital assets	1,256,516	1,158,519
Unrestricted	2,405,945	2,337,995
TOTAL NET POSITION	<u>3,662,461</u>	<u>3,496,514</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,980,048</u>	<u>\$ 4,977,577</u>

The accompanying notes are an integral part of these financial statements.

Malta Irrigation District

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION for the years ended December 31,

	2013	2012
OPERATING REVENUES		
Water systems revenues	\$ 1,345,847	\$ 1,865,265
Total operating revenues	1,345,847	1,865,265
OPERATING EXPENSES		
Accounting and audit	5,100	5,050
Advertising	1,049	940
Depreciation	107,829	111,502
Director fees	4,552	5,457
Employee benefits	50,937	52,287
Fuel	50,282	77,522
Insurance and bonding	23,323	22,811
Maintenance and repairs	549,701	562,216
Miscellaneous	4,167	3,655
Office supplies	6,726	4,350
Payroll taxes	52,368	49,159
Salaries	348,734	337,490
Secretary, attorney fees, and consulting	29,765	46,252
Supplies	10,554	6,720
Training and education	140	-
Travel	1,164	258
Utilities	13,911	12,980
Total operating expenses	1,260,302	1,298,649
Net income from operations	85,545	566,616
NON-OPERATING REVENUES (EXPENSES)		
Interest income	6,546	6,118
Gain on sale of assets	1,926	-
Grant income	81,492	25,846
Interest expense	(9,562)	(11,813)
Total non-operating revenues (expenses)	80,402	20,151
Change in unrestricted net position	165,947	586,767
Net position, beginning of year	3,496,514	2,909,747
Net position, end of year	\$ 3,662,461	\$ 3,496,514

The accompanying notes are an integral part of these financial statements.

Malta Irrigation District

STATEMENTS OF CASH FLOWS

for the years ended December 31,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,346,236	\$ 1,830,237
Payments to suppliers	(755,774)	(705,531)
Payments to employees	(451,033)	(439,885)
Net cash provided by operating activities	139,429	684,821
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends received	6,546	6,118
Net cash provided by investing activities	6,546	6,118
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments	(113,166)	(149,019)
Interest payments	(10,262)	(13,052)
Purchase of capital assets	(98,034)	-
Capital grant income	81,492	25,846
Proceeds from sale of assets	7,300	-
Net cash used by capital and related financing activities	(132,670)	(136,225)
Net increase in cash	13,305	554,714
Cash, beginning of year	1,793,647	1,238,933
Cash, end of year	\$ 1,806,952	\$ 1,793,647
Reconciliation of net income from operating activities:		
Net income from operations	\$ 85,545	\$ 566,616
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	107,829	111,502
Changes in working capital components:		
Accounts receivable	389	(35,028)
Inventory	(4,724)	(8,587)
Accounts payable	(50,880)	51,267
Accrued expenses	264	-
Compensated absences	1,006	(949)
Net cash provided by operating activities	\$ 139,429	\$ 684,821

The accompanying notes are an integral part of these financial statements.

Malta Irrigation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Malta Irrigation District, Malta, Montana (the District) conform to accounting standards generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

1. Reporting entity. Malta Irrigation District is a local government unit whose purpose is to provide a source of water to rural consumers in Phillips County. The District is managed by a board of directors elected by the consumers within the District. Although the District operates independently of other county functions, the County Treasurer for Valley & Phillips counties, are the custodians of all funds belonging to the District.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities, which should be presented with the District.

2. Measurement focus and basis of accounting. The District's activities are similar to those found in the private sector where determination of net income is necessary or useful for sound financial administration and, therefore, the District is considered to be a proprietary governmental unit.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Operating income includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", the District follows GASB guidance as applicable to proprietary funds.

3. Inventory. Inventory is valued at lower of cost or market on a first-in, first-out (FIFO) method. Inventory consists of water system parts and supplies used to maintain the irrigation system.
4. Capital assets. Capital assets are recorded at historical cost, where records are available, and at an estimated historical cost where no historical records exist. Major additions are capitalized while minor replacements, maintenance and repairs that do not increase the useful life of the property are expensed as incurred. It is the District's policy to capitalize public domain ("infrastructure") assets such as canals, drainage systems, dams, dam repairs, etc. Provisions for depreciation are determined using the straight-line method over the asset's estimated useful lives as described below:

Buildings	25 Years
Infrastructure	50 Years
Machinery & Equipment	5-25 Years

continued

Malta Irrigation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

5. Cash and cash equivalents. For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with maturity of three months or less to be cash equivalents. Cash and cash equivalents may include cash and cash items; demand, time, savings and fiscal agent deposits; and direct obligations of the United States Government and securities issued by agencies of the United States. Certain cash and cash equivalents are classified as restricted due to bond covenants or the use is specified by the source in which the revenue was derived.
6. Net position classifications. Net position is classified into three components:
 - (a) Net investment in capital assets: Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bond, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
 - (b) Restricted: Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
 - (c) Unrestricted: All other net position that does not meet the definition of restricted or net investment in capital assets.
7. Accounts receivable. All of the District's accounts receivable relate to irrigation services provided to rural consumers in Phillips County.

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. The District follows a policy that states all past due water tolls and tax assessments receivable must be paid before any water is delivered. If amounts become uncollectible, they will be charged to operations when that determination is made.
8. Operating revenues and expenses. Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities. When an expense is incurred for purposes of which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.
9. Vacation and sick leave. Accumulated sick leave and vacation leave is recorded as an expense and as a liability in the period the benefit accrues.
10. Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
11. Reclassifications. Certain account balances for the year ended December 31, 2012 have been reclassified, with no effect on net position, to be consistent with classifications for the year ended December 31, 2013.

continued

Malta Irrigation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE B CASH AND INVESTMENTS

The District's deposits are held by the Valley and Phillips county treasurers. As of December 31, 2013 and 2012, the book balance of cash and cash equivalents was \$1,806,952 and \$1,793,647 respectively. The total balance of the checking and savings accounts as of December 31, 2013 and 2012 were covered by collateralized investments held in each county's name.

NOTE C SPECIAL ASSESSMENTS

Special assessments are set no later than the third Monday in August in connection with the budget process. The Board of Commissioners approves the budget and sets the tax levies and water toll fees to be charged. The Board of Commissioners furnishes the County Assessor with a current list of the District lands in the County, together with the amount of the total taxes or assessments to be levied against those lands. Special assessments are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, assessments become delinquent and become a lien on the property. Assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. Real property on which assessments remain delinquent and unpaid may be sold at tax sales.

NOTE D CAPITAL ASSETS

A summary of the District's Capital Assets, at December 31, 2013 and 2012 follows:

	<u>January 01, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2012</u>
Land	\$ 18,227	\$ -	\$ -	\$ 18,227
Buildings	61,729	-	-	61,729
Water system and equipment	858,871	-	-	858,871
Infrastructure	2,591,404	-	-	2,591,404
	<u>3,530,231</u>	<u>-</u>	<u>-</u>	<u>3,530,231</u>
Less accumulated depreciation	<u>963,654</u>	<u>111,502</u>	<u>-</u>	<u>1,075,156</u>
Total	<u>\$ 2,566,577</u>	<u>\$ (111,502)</u>	<u>\$ -</u>	<u>\$ 2,455,075</u>
	<u>January 01, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2013</u>
Land	\$ 18,227	\$ -	\$ -	\$ 18,227
Buildings	61,729	-	-	61,729
Water system and equipment	858,871	98,034	45,799	911,106
Infrastructure	2,591,404	-	-	2,591,404
	<u>3,530,231</u>	<u>98,034</u>	<u>45,799</u>	<u>3,582,466</u>
Less accumulated depreciation	<u>1,075,156</u>	<u>107,829</u>	<u>40,425</u>	<u>1,142,560</u>
Total	<u>\$ 2,455,075</u>	<u>\$ (9,795)</u>	<u>\$ 5,374</u>	<u>\$ 2,439,906</u>

continued

Malta Irrigation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE E LONG-TERM DEBT

Long term debt at December 31, 2013 and 2012 consisted of the following:

	<u>January 01, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2012</u>
Note payable to Department of Natural Resources and Conservation (DNRC), 20 years with blended interest rate of .8%; secured by all revenue and property of the District.	\$ 1,408,812	\$ -	\$ 112,256	\$ 1,296,556
Total	<u>\$ 1,408,812</u>	<u>\$ -</u>	<u>\$ 112,256</u>	1,296,556
Less Current Portion of Bonds Payable				<u>(113,166)</u>
Total Non-Current Liabilities				<u>\$ 1,183,390</u>

	<u>January 01, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2013</u>
Note payable to Department of Natural Resources and Conservation (DNRC), 20 years with blended interest rate of .8%; secured by all revenue and property of the District.	\$ 1,296,556	\$ -	\$ 113,166	\$ 1,183,390
Total	<u>\$ 1,296,556</u>	<u>\$ -</u>	<u>\$ 113,166</u>	1,183,390
Less Current Portion of Bonds Payable				<u>(114,084)</u>
Total Non-Current Liabilities				<u>\$ 1,069,306</u>

Annual cash flow requirements for retirement of bond principal and interest obligations are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 114,084	\$ 9,344	\$ 123,428
2015	115,009	8,419	123,428
2016	115,941	7,487	123,428
2017	116,881	6,547	123,428
2018	117,829	5,599	123,428
Thereafter	603,647	13,512	617,159
Total	<u>\$ 1,183,390</u>	<u>\$ 50,908</u>	<u>\$ 1,234,298</u>

continued

Malta Irrigation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE F COMPENSATED ABSENCES PAYABLE

The following is a summary of the change in compensated absences of Malta Irrigation District for the years:

	<u>January 01, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2012</u>
Vacation and sick leave	\$ 44,987	\$ -	\$ 949	\$ 44,038
	<u>January 01, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2013</u>
Vacation and sick leave	\$ 44,038	\$ 1,006	\$ -	\$ 45,044

NOTE G 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 and (f) medical insurance costs of employees. A variety of methods is used to provide insurance to manage these risks.

To better manage costs of insurance, the District joined with other Montana government entities in the Montana Association of Counties Joint Powers Insurance Authority Property and Casualty Pool (MACo/JPIA), which provides general liability and property coverage. Given the lack of coverage available, the District has no coverage for potential losses for environmental damages.

The pool is limited to \$1,000,000 per incident or occurrence. To offset this risk, the pool has purchased additional insurance coverage and an aggregate bond to cover claims in excess of \$1,000,000 per incident or occurrence. The premium paid for this coverage was similar to the prior year. The District makes monthly payments on the annual premium for its workers' compensation insurance to the State Worker's Compensation Fund. Settlement claims resulting from these risks have not exceeded the commercial coverage in any of the past three years.

NOTE H RETIREMENT PLAN

The District participates in a defined benefit retirement plan, Public Employees Retirement System (PERS), which covers all employees, except part-time employees. PERS is a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Member's rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

Funding is provided by participating units of government and their employees. The Districts' contributions to this plan for the years ended December 31, 2013 and 2012 were \$51,052 and \$45,978, respectively. The State of Montana contributes .37% of the PERS employees' monthly compensation, which is considered to be an "on-behalf" payment. Although not a significant amount, the contribution is part of the PERS funding policy. The Districts' contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$23,357 (6.90% of payroll). Total payroll for employees covered by PERS was \$338,514.

continued

Malta Irrigation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE H RETIREMENT PLAN, continued

One hundred percent of required contributions were made for the past three years, totaling \$47,841, \$45,978, and \$51,052, respectively.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year-end. It is available from the PERD at 100 N Park Avenue, Suite 220, PO Box 200131, Helena, MT 59620-0131, (406) 444-3154.

NOTE I SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2013 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended December 31, 2013. Management has performed this analysis through December 31, 2014, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Malta Irrigation District

BOND COMPLIANCE SCHEDULES

December 31, 2013 and 2012

SCHEDULE OF ASSESSMENTS LEVIED PER ACRE

Operations and maintenance fund	<u>\$ 22.46</u>
Dodson Dam	<u>\$ 3.06</u>

SCHEDULE OF ASSESSABLE ACRES

Total acres assessable	<u>42,892</u>
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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
Malta Irrigation District
Malta, Montana

We have audited 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, the accompanying financial statements of the business-type activities of Malta Irrigation District, Phillips County, Malta, Montana, (the District) as of and for the year ended December 31, 2013, and have issued our report thereon dated December 31, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control 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 and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Galusha, Higgins & Galusha, PC

Havre, Montana
December 31, 2014

Malta Irrigation District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2013 and 2012

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No

- Significant deficiencies identified that are not
 considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Financial Statement Findings

None.

Summary Schedule of Prior Audit Findings

2012-1: The District has one employee that performs all accounting functions.

Resolved.