

**NORTH CENTRAL MONTANA
REGIONAL WATER AUTHORITY**

HAVRE, MONTANA

FINANCIAL STATEMENTS
AS OF
JUNE 30, 2014 AND 2013

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Douglas Wilson & Company, P.C.

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NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

**OFFICIALS
JUNE 30, 2014**

MEMBER ENTITIES

Municipalities

Town of Big Sandy
Town of Dutton
City of Shelby
Town of Sunburst
City of Cut Bank
City of Havre
Town of Kevin
Town of Chester
City of Conrad

Water Districts

Brady County
North Havre County
Sweetgrass Community
Hill County
Loma County
Oilmont County
Sage Creek County
Tiber County
South Chester County
Galata County

EXECUTIVE COMMITTEE

Larry Bonderud, President – City of Shelby
Shaud Schwarzbach, Vice-President – Town of Big Sandy
Jeff Jensen, Secretary - City of Cut Bank
Cheryl Curry, Treasurer – City of Conrad
Jim Suta, At-Large Member – Hill County Water District



Douglas WILSON
and Company, PC

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

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

Executive Committee
North Central Montana Regional Water Authority
Havre, Montana

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the North Central Montana Regional Water Authority (Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Central Montana Regional Water Authority as of June 30, 2014, and the changes in financial position, and cash flows 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 7 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Central Montana Regional Water Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matter

The prior year comparative information has been derived from the North Central Montana Regional Water Authority's 2013 basic financial statements and, in our report dated February 21, 2014, we expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of 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 Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Douglas Wilson + Company, P.C." The signature is written in a cursive, flowing style.

Great Falls, Montana
January 27, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 20, 2014

As management of the North Central MT Regional Water Authority (herein referred to as "Authority"), we offer readers of the Authority's financial statements this narrative overview of the financial activities of the Authority for the fiscal year ending June 30, 2014. Reading this narrative in conjunction with the Authority's financial statements should give you a complete overview of the activities and the financial status of the Authority.

The purpose of Authority is to construct and to operate a Regional Water System in North Central Montana.

Overview of the Financial Statements.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. All the funds for the Authority are considered Proprietary Funds (or Enterprise funds) for the sole purpose of constructing and operating the Regional Water System. These basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. These financial statements use the accrual basis of accounting.

Highlights

- The Rocky Boy's/North Central Montana Regional Water Authority "Project" was authorized under Public Law 107-331 for \$374 million in dollars indexed through federal year 2016.
- The system consists of a core system, non-core system and on-reservation water distribution system. The core and on-reservation water distribution systems provide water to the Rocky Boy's Reservation and are held in trust by the United States for the Tribe. The non-core system provides wholesale water to off-reservation systems and is owned by the North Central Montana Regional Water Authority. Existing municipal and rural water district systems currently deliver water to off-reservation users who will receive wholesale water from this project. The existing distribution systems are not part of this project and are not under the control of the Authority or Tribe.
- The legislation requires the Authority to pay for the incremental increased cost of the Core System or 24%.
- The cost share for the Authority is 80% federal and 20% non-federal. The State of Montana has agreed to provide a dollar for dollar match of local funds, unless the member system qualifies for a hardship. In order to qualify for a hardship, the system's user rate must be two times the target rate, as defined by Montana Department of Commerce.
- The Project has not been included within the President's Budget. Hence it is reliant on Congressional designated funding.
- Each year, the Tribe and Authority negotiate a split of the federal appropriations. Through June 30, 2014 the Authority has been appropriated \$10,124,782 in federal funds and of the federal funds appropriated \$9,889,953 has been expended.

- The Authority received a grant from the Department of Natural Resources and Conservation for the on-going administration costs. The contract (RW-14-037) provided \$188,000 in fiscal year 2014. The Authority is able to utilize this grant as match to the federal funds.
- The Authority's net assets increased by \$3,171,775 to \$11,387,323 in fiscal year 2014. The increase was from federal and state grant funds used for the Conrad to Brady County Water and Sewer District distribution system and preliminary easement and preliminary design work for the Hill County Water District and City of Cut Bank segments.
- Capital assets increased \$3,490,286 due to preliminary easement and preliminary design work for the Hill County Water District and City of Cut Bank segments along with the construction of the Conrad to Brady County Water and Sewer District.
- The Authority's revenues and expenses decreased from the previous fiscal year. Expenses decreased \$211,552 in fiscal year 2014 to \$693,380 and revenues decreased \$240,772 to \$486,657. The majority of this decrease was due to less contracted services. Authority employees performed accounting and administrative services previously contracted with an engineering firm and an accounting firm.
- The Authority borrowed \$264,602 in fiscal year 2014 as interim financing to cover the design and investigation services for the Cut Bank segment. The interim loan was repaid with funding from Bureau of Reclamation's fiscal year 2014 appropriation in September 2014. \$12,953 was also borrowed as a long term loan to help fund the local contribution required by the federal legislation. Water utility revenues are pledged to cover the debt service requirements.

**NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY
NET POSITION**

	6/30/14	6/30/13
Current and Other Assets	\$ 425,545	\$ 406,518
Capital Assets	11,546,514	8,056,228
Restricted Assets	49,042	12,374
Total Assets	12,021,101	8,475,120
Current and Other Liabilities	534,825	167,572
Long-Term Liabilities	98,953	92,000
Total Liabilities	633,778	259,572
Net Position:		
Net Investment in Capital Assets	11,176,959	7,960,228
Restricted	49,042	12,374
Unrestricted	161,322	242,946
Total Net Position	\$ 11,387,323	\$ 8,215,548

**NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY
CHANGES IN NET POSITION**

	<u>6/30/14</u>	<u>6/30/13</u>
Program Revenues		
State and Federal Grants	\$ 412,199	\$ 661,363
Charges for Services	69,095	66,066
Miscellaneous	5,363	-
Total Revenues	<u>486,657</u>	<u>727,429</u>
Program Expenses		
Personal Services	93,122	93,040
Travel	9,132	14,506
Audit	6,850	6,725
Rent	790	4,811
Contracted Services	386,738	530,450
Annual Fee	845	635
Advertising & Promotion	403	13,505
Insurance	6,392	5,303
Office Supplies	3,237	6,140
Depreciation	126,837	128,498
Land Easements	-	44,000
Miscellaneous	1,931	4,870
Auto	198	1,931
Water Utility System Operations	56,905	50,518
Core System - Pipe & Distribution (Pass Through)	-	-
Total Expenses	<u>693,380</u>	<u>904,932</u>
Operating Income (Loss)	(206,723)	(177,503)
Non-Operating Revenue (Expense)		
Gain on Asset Sale	6,930	-
Interest Revenue	1,055	1,393
Returned Interest Earned of Federal Funds	-	(46,566)
Interest Expense	(2,932)	(2,820)
Total Non-Operating Revenue	<u>5,053</u>	<u>(47,993)</u>
Income Before Capital Contributions	(201,670)	(225,496)
Capital Contributions from Grants	<u>3,373,445</u>	<u>830,582</u>
Change in Net Position	<u>\$ 3,171,775</u>	<u>\$ 605,086</u>

Economic Factors and Next Year's Budgets.

- The project is dependent on Federal Appropriation request. \$263,892 of fiscal years 2010 and 2011 funding is available to draw down when needed for eligible expenditures.

Subsequent to June 30, 2014 the Authority was awarded additional federal funds of \$4,047,000 for the project.

- The Authority's administrative grant from the Department of Natural Resources and Conservation provides \$188,000 for fiscal year 2015.

Contacting the North Central Montana Regional Water Authority

The North Central Montana Regional Water Authority had the financial report prepared in accordance with *Government Auditing Standards* to provide information to member systems and governmental regulatory agencies. If you should have any questions or need additional information contact:

Jody Hellegaard, General Manager
North Central Montana Regional Water Authority
PO Box 2456
Havre MT 59501
Telephone Number: 406-945-4343

NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

STATEMENT OF NET POSITION

AS OF JUNE 30, 2014

(WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2013)

	6/30/14	6/30/13
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 276,452	\$ 309,496
Grant Receivable	136,589	89,082
Inventory Asset	1,000	1,000
Accounts Receivable	11,504	6,940
Total Current Assets	425,545	406,518
Restricted Assets:		
Cash	49,042	12,374
Fixed Assets:		
Equipment	6,197	32,313
Water Utility System	6,160,015	6,122,737
Accumulated Depreciation	(360,631)	(244,937)
Total Fixed Assets	5,805,581	5,910,113
Other Assets:		
Easements	125,823	124,107
Construction in Progress	5,615,110	2,022,008
Total Other Assets	5,740,933	2,146,115
Total Assets	\$ 12,021,101	\$ 8,475,120
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accrued Liabilities	\$ 186,745	\$ 142,764
Current Portion of Long-Term Debt - Revenue Bonds	270,602	4,000
Grant Revenue Received in Advance	77,478	20,808
Total Current Liabilities	534,825	167,572
Long-Term Liabilities:		
Long-Term Debt - Revenue Bonds	98,953	92,000
Total Liabilities	633,778	259,572
Net Position:		
Net Investment in Capital Assets	11,176,959	7,960,228
Restricted	49,042	12,374
Unrestricted	161,322	242,946
Total Net Position	11,387,323	8,215,548
Total Liabilities and Net Position	\$ 12,021,101	\$ 8,383,120

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

NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2013)**

	6/30/14	6/30/13
Operating Revenues:		
Grants Received	\$ 412,199	\$ 661,363
Miscellaneous Income	5,363	-
Charges for Services	69,095	66,066
Total Operating Revenues	486,657	727,429
Operating Expenditures:		
Personnel Services	93,122	93,040
Travel	9,132	14,506
Audit	6,850	6,725
Rent	790	4,811
Membership	451	1,005
Professional Consultants	25,793	44,406
Legislative Support Services	71,818	99,541
Legal - Authority	53,517	58,547
Engineering Services	218,610	327,956
Annual Fee	845	635
Advertising & Promotion	403	13,505
Legal- Bond Counsel	17,000	-
Insurance	6,392	5,303
Cell Phone	-	1,546
Land Easements	-	44,000
Office Supplies	3,237	6,140
Operating and Maintenance-Purchased Water	37,901	35,178
Operating and Maintenance-Utility	19,004	15,340
Miscellaneous	1,678	4,250
Depreciation	126,837	128,498
Total Operating Expenditures	693,380	904,932
Change in Net Position from Operations	(206,723)	(177,503)
Non-Operating Revenue (Expense)		
Gain on Asset Sale	6,930	-
Interest Expense	(2,932)	(49,386)
Interest	1,055	1,393
Total Non-Operating Revenue	5,053	(47,993)
Income Before Capital Contributions	(201,670)	(225,496)
Capital Contributions	3,373,445	830,582
Change in Net Position	3,171,775	605,086
Net Position, Beginning of Period	8,215,548	7,610,462
Net Position, End of Period	\$ 11,387,323	\$ 8,215,548

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

NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2013)**

	<u>6/30/14</u>	<u>6/30/13</u>
Cash Flows from Operating Activities:		
Receipts from Grants	\$ 412,199	\$ 661,363
Receipts from Customers and Users	64,531	70,660
Miscellaneous Receipts	5,363	-
Payments to Employees	(93,122)	(93,040)
Payments for Professional Services	(369,738)	(530,450)
Payments for Administration Expenditures	(59,702)	(178,702)
Net Cash Provided (Used) by Operating Activities	<u>(40,469)</u>	<u>(70,169)</u>
Cash Flows from Investing Activities:		
Proceeds from Asset Sale	21,904	-
Interest Paid	-	(46,566)
Interest Earned	1,055	1,393
Net Cash Provided (Used) by Investing Activities	<u>22,959</u>	<u>(45,173)</u>
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	3,382,608	774,224
Equipment and Water Utility System Additions	(37,278)	-
Issuance of Long Term Debt	277,555	100,000
Payment of Long-Term Debt	(4,000)	(4,000)
Payment of Interest on Long-Term Debt	(2,932)	(2,820)
Construction in Progress	(3,594,819)	(856,698)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>21,134</u>	<u>10,706</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 3,624	 (104,636)
Beginning Cash and Cash Equivalents	<u>321,870</u>	<u>426,506</u>
Ending Cash and Cash Equivalents	<u>\$ 325,494</u>	<u>\$ 321,870</u>
 Statement of Net Position Classification of Cash and Cash Equivalents		
Cash and Cash Equivalents	\$ 276,452	\$ 309,496
Restricted Cash	49,042	12,374
Total	<u>\$ 325,494</u>	<u>\$ 321,870</u>
 Reconciliation of Net Position to Net Cash Provided by Operating Activities:		
Change in Net Position from Operations	\$ (206,723)	\$ (177,503)
Adjustments to Reconcile Increase in Net Position to Net Cash Provided (Used) by Operating Activities:		
Depreciation	126,837	128,498
Changes in Net Position		
(Increase) Decrease in Accounts Receivable	(4,564)	4,594
(Increase) Decrease in Inventory Asset	-	-
Increase (Decrease) in Accrued Liabilities	43,981	(25,758)
Net Cash Provided (Used) by Operating Activities	<u>\$ (40,469)</u>	<u>\$ (70,169)</u>

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

NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

BACKGROUND

North Central Montana Regional Water Authority (the Authority) was incorporated in April 2000 under the provisions of Montana Senate Bill 302, which was enacted in 1999. The Authority was created as a regional water authority to include municipalities and water districts in North Central Montana. In 2002, the US Congress authorized the regional project under Public Law 107-331. The purpose of the Water Authority is to:

- 1) Pursue the development, authorization, planning, design, and construction of the North Central Montana Regional Water System.
- 2) Secure a source of water on a scale larger than is feasible for individual public agencies acting alone.
- 3) Issue revenue bonds and notes to fund the non-tribal component of the Rocky Boy/North Central Montana Regional Water System.
- 4) Sell water to public service districts, municipalities, publicly and privately owned water utilities, and others.
- 5) Provide administration, operation and maintenance, and billing and collection for the Authority.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity - In evaluating how to define the reporting entity of the Authority for financial reporting purposes, management applied the standards set forth in GASB 14.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) 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 definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body *and* either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The Authority is a separate entity established by Montana law. No county or city is responsible for funding its deficits. Outstanding debt is secured by assets and revenues of the Authority and not by any of the counties, cities, etc. The counties and the cities are not entitled to any surpluses of the Authority.

Based on the foregoing criteria, only the operations of the North Central Montana Regional Water Authority are included in the Authority's financial reporting.

Basis of Accounting - The Authority adopted the accrual method of accounting to record revenues and expenses. Therefore, revenues are recognized when earned and expenses are recognized when incurred without regard to time or receipt of payment.

Cash and Cash Equivalents - The Authority considers cash in the bank and all certificates of deposits to be cash equivalents. The cash and cash equivalents are collateralized with securities held by the banks in which the Authority has its deposits.

Fixed Assets - All acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment are carried at cost and depreciation is computed using primarily the straight-line method. Payments to landowners for easements have an indefinite life and will not be depreciated.

Accounts Receivable - These amounts are due from water customers of the Authority. The Authority uses the allowance method for bad debts. All accounts are considered to be collectible as of June 30, 2014 and June 30, 2013.

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

Revenue and Expense Classification - The Authority distinguishes operating revenues and expenses from non-operating items in preparation of its financial statements. Operating revenues and expenses result from providing water services and grant awards in connection with the Water Authority's principal on-going operations. Currently, the principal operating revenues are generated from federal and state grant awards. The Authority's operating expenses include those items directly related to the grant activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*.

Fund Accounting - The financial activity of the Authority is accounted for within a single fund, treated for financial purposes as an enterprise fund. Enterprise funds are primarily used to account for operations that are financed and operated in a manner similar to private business enterprises or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Net Position - Net position into three components – invested in capital assets net of related debt, restricted, and unrestricted. These classifications are defined as follows:

- A. Net Investment in Capital Assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- B. Restricted** - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- C. Unrestricted Net Position** - This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.” When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. The Authority implemented GASBS 65 during the audit period, resulting in reclassifications. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Correction of an Error – In the prior year 2013 issued financial statements, Grant Receivable and Grant Revenue Received in Advance on the Statement of Net Position included amounts for grant awards in error. The total of these awards \$1,474,701, has been excluded from Grant Receivable and Grant Revenue Received in Advance in the current year financial statement presentation for the 2013 year. There is no effect on the change in net position as a result of this error.

NOTE 2: GRANT FUNDING:

Montana Department of Natural Resources and Conservation (DNRC)

Grant Agreement # RW-12-029 Administration

The Authority entered into an agreement with the DNRC on May 21, 2012. The total grant award was \$360,000, and the Authority has until June 30, 2013 to complete the scope of work. This grant is for staff, office, travel, technical and legal expenses for operation of the regional water system coordination office, public participation, coordination between state, federal, tribal and local entities, environmental engineering analyses, and legislative support services.

As of June 30, 2014, a total of \$20,808 in allowable costs was incurred.

Grant Agreement # RW-13-033 Construction, Booster Pump Station Component

The Authority entered into an agreement with the DNRC on June 28, 2013. The total grant award was \$300,000, and the Authority has until December 15, 2015 to complete the project and work outlined in this agreement. This grant is for construction of the Conrad booster pump station for the Conrad to Brady pipeline project. This grant was amended in August 2013 and November 2013, to award an additional \$673,179 for engineering and construction costs.

As of June 30, 2014, a total of \$973,179 in allowable costs were incurred.

Grant Agreement # RW-14-0089 Petroleum Contamination Investigation

The Authority entered into an agreement with the DNRC on February 15, 2014. The total grant award was \$43,800, and the Authority has until September 30, 2014 to complete the project. This grant is to investigate suspected petroleum-based soil contamination near a proposed water transmission main. As of June 30, 2014, a total of \$6,354 in allowable costs were incurred.

Grant Agreement # RW-14-037

The Authority entered into an agreement with the DNRC on July 1, 2013. The total grant award was \$376,000, and the Authority has until June 30, 2015, to complete the scope of work. This grant is for staff, office, travel, technical and legal expenses for operation of the regional water system coordination office, public participation, coordination between state, federal, tribal and local entities, environmental engineering analyses, and legislative support services. As of June 30, 2014, a total of \$110,522 in allowable costs was incurred.

Montana Department of Transportation (MDT)

Agreement # HSIP 232-1(12)3

The Authority entered into an agreement with the MDT on December 30, 2013. The total award of \$47,793 was for relocation of the water facilities required for an MDT construction project.

As of June 30, 2014, a total of \$20,808 in allowable costs was incurred.

U.S. Department of Interior - Bureau of Reclamation

The Authority entered into a Cooperative Agreement (Agreement Number 05FC601981) for the planning, design and construction of the non-core system of the North Central Montana Regional Water System. The Agreement was entered into pursuant to the Rocky Boy/North Central Montana Regional Water System Act of 2002 (Public Law 107-331). The agreement was modified each fiscal year subsequent to 2003. The award requires the Authority to provide a 20% cost share towards the non-core system. The non-core portion of the federal appropriations are received and expended directly by the Authority.

The Core system portion of the Federal appropriation is disbursed directly to the Chippewa Cree Tribe for the construction of the on-reservation water distribution systems of the Rocky Boy Indian Reservation. The Authority is required to pay the incremental costs of the core system of which 80% will be funded by Federal appropriations.

The following is a summary of all modifications to the original agreement through September 30, 2014 (based on a federal fiscal year). This information is the most current provided by the Bureau of Reclamation.

NON-CORE SYSTEM					
Year	Federal Fiscal Year Appropriation	Total Projects	Non-Federal Required Match	Required State Share	Required Authority Share
FY 2005	92,000	115,000	23,000	11,500	11,500
FY 2006	141,365	176,706	35,341	17,671	17,671
FY 2007	382,122	477,653	95,531	47,765	47,765
FY 2008	2,191,932	2,739,915	547,983	273,992	273,992
FY 2009	2,544,594	3,180,743	636,149	318,074	318,074
FY 2010	3,237,818	4,047,273	809,455	404,727	404,727
FY 2011	362,325	452,906	90,581	45,291	45,291
FY 2012	-	-	-	-	-
FY 2013	1,371,960	1,714,950	342,990	171,495	171,495
FY 2014	4,104,000	5,130,000	1,026,000	513,000	513,000
Totals	\$ 14,428,116	\$ 18,035,146	\$ 3,607,030	\$ 1,803,515	\$ 1,803,515

As of September 30, 2014, the Authority has expended \$1,061,389 of non-Federal funds which are eligible to reduce the above Authority share to \$742,126 which indexed for inflation is \$693,870.

CORE SYSTEM						
Year	Federal Fiscal Year Appropriation	Authority's Share of Federal Appropriation	Total Authority Share	Non-Federal Share	Required State Share	Required Authority Share
FY 2003	\$ 329,783	\$ 79,148	\$ 98,935	\$ 19,787	\$ 9,893	\$ 9,893
FY 2004	791,777	190,026	237,533	47,507	23,753	23,753
FY 2005	816,440	195,946	244,932	48,986	24,493	24,493
FY 2006	5,497,881	1,319,491	1,649,364	329,873	164,936	164,936
FY 2007	501,368	120,328	150,410	30,082	15,041	15,041
FY 2008	3,666,846	880,043	1,100,054	220,011	110,005	110,005
FY 2009	24,403,901	5,856,936	7,321,170	1,464,234	732,117	732,117
FY 2010	14,341,972	3,442,073	4,302,592	860,518	430,259	430,259
FY 2011	731,213	175,491	219,364	43,873	21,936	21,936
FY 2012	4,398,084	1,055,540	1,319,425	263,885	131,943	131,943
FY 2013	2,439,040	585,370	731,712	146,342	73,171	73,171
FY 2014	7,424,000	1,781,760	2,227,200	445,440	222,720	222,720
Totals	\$ 65,342,305	\$ 15,682,152	\$ 19,602,691	\$ 3,920,538	\$ 1,960,267	\$ 1,960,267

As of September 30, 2014, the Authority has not contributed to the required match of \$1,960,267 which indexed for inflation is \$2,127,881.

NOTE 3: MEMORANDUM OF UNDERSTANDING:

The Authority and the Chippewa Cree Tribe entered into a memorandum of understanding to ensure proper implementation of the Rocky Boy /North Central Montana Regional Water System Act of 2002. The agreement provides that the Tribe and the Authority will work jointly on the development, planning, design, construction and administration of both the core and non-core systems of the proposed regional water system.

NOTE 4: CONSTRUCTION IN PROGRESS:

Construction in progress costs for the Conrad/Dutton, Shelby/Cut Bank, Shelby/Sweet Grass, and Hill County projects capitalized for the year ended June 30, 2014 were \$3,594,819. The costs included engineering, easement and construction related expenses.

NOTE 5: CAPITAL ASSETS:

The Authority's capital assets are composed of the following:

	<u>Balance 6/30/13</u>	<u>Fixed Assets</u>		<u>Balance 6/30/14</u>
		<u>Additions</u>	<u>Deletions</u>	
Equipment	\$ 32,313	\$ -	\$ 26,116	\$ 6,197
Water Utility System	6,122,737	37,278	-	6,160,015
	<u>\$ 6,155,050</u>	<u>\$ 37,278</u>	<u>\$ 26,116</u>	<u>\$ 6,166,212</u>

	<u>Balance 6/30/13</u>	<u>Accumulated Depreciation</u>		<u>Balance 6/30/14</u>
		<u>Additions</u>	<u>Deletions</u>	
Equipment	\$ 12,317	\$ 4,320	\$ 11,142	\$ 5,495
Water Utility System	232,620	122,516	-	355,136
	<u>\$ 244,937</u>	<u>\$ 126,836</u>	<u>\$ 11,142</u>	<u>\$ 360,631</u>

NOTE 6: ACCRUED LIABILITIES:

Accrued liabilities at June 30, 2014 and 2013 consist of:

	<u>6/30/2014</u>	<u>6/30/2013</u>
Office Expenses	\$ 120	\$ 109
Payroll	80	19
Rent	-	120
Advertising	-	510

	<u>6/30/2014</u>	<u>6/30/2013</u>
Operations and Maintenance	4,159	3,523
Construction	99,747	-
Engineering	44,070	68,728
Legal	34,134	10,588
Land Acquisition	-	9,769
Land Damages	-	44,000
Professional Consulting	-	5,324
Contracted Services	2,817	-
Other	1,618	74
Total	<u>\$ 186,745</u>	<u>\$ 142,764</u>

NOTE 7: GRANT REVENUE:

The following are the sources of grant revenue recognized:

	<u>6/30/2014</u>	<u>6/30/2013</u>
State of Montana	\$ 1,148,105	\$ 251,740
United States Department of Interior - Authority	2,637,539	1,240,205
	<u>\$ 3,785,644</u>	<u>\$ 1,491,945</u>

NOTE 8: BOND RESOLUTIONS:

2012 Bond

The Authority issued a Water System Revenue Bond on July 19, 2012 through the DNRC Revolving Fund. The proceeds from the issuance were \$100,000 and the terms include 3% interest, 40 semi-annual payments of \$2,000 plus interest and the first payment is due January 1, 2013. The purpose of the loan is to help fund the construction of the water transmission mains connecting the South Chester County Water District and Riverview Colony. As of June 30, 2014 the outstanding balance was \$92,000. All proceeds from the operation of the water system as well as all gross revenues and receipts from rates, fees, charges, and rentals imposed for connections with and for the availability, benefit, and use of the System are pledged as collateral.

The current maturities of the bond debt are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,000	\$ 1,820	\$ 5,820
2016	4,000	1,740	5,740
2017	4,000	1,660	5,660
2018	4,000	1,580	5,580
2019	4,000	1,500	5,500
Thereafter	72,000	10,310	82,310
	<u>\$ 92,000</u>	<u>\$ 18,610</u>	<u>\$ 110,610</u>

The Authority is required to maintain the following accounts in accordance with the bond resolution.

Acquisition and Construction Account - This account is to be used to pay costs incurred with the project. This account is to be used to receive all bond proceeds. No funds were in this account as of June 30, 2014.

Operating Account - This account receives gross operating revenues and disburses necessary operating expenses. At year end June 30, 2014, the balance in this account was \$13,720.

Reserve Account - The District is required to accumulate funds in this account from other available funds. Disbursements from this fund are only allowed to make principal and interest payments on bond debt. At year end June 30, 2014, the balance in this account was \$8,242.

Replacement and Depreciation Account - This account is set up to accumulate funds set aside for reasonable depreciation of the system and replacement of worn out property and equipment. At year end June 30, 2014, the balance in this account was \$6,820.

Surplus Account - This account will accumulate surplus net revenues remaining after the above required applications have been met. No funds were in this account as of June 30, 2014.

Revenue Bond Account - Monthly deposits are to be set aside in this account equal to one-sixth of interest due in the next six months plus one-twelfth of the principal to become due within the next twelve months. No funds were in this account as of June 30, 2014.

Restricted cash for the revenue bond totals \$15,062 at June 30, 2014.

2014A Bond

The Authority issued a Water System Revenue Bond on March 18, 2014, through the DNRC Revolving Fund. The proceeds from the issuance were \$100,000 and the terms include 2% interest from the date of each advance, and the administrative expense surcharge and the loan loss reserve surcharge from the date of each advance. Payments are made semi-annually starting July 1, 2014. The purpose of the loan is to help fund the construction of a water pipeline from the City of Conrad's water treatment plant to the Brady County Water District's water distribution system. As of June 30, 2014 the amount drawn on the bond and the outstanding balance was \$12,953. All proceeds from the operation of the water system as well as all gross revenues and receipts from rates, fees, charges, and rentals imposed for connections with and for the availability, benefit, and use of the System are pledged as collateral.

The current maturities of the bond debt are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,000	\$ 1,472	\$ 3,472
2016	4,000	2,860	6,860
2017	4,000	2,745	6,745
2018	4,000	2,625	6,625
2019	4,000	2,503	6,503
Thereafter	82,000	20,678	102,678
	<u>\$ 100,000</u>	<u>\$ 32,883</u>	<u>\$ 132,883</u>

Series 2014 Note

The Authority issued a Water System Revenue Bond Anticipation Note, Series 2014, on March 18, 2014, to be issued in the maximum principal amount of \$526,000. The terms include 1.25% interest from the date of disbursement. The purpose of the loan is to construct approximately 24 miles of transmission pipeline system, two storage reservoirs and a pump station. The pipeline and associated improvements will be installed from the City of Shelby to the City of Cut Bank. As of June 30, 2014 the outstanding balance was \$264,602. All proceeds from the operation of the water system as well as all gross revenues and receipts from rates, fees, charges, and rentals imposed for connections with and for the availability, benefit, and use of the System are pledged as collateral. In September of 2014, \$259,602 was paid back.

NOTE 9: SUBSEQUENT EVENTS:

Accounting Standards Codification (ASC) No.855: Subsequent Events establishes general standards of accounting for and disclosures of events that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Specifically, it sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the statement of financial position date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the statement of financial position date.

In accordance with ASC No. 855, the Authority evaluated subsequent events through January 27, 2015, the date these financial statements were available to be issued.

NOTE 10: CONTINGENT LIABILITIES:

The Bureau of Reclamation (BOR) is in the process of reviewing indirect costs paid for in prior years with BOR funds. Even though past grants are closed, this does not affect the agency's right to disallow costs and recover funds on the basis of a later audit or review, nor does it affect the Authority's obligation to return any funds due as a result of later corrections. If any payments made by BOR to the Authority are deemed unallowable, this constitutes a debt to the federal agency. As of the date of this report, the Authority does not have an estimate from BOR of the unallowable indirect costs.

NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Federal Expenditures</u>
DIRECT - FEDERAL:			
United States Department of the Interior Bureau of Reclamation Rocky Boy/North Central Montana Regional Water System	15.525	n/a	\$ 2,647,992
PASSTHROUGH - FEDERAL:			
Environmental Protection Agency: Office of Water, Capitalization Grants for Drinking Water State Revolving Funds; Passed through from the State of Montana Department of Natural Resources and Conservation	66.468	WRF-14305	10,362
PASSTHROUGH - FEDERAL:			
Department of Transportation: Highway Planning and Construction; passed through from the State of Montana Department of Transportation	20.205	HSIP 232-1(12)3	<u>14,939</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,673,293</u></u>

Note 1: Basis of Accounting:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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



Executive Committee
North Central Montana Regional Water Authority
Havre, Montana

Douglas WILSON
and Company, PC

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

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

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Central Montana Regional Water Authority as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the North Central Montana Regional Water Authority basic financial statements, and have issued our report thereon dated January 27, 2015.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Great Falls, Montana
January 27, 2015



Board of Directors
North Central Montana Regional Water Authority
Havre, Montana

Douglas WILSON
and Company, PC

Randal J. Boysun, CPA
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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited North Central Montana Regional Water Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of North Central Montana Regional Water Authority major federal programs for the year ended June 30, 2014. North Central Montana Regional Water Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of North Central Montana Regional Water Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Central Montana Regional Water Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of North Central Montana Regional Water Authority's compliance.

Opinion on Each Major Federal Program

In our opinion North Central Montana Regional Water Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of North Central Montana Regional Water Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Central Montana Regional Water Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Central Montana Regional Water Authority's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Great Falls, Montana
January 27, 2015

NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No
Significant deficiencies identified not considered
to be material weaknesses? Yes None
Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? Yes No
Significant deficiencies identified not considered
to be material weakness(es)? Yes None
Reported

Type of auditor's report issued on compliance for
major programs: Unmodified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
section 510(a)? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
15.525	U.S. Department of the Interior, Bureau of Reclamation, Rocky Boy/North Central Montana Regional Water System

Dollar threshold used to distinguish between Type A
and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None.

NORTH CENTRAL MONTANA REGIONAL WATER AUTHORITY

HAVRE, MONTANA

**STATUS OF PRIOR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

None.



Douglas WILSON
and Company, PC

January 27, 2015

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

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Dixie L. Swanson, CPA

To the Board of Directors
North Central Montana Regional Water Authority
P.O. Box 2456
Havre, MT 59501

We have audited the financial statements of North Central Montana Regional Water Authority ("Authority") for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibility under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 20, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the depreciation of fixed assets is based on the estimated useful life of an asset. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material misstatements noted as part of the audit.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 27, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 statement. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Expenditures of Federal Awards, which accompany the financial statements but are not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Auditing Standards Disclosures

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



DOUGLAS WILSON & COMPANY, P.C.