

CENTRAL MONTANA REGIONAL WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2014 and 2013

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

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CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

June 30, 2014

ORGANIZATION
2013-2014

BOARD OF DIRECTORS

| | |
|-----------------------|--|
| Chairman | Jim Kalitowski Harlowton, Montana |
| Vice-Chairman | David Picchioni Roundup, Montana |
| Secretary/Treasurer | Jim Schladweiler Roundup, Montana |
| Member | Dave Foster, Mayor Judith Gap, Montana |
| Member | Jeff Sell, Mayor Harlowton, Montana |
| Member | Patti Bruner, Mayor Ryegate, Montana |
| Member | Roger Swartz, Mayor Broadview, Montana |
| Member | Loren Drivdahl, Mayor Hobson, Montana |
| Member | Thad Bassett, Town Councilman Melstone, Montana |
| Member | Dave Kojetin, Mayor Lavina, Montana |
| Project Administrator | Monty L. Sealey Roundup, Montana |

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Central Montana Regional Water Authority
P.O. Box 660
Roundup, Montana 59077

Report on the Financial Statements

We have audited the accompanying financial statements of Central Montana Regional Water Authority (Authority), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and change in net position and statements of cash flows for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4-7, 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 assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Randall, Hensel & Company
Certified Public Accountants

Missoula, Montana
December 15, 2014

**Central Montana Regional Water Authority
PO Box 251
Roundup, Montana 59077**

**Management's Discussion and Analysis
For the year ended June 30, 2014**

Financial Highlights

Key Financial highlights for the year ended June 30, 2014 are as follows:

- Grant Agreement No. RITP-14-0088 with MT DNRC in the amount of \$50,000 was signed.
- Signed Contract Amendment 9 with Great West Engineering for \$79,000; Amendment 10 for \$45,000; Amendment 11 for \$20,000.
- Continued the land use lease for new water well drilling site

Overview

The Central Montana Regional Water Authority (CMRWA) was formed to cooperatively seek a new municipal water source of sufficient quantity to supply multiple communities and of such quality as to replace the need for conventional water treatment.

CMRWA is a Water Authority and a Board of Directors with representatives from each of eight member communities, including one from each of the smaller communities and two from each of the larger communities of Harlowton and Roundup.

The name of the regional water project was changed to Musselshell-Judith Regional Water Project being conducted by CMRWA.

The CMRWA performs its duties in a fashion similar to a private-sector business. It is regarded as a public agency, local government entity, as per MCA 7-3-301. This authorization governs how Regional Water Authorities are formed and operated.

The financial statements present the financial condition based on the accrual basis of accounting. The statements of net position present information about all of the CMRWA assets and liabilities, with the difference between the two reported as net position. Over time increases or decreases in net position may indicate whether the financial position of CMRWA is improving or deteriorating. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The basic financial statements are attached.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found pages 11-15 of the audit report.

Financial Analysis

| | 2012 | 2013 | 2014 |
|----------------------------------|---------------------|---------------------|---------------------|
| Assets: | | | |
| Current Assets | \$ 281,131 | \$ 191,339 | \$ 101,934 |
| Capital Assets | 1,182,536 | 2,118,452 | 2,288,337 |
| Total Assets | \$ 1,463,667 | \$ 2,309,791 | \$ 2,390,271 |
| Liabilities: | | | |
| Current Liabilities | \$ 273,720 | \$ 183,928 | \$ 94,523 |
| Long-Term Liabilities | - | - | - |
| Total Liabilities | \$ 273,720 | \$ 183,928 | \$ 94,523 |
| Net Position: | | | |
| Investment in Capital Assets | | | |
| Net Investment in Capital Assets | \$ 1,182,536 | \$ 2,118,452 | \$ 2,288,337 |
| Unrestricted | 7,411 | 7,411 | 7,411 |
| Total Net Position | \$ 1,189,947 | \$ 2,125,863 | \$ 2,295,748 |

**Change in Net Position
Proprietary Fund Activities**

| | 2012 | 2013 | 2014 |
|---|------------------|------------------|------------------|
| Program Revenues | | | |
| Operating Revenues | \$ - | \$ - | \$ - |
| Total Revenues | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Program Expenses | | | |
| Supplies and Expenses | \$ 21,370 | \$ 10,159 | \$ 19,560 |
| Amortization | 16,457 | 16,491 | 16,557 |
| Total Operating Expenses | <u>\$ 37,827</u> | <u>\$ 26,650</u> | <u>\$ 36,117</u> |
| Operating Income/(Loss) | \$ (37,827) | \$ (26,650) | \$ (36,117) |
| Non-Operating Income/(Expense) | | | |
| Nonoperating Expense | \$ - | \$ - | \$ - |
| Income/(Loss) Before Contributions and Transfers | \$ (37,827) | \$ (26,650) | \$ (36,117) |
| Capital Grants, Contributions and Transfers | <u>66,017</u> | <u>962,566</u> | <u>206,002</u> |
| Change in Net Position | \$ 28,190 | \$ 935,916 | \$ 169,885 |

Capital Assets

Capital Assets, including water rights and capitalized construction/development costs are owned by CMRWA. Reductions in assets for the year ended June 30, 2014 include amortization expenses. Increases in assets for the year ended June 30, 2014 are the result of the capitalization of project construction/development costs. See Note 4 of the Notes to the Financial Statements for further detail.

Debt Service

CMWRA has no loans at present.

Special Activities

- CMRWA has nearly completed and submitted the Phase II Feasibility to the Bureau of Reclamation (BOR). Final work on the Phase II Feasibility report will begin after the DOR's required Design, Estimating, and Construction review early in the next fiscal year.
- CMRWA signed a contract with DNRC for \$300,000 to work on Feasibility Report/Alternative Study and other related project activities.

Contact About This Report

If you have any questions about this report, you may contact Monty L. Sealey, Project Administrator for CMRWA at pmservices@midrivers.com.

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

STATEMENTS OF NET POSITION

As of June 30,

| | <u>2014</u> | <u>2013</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 101,934 | \$ 191,339 |
| Capital Assets: | | |
| Construction/Development Costs in Progress | \$ 2,188,426 | \$ 2,001,984 |
| Water Rights | 215,246 | 215,246 |
| Accumulated Amortization | <u>(115,335)</u> | <u>(98,778)</u> |
| Net Capital Assets | \$ <u>2,288,337</u> | \$ <u>2,118,452</u> |
| Total Assets | \$ <u><u>2,390,271</u></u> | \$ <u><u>2,309,791</u></u> |
| LIABILITIES | | |
| Accounts Payable | \$ 33,983 | \$ 67,386 |
| Unearned Revenue | <u>60,540</u> | <u>116,542</u> |
| Total Liabilities | \$ <u><u>94,523</u></u> | \$ <u><u>183,928</u></u> |
| NET POSITION | | |
| Net Investment in Capital Assets | \$ 2,288,337 | \$ 2,118,452 |
| Unrestricted | <u>7,411</u> | <u>7,411</u> |
| Total Net Position | \$ <u><u>2,295,748</u></u> | \$ <u><u>2,125,863</u></u> |

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

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the Years Ending June 30,

| | <u>2014</u> | <u>2013</u> |
|---|----------------------------|----------------------------|
| OPERATING REVENUES | \$ 0 | \$ 0 |
| OPERATING EXPENSES | | |
| Other Supplies and Expenses | 19,560 | 10,159 |
| Amortization | 16,557 | 16,491 |
| Total Operating Expenses | <u>\$ 36,117</u> | <u>\$ 26,650</u> |
| Operating Income/(Loss) | <u>\$ (36,117)</u> | <u>\$ (26,650)</u> |
| NONOPERATING REVENUES/(EXPENSES) | | |
| Capital Contributions: | | |
| Federal Grants | 0 | 365,000 |
| State Appropriations | <u>206,002</u> | <u>597,566</u> |
| Increase/(Decrease) in Net Position | \$ 169,885 | \$ 935,916 |
| Net Position - Beginning of Year | <u>2,125,863</u> | <u>1,189,947</u> |
| Net Position - End of the Year | <u><u>\$ 2,295,748</u></u> | <u><u>\$ 2,125,863</u></u> |

The accompanying notes are an
integral part of these financial statements

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

| | 2014 | 2013 |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Payments to Suppliers | \$ (19,560) | \$ (10,159) |
| Net Cash Provided/(Used) by Operating Activities | \$ (19,560) | \$ (10,159) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | \$ 0 | \$ 0 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Grants and Contributions | \$ 150,000 | \$ 808,000 |
| Capitalized Construction/Development Costs in Progress | (219,845) | (887,633) |
| Net Cash Provided/(Used) by Capital and Related Financing Activities | \$ (69,845) | \$ (79,633) |
| CASH FLOWS FROM INVESTING ACTIVITIES | \$ 0 | \$ 0 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | \$ (89,405) | \$ (89,792) |
| Cash and Cash Equivalents - Beginning of the Year | 191,339 | 281,131 |
| Cash and Cash Equivalents - End of the Year | <u>\$ 101,934</u> | <u>\$ 191,339</u> |
| Reconciliation of Operating Income/(Loss) to Net Cash Used by Operating Activities | | |
| Operating Income/(Loss) | \$ (36,117) | \$ (26,650) |
| Adjustment to Reconcile Operating Income/(Loss) to Net Cash Provided by Operating Activities: | | |
| Items Not Affecting Cash: | | |
| Amortization | <u>16,557</u> | <u>16,491</u> |
| Net Cash Provided/(Used) by Operating Activities | <u>\$ (19,560)</u> | <u>\$ (10,159)</u> |

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

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2014 and 2013

NOTE 1. NATURE OF AGENCY, BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Central Montana Regional Water Authority (the Authority) was legally formed in May of 2005, thereto under the provisions of Title 75, Chapter 6, Part 3, Montana Code Annotated (M.C.A.). The Authority is governed by a board of directors representing each community to be served on the regional system.

The purpose of the Authority is to:

- 1) Pursue the development, authorization, planning, design and construction of the 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 net revenue bonds and notes to fund components of the Central Montana Regional Water System.
- 4) Sell water to public services districts, municipalities, publicly and privately owned water utilities, and others.
- 5) Provide the administration, operations, maintenance, billing, and collection of the Authority.

Background - Communities along the Musselshell River drainage have long had difficulty in obtaining reliable quantity and quality water resources. Complicated by drought, the City of Roundup and Musselshell County began work on a project through the Resource Conservation and Development Program in April 2001. The regional water project is currently in the developmental phase in which the project, upon completion, may provide water for Hobson, Broadview, Judith Gap, Harlowton, Ryegate, Lavina, Roundup and Melstone from the Madison Aquifer Formation on the northeast end of the Little Belt Mountains.

Basis of Presentation and Accounting - Central Montana Regional Water Authority engages in only business-type activities and thus report the financial statements under the accrual basis of accounting, as required for proprietary funds. These financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows. Proprietary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred.

The Authority reports in accordance with generally accepted accounting principles and has elected not to apply Financial Accounting Standards Board Statements issued after November 30, 1989.

There are no component units.

Statements of Cash Flows – For purposes of Statements of Cash Flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2014 and 2013

NOTE 1. NATURE OF AGENCY, BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets and Depreciation – Property, equipment, infrastructure assets and other capital assets, with a significant purchase price and expected life greater than one year, are recorded at cost. Repairs and maintenance are expended when incurred and betterments which are expected to extend an asset's useful life are capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation expense is computed on the straight-line basis over the estimated useful lives of the respective assets. Any gain or loss arising from the disposal of capital assets is credited or charged to income.

A provisional permit to appropriate water (Water Rights) was acquired during the fiscal year 2007/2008. The Water Rights are amortized over 13 years. The authority has until December 31, 2020 to complete the permit and file a project completion notice. If the Authority is unable to meet the deadline, an application for extension of time must be filed by December 31, 2020 or the permit will become void. An additional \$1,300 in Water Rights was acquired during the 2012/2013 fiscal year. Amortization expense, for the years ended June 30, 2014 and 2013 was \$16,557 and \$16,491, respectively.

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

The *Net Investment in Capital Assets* component of net position consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

The *Restricted Net Position* consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. As of June 30, 2014 and 2013, the Authority reported no restricted assets.

The *Unrestricted Net Assets* component of net position is 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 or the restricted component of net position.

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2014 and 2013

NOTE 1. NATURE OF AGENCY, BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Operating Revenues and Expenses – The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing water in connection with the Authority's on-going operations. Operating revenues are generated from charges to customers for services provided and special assessments. The Authority's operating expenses include labor and benefits, materials, services, and other expenses related to payroll, cost for debt services, operating and maintenance of the complete water system. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses and generally consist of those revenues and expenses that are related to financing, investing, and non-exchange type activities. The Authority reports Federal grants and State Appropriations as non-operating revenues.

Use of Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires that management make estimates and assumptions, which affect the reported assets, liabilities, revenues, and expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The Authority recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed as of June 30, 2014, including the estimates inherent in the process of preparing financial statements. Subsequent events that provide evidence about conditions that did not exist as of June 30, 2014, but arose after that date and prior to the financial statements are available to be issued are not recognized in these financial statements. The Authority evaluates subsequent events through the date the financial statements are available to be issued which is the date of the auditor's report.

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – The Authority has implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and recognizes and reports transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods as deferred outflows of resources and deferred inflows of resources, respectively, and distinguishes them from assets and liabilities. Additionally, the Authority recognizes and reports as the residual of all other elements presented in the statement of financial position as net position. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

Items Reported as Assets and Liabilities - The Authority has implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement properly classifies certain items, previously reported as assets and liabilities, as deferred outflows of resources or deferred inflows of resources.

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2014 and 2013

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents consist of cash in banks and highly liquid debt instruments that are readily convertible to known amounts of cash. Such debt instruments have maturity of three months or less from the date of purchase. As of June 30, 2014 and 2013, the Authority had one non-interest bearing checking account. (Level 1)

The State of Montana law allows the Authority to invest in obligations of the United States Government, time and savings deposits with financial institutions, repurchase agreements, and with the State Treasurer under the State Unified Investment Program.

NOTE 3. GRANTS RECEIVABLE

Grants Receivable represents the balance of grant funds earned but not yet received in cash. Most grants allow monthly drawdowns of cash which provide operating capital for program operations. As of June 30, 2014 and 2013, the Authority had grants receivable of \$0.

NOTE 4. CAPITAL ASSETS, CONSTRUCTION/DEVELOPMENT COSTS IN PROGRESS, AND INTANGIBLE ASSETS

Capital Assets during the years ending June 30 are as follows:

| | <u>Water Rights</u> | <u>Construction/Development Costs in Progress</u> |
|------------------------------|---------------------|---|
| Beginning Year, July 1, 2012 | \$ 213,946 | \$ 1,050,877 |
| Additions | 1,300 | 951,107 |
| Deletions | - | - |
| Ending Year, June 30, 2013 | \$ 215,246 | \$ 2,001,984 |
| Additions | - | 186,442 |
| Deletions | - | - |
| Ending Year, June 30, 2014 | \$ <u>215,246</u> | \$ <u>2,188,426</u> |

Accumulated Depreciation/Amortization during the years ending June 30 are as follows:

| | <u>Water Rights</u> | <u>Construction/Development Costs in Progress</u> |
|------------------------------|---------------------|---|
| Beginning Year, July 1, 2012 | \$ 82,287 | \$ - |
| Additions | 16,491 | - |
| Deletions | - | - |
| Ending Year, June 30, 2013 | \$ 98,778 | \$ - |
| Additions | 16,557 | - |
| Deletions | - | - |
| Ending Year, June 30, 2014 | \$ <u>115,335</u> | \$ <u>-</u> |

CENTRAL MONTANA REGIONAL WATER AUTHORITY
Roundup, Montana

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2014 and 2013

NOTE 4. CAPITAL ASSETS, CONSTRUCTION/DEVELOPMENT COSTS IN PROGRESS, AND INTANGIBLE ASSETS, continued

The Authority capitalizes costs associated with the development of the regional water project. During 2014, the authority capitalized \$186,442 in costs related to well development and feasibility studies and \$951,107 in 2013. The well costs will be depreciated over 50 years when the construction of the wells are completed and placed in service. The amount capitalized for the feasibility studies will be amortized over the life of the distribution system once the distribution system is placed in service. An additional \$1,300 of water rights was capitalized during the 2013 audit period.

NOTE 5. LIABILITIES

For the year ended June 30, 2014, accounts payable consisted of \$29,837 of costs related to the Musselshell-Judith Rural Water System Project (Project) and \$4,146 of cost related to administration and management of the Project. For the year ended June 30, 2013, the Authority recorded accounts payable of \$67,386, all of which were related to the Project.

The Authority has no long-term debt.

NOTE 6. UNEARNED REVENUE

Unearned revenue consists of cash received from grantors that was not earned as of June 30, 2014 and 2013. The activity in the unearned revenue account is as follows:

| | 2014 | 2013 |
|--------------------------------------|------------------|-------------------|
| Unearned Revenue, Beginning of Year | \$ 116,542 | \$ 271,108 |
| Grant Awards Received | 150,000 | 808,000 |
| Grant Expenditures | (206,002) | (962,566) |
| Gross Unearned Revenues, End of Year | \$ 60,540 | \$ 116,542 |
| Less: Amount Not Received in Cash | - | - |
| Net Unearned Revenue, End of Year | \$ <u>60,540</u> | \$ <u>116,542</u> |

NOTE 7. RISK MANAGEMENT

The Authority faces a number of risks including loss or damage to property and general and public liability. Currently, the Authority does not carry insurance for such possible risks.

The Authority maintains one cash account in a financial institution located in Roundup, Montana, which at times may exceed the Federal Deposit Insurance Corporation (FDIC) Insurance Coverage. Management does not believe there is any significant risk associated with this account.

**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***

Independent Auditor's Report

Board of Directors
Central Montana Regional Water Authority
P.O. Box 660
Roundup, Montana 59077

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 Central Montana Regional Water Authority (Authority), comprising of the statements of net position, and the related statements of revenues, expenses, and change in net position and statements of cash flows, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Randall, Hensel & Company
Certified Public Accountants

Missoula, Montana
December 15, 2014

SCHEDULE OF AUDIT FINDINGS AND STATUS OF PRIOR YEAR FINDINGS

CENTRAL MONTANA REGIONAL WATER AUTHORITY For the Year Ended June 30, 2014

SUMMARY OF THE AUDITOR'S RESULTS

The independent auditor's report on the financial statements expressed an unqualified opinion.

FINANCIAL STATEMENT FINDINGS

There are no findings required to be reported for the audit period.

STATUS OF PRIOR YEAR FINDING

2013-001 MINUTES OF MEETINGS – PUBLIC INSPECTION (MCA 2-3-12)

Appropriate minutes of all meetings required by MCA 2-3-203 to be open must be kept and must be available for inspection by the public.

The Authority failed to record minutes for the March 13, 2013 Board of Directors' meetings when the regular recorder of the minutes was not in attendance.

We recommend the Authority designate an individual to record and maintain minutes for every future meeting of the Board of Directors.

STATUS:

The Authority designated an individual to record and maintain minutes for every future meeting of the Board of Directors and minutes were available for review for each meeting held during the audit period.