

WOLF CREEK WATER AND SEWER DISTRICT
WOLF CREEK, MONTANA
FINANCIAL STATEMENT
AS OF
DECEMBER 31, 2014

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Douglas Wilson & Company, P.C.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3-4
STATEMENT OF NET POSITION AS OF DECEMBER 31, 2014.....	5
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31, 2014.....	6
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014	7
NOTES TO THE FINANCIAL STATEMENTS.....	8-10
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2014.....	11
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 <i>GOVERNMENT AUDITING STANDARDS</i>	12-13
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.....	14-16
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2014.....	17
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2014.....	18-20
STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2013.....	21



Douglas **WILSON**
and Company, PC

To the Board of Directors
Wolf Creek Water and Sewer District
Wolf Creek, Montana

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Gerard K. Schmitz, CPA
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INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Wolf Creek Water and Sewer District (District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2014, and the changes in its financial position, and its 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

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District'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 also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2015, 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 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.



Great Falls, Montana
July 7, 2015

WOLF CREEK WATER AND SEWER DISTRICT

WOLF CREEK, MONTANA

STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2014

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,529
Grants Receivable	355,529
Accounts Receivable	269
Total Current Assets	<u>362,327</u>

Property and Equipment:

Land	65,106
Construction in Progress - Sewer System	2,551,133
Total Property and Equipment	<u>2,616,239</u>

Total Assets \$ 2,978,566

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	\$ 356,498
Total Current Liabilities	<u>356,498</u>

Long Term Liabilities:

RD Loans Payable	380,000
Total Long Term Liabilities	<u>380,000</u>

Total Liabilities 736,498

NET POSITION

Net Investment in Capital Assets	1,923,852
Unrestricted	318,216
Total Net Position	<u>2,242,068</u>

Total Liabilities and Net Position \$ 2,978,566

The Notes to Financial Statements are an
integral part of this statement.

WOLF CREEK WATER AND SEWER DISTRICT

WOLF CREEK, MONTANA

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014**

Operating Revenue:	
User Fees	\$ 177
Total Revenue	<u>177</u>
Operating Expenses:	
Permit Fee	1,965
Notices	382
Office Supplies	372
Postage	208
Bank Charges	84
Insurance	1,089
Telephone	231
Utilities	12
Total Operating Expenses	<u>4,343</u>
Change in Net Position from Operations	<u>(4,166)</u>
Non-Operating Revenues and (Expenses):	
Physical Plant Charges - Loan	<u>1,246</u>
Total Non-Operating Income and Expense	<u>1,246</u>
Gain (Loss) Before Capital Contributions	(2,920)
Capital Contributions - Grant Revenue	<u>2,176,887</u>
Change in Net Position	2,173,967
Net Position, Beginning of Year	<u>68,101</u>
Net Position, End of Year	<u><u>\$ 2,242,068</u></u>

The Notes to Financial Statements are an
integral part of this statement.

WOLF CREEK WATER AND SEWER DISTRICT

WOLF CREEK, MONTANA

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Cash Flows from Operating Activities:	
Cash Receipts from Customers	\$ -
Cash Paid for Goods and Services	(4,435)
Net Cash Used by Operating Activities	<u>(4,435)</u>
Cash Flows from Capital and Related Financing Activities:	
Physical Plant Charges - Loan	1,246
Capital Contributions	1,826,226
Construction of Fixed Assets	(2,196,476)
Proceeds from Debt	380,000
Payment of Debt	(1,892)
Net Cash Provided by Capital and Related Financing Activities	<u>9,104</u>
Net Increase in Cash	4,669
Cash at Beginning of Year	<u>1,860</u>
Cash at End of Year	<u><u>\$ 6,529</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Change in Net Position from Operations	\$ (4,166)
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:	
(Increase) Decrease in Accounts Receivable	(269)
Net Cash Used by Operating Activities	<u><u>\$ (4,435)</u></u>

The Notes to Financial Statements are an
integral part of this statement.

WOLF CREEK WATER AND SEWER DISTRICT
WOLF CREEK, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Background - Wolf Creek Water and Sewer District (District) is a subdivision of the State of Montana in general, Lewis and Clark County in particular. The purpose of the District is to construct and operate the sewer system for the homes located within the District. All expenses and liabilities are paid with user fees collected from residents of the District.

Accounting Method - The financial statements are prepared on the accrual basis of accounting, and accordingly, revenue and expenses are recorded when earned or incurred rather than when received or paid. Operations are accounted for using a proprietary fund, which is similar to a private business enterprise. The District applies all GASB pronouncements.

Revenue and Expense Classification - The District distinguishes operating revenues and expenses from non-operating items in preparation of these financial statements. Operating revenues and expenses generally result from providing sewer services in connection with the District's principal on-going operations. The principal operating revenues are generated from sewer user fees. The District's operating expenses include supplies, utilities, insurance, and other expenses related to the delivery of sewer services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses in accordance with *Governmental Accounting Standards*.

Fund Accounting - The financial activity of the District 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

Depreciation - The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line basis over 20-30 years for sewer and water mains, pumps, pipe, and equipment. Items over \$1,000 with a useful life of more than one year are capitalized.

Net Position - Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components:

- Net Investment in Capital Assets Component of Net Position - consists of capital assets, net of accumulated depreciation, reduced by related debt. This indicates that these net assets are not accessible for other purposes.
- Restricted Component of Net Position - consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

- **Unrestricted Component of Net Position** - This represents the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Cash Equivalents - The District considers all certificates of deposit and all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents".

Accounts Receivable - These amounts are due from water and sewer customers of the District. Collection letters are mailed to residents after they are past due for two months. A lien is placed on the property after all collection efforts have been exhausted. The District uses the allowance method for bad debts. The allowance is determined using historical analysis.

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

Restricted Resources - When an expense is incurred for purposes for which both restricted and unrestricted net position is available the District applies restricted resources first.

NOTE 2: PREMISES CONNECTED TO SYSTEM:

On December 31, 2014, premises connected to the water and sewer system are:

Sewer – Full Service	39
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NOTE 3: CASH AND CASH EQUIVALENTS:

The District has not formally adopted a deposit and investment policy that limits the allowable deposits and investments, and addresses the specific types of risks to which the government is exposed.

Cash is held in various checking accounts covered by FDIC insurance. Cash equivalents at December 31, 2014 consisted of bank insured deposits with none over the FDIC insurance limit.

NOTE 4: PROPERTY AND EQUIPMENT:

Property and equipment as of December 31, 2014, are summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Property and Equipment:				
Land	\$ 65,106	\$ -	\$ -	\$ 65,106
Construction in Progress - Sewer Mains	-	2,551,133	-	2,551,133
Property and Equipment	<u>\$ 65,106</u>	<u>\$ 2,551,133</u>	<u>\$ -</u>	<u>\$ 2,616,239</u>

NOTE 5: LOAN PAYABLE:

During 2014, the District obtained two loans from the United States Department of Agriculture Rural Development to construct a sewer system. The first loan of \$170,000 is due in semi-annual installments of \$3,569 including interest at 2.750%. Interest only payments are required for the first year of this loan. The second loan of \$210,000 is due in semi-annual installments of \$4,408 including interest at 2.750%. Interest only payments are required for the first year of this loan. Both loans are special assessment debt pledged by and to be paid through user fees. There is a reserve fund required by these USDA loans.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due in One Year</u>
RD Loan	\$ -	\$ 170,000	\$ -	\$ 170,000	\$ -
RD Loan	-	210,000	-	210,000	-
	<u>\$ -</u>	<u>\$ 380,000</u>	<u>\$ -</u>	<u>\$ 380,000</u>	<u>\$ -</u>

Maturities of the loans are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ -	\$ 10,450
2016	5,542	10,412
2017	5,696	10,258
2018	5,853	10,101
2019	6,016	9,939
2020-2024	32,667	47,102
2025-2029	37,448	42,322
2030-2034	42,928	36,842
2035-2039	49,210	30,561
2040-2044	56,410	23,360
2045-2049	64,665	15,106
2050-2054	73,565	5,644
	<u>\$ 380,000</u>	<u>\$ 252,097</u>

WOLF CREEK WATER AND SEWER DISTRICT

WOLF CREEK, MONTANA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:			
Direct Awards			
Water and Waste Disposal Systems for Rural Communities	10.760	Not Available	\$ 1,556,791
Total U.S. Department of Agriculture			<u>1,556,791</u>
U.S. Department of Defense, Department of the Army:			
Direct Grant			
Montana, Nevada, New Mexico, Utah, Idaho, and Wyoming Environmental Infrastructure	12.121	W9128F-12-3-0004; W9128F-14-3-0001	205,000
Montana, Nevada, New Mexico, Utah, Idaho, and Wyoming Environmental Infrastructure - ARRA	12.121	W9128F-09-3-0020	<u>257,178</u>
Total U.S. Department of Defense			<u>462,178</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,018,969</u></u>

NOTE A: BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Wolf Creek Water and Sewer District (the "District") and is presented on the accrual basis of accounting. The information in the 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 the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements. or reported in the federal financial reports.

NOTE B: LOANS:

Included in the U.S. Department of Agriculture totals above are loans. A total of \$380,000 was awarded and expended as of December 31, 2014.



Douglas **WILSON**
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To the Board of Directors
Wolf Creek Water and Sewer District
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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**

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 Wolf Creek Water and Sewer District (District), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 7, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit findings and questioned costs we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of audit findings and questioned costs to be a material weakness. See finding #2014-001 through #2014-003.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of audit findings and questioned costs as finding #2014-001 and 2014-004.

Wolf Creek Water and Sewer District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of audit findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
July 7, 2015



Douglas **WILSON**
and Company, PC

To the Board of Directors
Wolf Creek Water and Sewer District
Wolf Creek, Montana

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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 Wolf Creek Water and Sewer District'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 Wolf Creek Water and Sewer District major federal programs for the year ended December 31, 2014. Wolf Creek Water and Sewer District'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 Wolf Creek Water and Sewer District'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 Wolf Creek Water and Sewer District'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 Wolf Creek Water and Sewer District's compliance.

Basis for Modified Opinion

As described in the accompanying schedule of findings and questioned costs, the District did not comply with the requirements regarding CFDA #10.760, Water and Waste Disposal Systems for Rural Communities as described in finding number 2014-004 for Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Modified Opinion on CFDA # 10.760 Water and Waste Disposal Systems for Rural Communities

In our opinion, except for the noncompliance described in the Basis for Modified Opinion paragraph, the Wolf Creek Water and Sewer District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA #10.760, Water and Waste Disposal Systems for Rural Communities for the year ended December 31, 2014.

Unmodified Opinion on the Other Major Federal Programs

In our opinion the Wolf Creek Water and Sewer District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Wolf Creek Water and Sewer District 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 Wolf Creek Water and Sewer District'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 Wolf Creek Water and Sewer District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-004 to be material weaknesses.

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.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
July 7, 2015

WOLF CREEK WATER AND SEWER DISTRICT

WOLF CREEK, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 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? X Yes No

Significant deficiencies identified not considered to be material weaknesses? Yes X No

Noncompliance material to financial statements noted? X Yes No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified not considered to be material weaknesses? Yes X None Reported

Type of auditor’s report issued on compliance for major programs: Modified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Water Disposal Systems for Rural Communities
12.121	Montana, Nevada, New Mexico, Utah, Idaho, and Wyoming Environmental Infrastructure

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

Auditee qualified as low-risk auditee? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings # 2014-001, #2014-002, and #2014-003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding #2014-004

WOLF CREEK WATER AND SEWER DISTRICT

WOLF CREEK, MONTANA

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

FINDING 2014-001

**U.S. Department of Agriculture
CFDA #10.760
U.S. Department of Defense
CFDA #12.121**

Criteria: Accounting principles generally accepted in the United States of America require the presentation of Management's Discussion and Analysis (MD&A) as required supplementary information to accompany the basic financial statements.

Condition: The District has not presented MDA as required supplementary information to accompany the basic financial statements.

Cause: Management does not think that there is value to presenting the MD&A.

Questioned Costs: No questioned costs were identified.

Effect: The financial statements are not in conformity with *Government Accounting Standards*.

Recommendation: We recommend that the District present Management's Discussion and Analysis as required supplementary information.

District Response: Management has determined that the requirements of the Management Discussion and Analysis exceed the time available and capability of management of Wolf Creek Water and Sewer District (District). Further, because the statements are not government-wide statements, but a proprietary fund that has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, the value of the MD&A to the reader is limited.

FINDING 2014-002

**U.S. Department of Agriculture
CFDA #10.760
U.S. Department of Defense
CFDA #12.121**

Criteria: A good internal control system has segregation of duties in which the authorization, processing and recording of transactions and custody of assets are performed by separate individuals within the organization.

Condition: One person at the District performs all the functions mentioned above.

FINDING 2014-002 (CONTINUED)

**U.S. Department of Agriculture
CFDA #10.760
U.S. Department of Defense
CFDA #12.121**

Cause: The District's size results in there being limited resources to properly have segregation of duties.

Questioned Costs: No questioned costs were identified.

Effect: The District is at increased risk for fraud and errors.

Recommendation: We recommend that a board member review all checks that clear the bank to determine that they were for valid District business. Also, invoices should be presented to board members as they sign checks.

District Response: Management is aware of this and the board is involved in reviewing the financial position of the District monthly. The board of directors will also become more involved in reviewing income and checks that clear the bank.

FINDING 2014-003

**U.S. Department of Agriculture
CFDA #10.760
U.S. Department of Defense
CFDA #12.121**

Criteria: Generally accepted accounting principles.

Condition: The District did not record activity for construction-in-progress, accounts receivable or accounts payable correctly during the audit period. Audit year-end adjustments were made to adequately reflect these balances on the financial statements at year-end.

Cause: The District is not familiar with all the requirements of generally accepted accounting principles.

Questioned Costs: No questioned costs were identified.

Effect: Adjustments were needed in order to accurately reflect the account balances at year-end 2014.

Recommendation: We recommend the District review and make adjustments for construction-in-progress, accounts receivable and accounts payable in order to accurately reflect these balances at year-end.

District Response: The District will work to become more familiar with the requirements of generally accepted accounting principles and record activity for all accruals and fixed asset transactions.

FINDING 2014-004

U.S. Department of Agriculture CFDA #10.760

Criteria: The USDA Letter of Conditions dated August 5, 2013 outlines conditions that the District is required to meet. Conditions include the following:

1. Reserves – Reserves must be properly budgeted to maintain the financial viability of the operation. The District must fund short lived asset replacement reserve for short-lived assets by depositing a sum of \$889 monthly, which is in addition to that required for the debt service reserve. The deposits will be made monthly until such time the projected reserve of \$149,182 has been accumulated.
2. Number of Users – There will be sufficient users to provide no less than 49 billable equivalent dwelling units on the existing and proposed system when construction has been completed.
3. Insurance and Bonding Requirements – The District must acquire the types of insurance and bond coverage as follows: workers' compensation, position fidelity bonds, national flood insurance and real property insurance.

The bond resolution requires the District establish the following six accounts within the wastewater system fund: construction account; operating and maintenance account, general obligation bond repayment account, bond repayment reserve account, short-lived asset replacement reserve account and a surplus account.

Condition: Regarding the numbered bullets in the Criteria section, the District:

1. Has not set aside the \$889 reserve amounts.
2. Construction was completed after year-end and currently the number of users is 39, which is below the required amount.
3. Did not provide support showing these insurance policies were obtained.

The District has also not established all required accounts under the bond resolution. Only the construction account has been established as of year-end 2014.

Cause: The District was unaware of these requirements.

Questioned Costs: No questioned costs were identified.

Effect: The District is not in compliance with the bond resolution or with the Letter of Conditions.

Recommendation: We recommend the District comply with the bond resolution and Letter of Conditions by establishing the required accounts, setting aside the reserve amounts, obtained the required insurance and obtain enough additional revenue to make up the projected income that is lost by not having the required number of users on the system.

District Response: The District will review the insurance and bonding requirements of the various grants and loans and work towards satisfying those requirements. The District has also opened a reserve account and deposited the necessary funds into that account to bring the balance up to date and set up an automatic monthly payment to that account.

WOLF CREEK WATER AND SEWER DISTRICT

WOLF CREEK, MONTANA

**STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR END DECEMBER 31, 2014**

No prior year audit.