

**FLATHEAD COUNTY WATER  
AND SEWER DISTRICT NO. 1  
(EVERGREEN)  
KALISPELL, MT**

**AUDIT REPORT**

**JUNE 30, 2014**

**Flathead County Water and Sewer District No. 1  
(Evergreen)**

**June 30, 2014**

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**Flathead County Water and Sewer District No. 1  
(Evergreen)**

OFFICIALS AT JUNE 30, 2014

BOARD OF DIRECTORS

John T. Fallon, President

Bob Balding

Butch Clark

T.J. Wendt

B.J. Lupton

Vacant

Vacant

GENERAL MANAGER

Roberta Struck

***Nicole M. Noonan, CPA, P.C.***

*435 Little Mill Creek Road*

*St. Regis, Montana 59866*

*Phone and FAX: (406) 649-2436*

*Cell phone: (406) 239-4260*

*E-mail: noonanaccounting@hotmail.com*

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Flathead County Water and Sewer  
District No. 1 (Evergreen)  
Kalispell, Montana

**Report on the Financial Statements**

I have audited the accompanying financial statements of each major fund of Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### ***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated December 12, 2014, on my consideration of Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana's internal control over financial reporting and compliance.

*Nicole M. Noonan, CPA, P.C.*

Nicole M. Noonan, CPA, P.C.  
St. Regis, Montana  
December 12, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Highlights for Fiscal Year 2014

This section presents an analysis of the District's financial performance and activities during the fiscal year that ended June 30, 2014. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**Operating Revenue:** Increased by \$69,759 or 5% from \$1,519,280 to \$1,589,039.

**Water Operating Revenue:** Increased 4% or \$22,935 from \$584,730 to \$607,665.

The slight increase in Water Operating Revenue was due mainly to an increase of 21,066,665 gallons billed.

**Sewer Operating Revenue:** Increased 5% or \$46,824 from \$934,550 to \$981,374.

The slight increase in Sewer Operating Revenue was due mainly to a 5% rate increase.

#### Operating Revenue

	Water	Sewer	Total
2014	\$607,665	\$981,374	\$1,589,039
2013	\$584,730	\$934,550	\$1,519,280
<b>Difference</b>	<b>\$22,935</b>	<b>\$46,824</b>	<b>\$69,759</b>
<b>Percentage</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>

**Operating Expense:** Decreased \$43,800 or 3% from \$1,727,742 to \$1,683,942.

**Water Operating Expense:** Decreased \$32,811 or 5% from \$632,583 to \$599,772 due largely to decreases in Repairs and Maintenance and Professional Fees.

**Sewer Operating Expense:** Decreased \$10,989 or 1% from \$1,095,159 to \$1,084,170. This minimal decrease was mainly because of the decrease in Repairs & Maintenance as a result of getting caught up on pumping of septic tanks last year, so not having to pump so many this year.

#### Operating Expense

	Water	Sewer	Total
2014	\$599,772	\$1,084,170	\$1,683,942
2013	\$632,583	\$1,095,159	\$1,727,742
<b>Difference</b>	<b>\$32,811</b>	<b>\$10,989</b>	<b>\$43,800</b>
<b>Percentage</b>	<b>5%</b>	<b>1%</b>	<b>3%</b>

**Operating Loss:** Last year's loss decreased \$113,559 or 54% from \$208,462 to \$94,903.

**Water Operating Loss:** Last year's loss decreased \$55,746 or 116% from \$(47,853) to \$7,893 due mainly to the decreased expenses in items such as mentioned above, Repairs & Maintenance and Professional Fees.

**Sewer Operating Loss:** Last year's loss decreased \$57,813 or 36% from (\$160,609) to (\$102,792) mostly due to the decrease in Repairs & Maintenance and the 5% rate increase.

**Operating Income/Loss**

	Water	Sewer	Total
2014	7,893	(\$102,796)	(\$94,903)
2013	(\$47,853)	(\$160,609)	(\$208,462)
Difference	55,746	57,813	113,559
Percentage	-116%	-36%	-54%

**Non-Operating Revenue:** Increased \$11,901, or 18% from \$66,359 to \$78,260 .

**Water Non-Operating Revenue** increased \$10,274 or 34% from \$29,940 to \$40,214 mostly due to an increase of \$10,936 in connection fees, a result of a slight improvement in the economy.

**Sewer Non-Operating Revenue** increased very slightly, \$1,627 from \$36,419 to \$38,046 due to an increase in out of RSID fees.

**Non-Operating Revenue**

	Water	Sewer	Total
2014	\$40,214	\$38,046	\$78,260
2013	\$29,940	\$36,419	\$66,359
Difference	\$10,274	\$1,627	\$11,901
Percentage	34%	4%	18%

**Net Income (Loss):** The net income decreased (\$166,765) from last year's net income of \$164,092 to (\$2,673).

**Water Net Income (Loss):** Net Income decreased (\$226,205) from \$288,282 to \$62,077 due to a decrease in Developer Contributed Capital of \$292,225.

**Sewer Net (Loss):** Net Loss decreased from (\$124,190) to (\$64,750) due to the increase in the increase in out of RSID fees.

**Net Income/Loss**

	Water	Sewer	Total
2013	\$62,077	(\$64,750)	(\$2,673)
2013	\$288,282	(\$124,190)	\$164,092
Difference	(\$226,205)	\$59,440	(\$166,765)
Percentage	-78%	-48%	-102%

**Developer Contributed Capital:** Decreased (\$292,225) from \$306,195 to \$13,970.

**Water Developer Contributed Capital** decreased from \$306,195 last year to \$13,970.

**Sewer Developer Contributed Capital** remained at zero for 2014.

**Capital Contributed by Developers**

	Water	Sewer	Total
2014	\$13,970	\$0	\$13,970
2013	\$306,195	\$0	\$306,195
Difference	(\$292,225)	\$0	(\$292,225)

**Net Position:** Decreased \$2,673 from \$22,023,661 to \$22,020,988.

**Water Net Position:** Increased \$62,077 from \$8,223,828 to \$8,285,905.

**Sewer Net Position:** Decreased \$64,750 from \$13,799,833 to \$13,735,083.

### Net Position

	Water	Sewer	Total
2014	\$8,285,905	\$13,735,083	\$22,020,988
2013	\$8,223,828	\$13,799,833	\$22,023,661
Difference	\$62,077	(\$64,750)	(\$2,673)
Percentage	1%	0%	0%

**District's Statement of Net Position** shows no outside long term debt. The water has borrowed from the sewer to pay for construction of the 1.6 million gallon storage tank. The water is paying the sewer back at 1.5% interest. That is the \$832,845 shown in long term liabilities.

	June 30, 2014	June 30, 2013	Difference	Percentage
Other Assets	\$3,248,747	\$2,949,120	\$299,627	10.2%
Capital Assets	\$19,764,485	\$20,072,123	(\$307,638)	-1.5%
Total Assets	\$23,013,232	\$23,021,243	(\$8,011)	0.0%
Current Liabilities	\$159,399	\$117,590	\$41,809	35.6%
Long-Term Liabilities	\$832,845	\$879,992	(\$47,147)	-5.4%
Total Liabilities	\$992,244	\$997,582	(\$5,338)	-0.5%
Net Investment in				
Capital Assets	\$18,884,526	\$19,145,718	(\$261,192)	-1.4%
Unrestricted	\$3,136,462	\$2,877,943	\$258,519	9.0%
Net Position	\$22,020,988	\$22,023,661	(\$2,673)	0.0%

### District Planning

The district is still working towards upgrading the pumps in the booster pump station so they can be used in addition to the bluff wells to supplement the demand on the bluff portion of the distribution system. This will allow us to pump water from the new storage tank so the tank can also be a benefit to the upper portion of the district. I am hopeful that this project will be totally complete by FYE June 2016.

At some point we will make repairs to the old 1 million gallon tank, but right now that extra storage is not needed and we need to spend the money on the booster pump station pump upgrades. We did decide not to have a developer participate in financing the upgrade to the booster pump station.

There are a couple of water main extension projects that may or not begin in FYE June 2015. These are developer driven.

Once again we have been catching up on tank pumping and are currently caught up, but continue to pump so we will not get behind again.

### **Required Financial Statements**

The audited Financial Statements of the District report information utilizing the full accrual basis of accounting – revenues are recorded when earned and expenses are recorded when incurred. Though summarized in total, the audited Financial Statements show individually the separate water and sewer operations, and as enterprise funds, the financing and operation is similar to private business enterprises where the intent of the governing body is that costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The financial statements include:

1. **Statement of Net Position** – District’s assets and liabilities provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.
2. **Statement of Revenues, Expenses and Changes in Fund Net Position** - Measures the success of the District’s operation over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The District’s net position reflects the difference between revenues and expenses. An increase in net position over time typically indicates an improvement in financial condition.
3. **Statement of Cash Flows** – Reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.
4. **Notes to Financial Statements** – provides required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District’s accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The financial statements were prepared by and are the responsibility of the District’s management, from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process. An audit includes, but is not limited to, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements to obtain reasonable assurance about whether the financial statements are free of material misstatement.

***BASIC***

***FINANCIAL***

***STATEMENTS***

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Statement of Net Position**  
**June 30, 2014**

ASSETS	WATER	SEWER	TOTAL
Current Assets:			
Cash and Investments	\$ 169,892	\$ 1,888,851	\$ 2,058,743
Interest Receivable	-	2,883	2,883
Accounts Receivable	59,541	120,399	179,940
Advance to Water-Current Portion	-	47,114	47,114
Inventory	73,343	53,879	127,222
Total Current Assets	302,776	2,113,126	2,415,902
Noncurrent Assets:			
Advance to Water-Noncurrent Portion	-	832,845	832,845
Capital Assets			
Nondepreciable Capital Assets			
Land	502,144	5,338	507,482
Easements	7,500	-	7,500
Construction in Progress	55,730	-	55,730
Total Nondepreciable Capital Assets	565,374	5,338	570,712
Depreciable Capital Assets			
Buildings	32,611	159,184	191,795
Other Improvements	46,102	39,486	85,588
Office Equipment	23,688	58,118	81,806
Vehicles	41,672	51,451	93,123
Tools and Radios	96,152	244,663	340,815
Wells & Pump Stations	2,649,123	-	2,649,123
Water Tank	2,078,673	-	2,078,673
Distribution Mains	6,568,366	-	6,568,366
Sewer System	-	14,945,032	14,945,032
Less: Accumulated Depreciation	(3,211,682)	(4,628,866)	(7,840,548)
Depreciable Capital Assets - Net	8,324,705	10,869,068	19,193,773
Total Noncurrent Assets	8,890,079	11,707,251	20,597,330
TOTAL ASSETS	9,192,855	13,820,377	23,013,232
LIABILITIES			
Current Liabilities:			
Accounts Payable	12,578	70,881	83,459
Advance from Sewer-Current Portion	47,114	-	47,114
Compensated Absences	14,413	14,413	28,826
Total Current Liabilities	74,105	85,294	159,399
Non Current Liabilities:			
Advance from Sewer-Noncurrent Portion	832,845	-	832,845
TOTAL LIABILITIES	906,950	85,294	992,244
NET POSITION			
Net Investment in Capital Assets	8,010,120	10,874,406	18,884,526
Unrestricted	275,785	2,860,677	3,136,462
TOTAL NET POSITION	\$ 8,285,905	\$ 13,735,083	\$ 22,020,988

See Accompanying Notes to Financial Statements

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2014**

OPERATING REVENUE	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
Charges for Service	\$ 576,167	\$ 943,789	\$ 1,519,956
Penalty	7,631	4,968	12,599
Sewer Charges to City	-	32,164	32,164
Meter Sales	8,976	-	8,976
Other	14,891	453	15,344
Total Operating Revenue	<u>607,665</u>	<u>981,374</u>	<u>1,589,039</u>
OPERATING EXPENSES			
Directors' Fees	1,200	1,200	2,400
Insurance	14,856	14,856	29,712
Licenses and Permits	1,790	380	2,170
Locating Service	881	881	1,762
New Service Connections	241	(796)	(555)
Office Supplies	4,428	4,195	8,623
Pager Service	696	696	1,392
Personal Service Cost	197,810	198,058	395,868
Postage and Delivery	5,190	5,190	10,380
Professional Fees	46,389	41,792	88,181
Treatment Plant Investment	-	167,645	167,645
Repairs and Maintenance	35,274	117,771	153,045
State Connection Fee	6,062	-	6,062
Taxes	161	-	161
Testing	2,680	-	2,680
Tools and Supplies	44,213	12,560	56,773
Travel	303	303	606
Treatment	-	275,604	275,604
Utilities	74,302	47,226	121,528
Other	6,336	3,320	9,656
Depreciation	156,960	193,289	350,249
Total Operating Expenses	<u>599,772</u>	<u>1,084,170</u>	<u>1,683,942</u>
OPERATING INCOME (LOSS)	<u>7,893</u>	<u>(102,796)</u>	<u>(94,903)</u>
NON-OPERATING REVENUE (EXPENSE)			
Hookup Fees	48,636	-	48,636
Interest Income	1,169	24,746	25,915
Out of RSID Fees	-	13,300	13,300
Tapping Charges	3,963	-	3,963
Interest Expense	(13,554)	-	(13,554)
Total Non-Operating Revenue (Expense)	<u>40,214</u>	<u>38,046</u>	<u>78,260</u>
Income (Loss) Before Capital Contributions	48,107	(64,750)	(16,643)
Capital Contributed by Developers	<u>13,970</u>	<u>-</u>	<u>13,970</u>
Change in Net Position	62,077	(64,750)	(2,673)
Net Position, Beginning of Year	<u>8,223,828</u>	<u>13,799,833</u>	<u>22,023,661</u>
Net Position, End of Year	<u>\$ 8,285,905</u>	<u>\$ 13,735,083</u>	<u>\$ 22,020,988</u>

See Accompanying Notes to Financial Statements

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2014**

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$ 605,884	\$ 975,690	\$ 1,581,574
Payments to Suppliers	(237,963)	(661,494)	(899,457)
Payments to Employees	(197,291)	(197,539)	(394,830)
Net Cash Provided by Operating Activities	<u>170,630</u>	<u>116,657</u>	<u>287,287</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Principal Received on Advance	-	46,446	46,446
Interest Received on Advance	-	13,587	13,587
Hookup Fees	48,636	-	48,636
Out of RSID Fees	-	13,300	13,300
Tapping Charges	3,963	-	3,963
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>52,599</u>	<u>73,333</u>	<u>125,932</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal Payments on Advance	(46,446)	-	(46,446)
Interest Payments on Advance	(13,554)	-	(13,554)
Capital Asset Purchases	(28,640)	-	(28,640)
Net Cash Used by Capital and Related Financing Activities	<u>(88,640)</u>	<u>-</u>	<u>(88,640)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Income	1,169	11,525	12,694
Net Increase (Decrease) In Cash and Cash Equivalents	135,758	201,515	337,273
Cash and Cash Equivalents, Beginning of Year	34,134	1,687,336	1,721,470
Cash and Cash Equivalents, End of Year	<u>\$ 169,892</u>	<u>\$ 1,888,851</u>	<u>\$ 2,058,743</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ 7,893	\$ (102,796)	\$ (94,903)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	156,960	193,289	350,249
(Increase) Decrease in Accounts Receivable	(1,781)	(5,684)	(7,465)
(Increase) Decrease in Inventory	(1,954)	253	(1,701)
Increase (Decrease) in Accounts Payable	8,993	31,076	40,069
Increase (Decrease) in Compensated Absences	519	519	1,038
Net Cash Provided by Operating Activities	<u>\$ 170,630</u>	<u>\$ 116,657</u>	<u>\$ 287,287</u>

**DISCLOSURE OF NON-CASH TRANSACTIONS**

The Water fund had \$13,970 in capital assets contributed by developers.

See Accompanying Notes to Financial Statements

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Notes to the Financial Statements**  
**June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

a. The Reporting Entity

Flathead County Water and Sewer District No. 1 (Evergreen) was formed in 1965 under the laws of Montana for county water and sewer districts. It was organized to provide municipal water service to the Evergreen community. In 1994 the District started providing sewer service to a large portion of the District. The District is governed by a seven-member Board of Directors, five of whom are elected by the residents and property owners of the District. One Board member is appointed by the Flathead County Commissioners and one by the City of Kalispell. The board appoints a General Manager and hires employees to operate the District.

b. Basis of Presentation

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

c. Basis of Accounting

The accounting policies of the District conform to generally accepted accounting principles. As enterprise funds, the financing and operation is similar to private business enterprises. The intent of the governing body is to recover costs of providing goods and services to the general public on a continuing basis primarily through user charges. The accrual basis of accounting is followed and under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred. Operating revenues for the water and sewer funds are primarily charges to customers for services. Revenues not meeting this definition are generally classified as non-operating revenues.

d. Inventory

The cost of materials such as meters, pipe, repair parts, etc. on hand are recorded as inventory using historical cost on a first-in, first-out basis.

e. Accounts Receivable

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

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Notes to the Financial Statements**  
**June 30, 2014**

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

f. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit, which can be converted to cash at the District's demand.

g. Capital Assets

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

h. Depreciation

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

Buildings	5-40 Years
Improvements	5-20 Years
Water Mains	100 Years
Wells and Pump Stations	10-50 Years
Water Tank	50 Years
Vehicles	5 Years
Tools and Equipment	3-20 Years
Sewer System	15-100 Years

i. Compensated Absences

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

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Notes to the Financial Statements**  
**June 30, 2014**

**2. CASH AND INVESTMENTS**

The District's cash is deposited in local banks, a credit union and a stock brokerage firm. It is invested in demand deposits and certificates of deposit. The District limits its exposure to credit risk (the risk that an issuer or other counter party to an investment will not fulfill its obligation) by following an investment policy and state law. Investments in certificates of deposit are recorded at cost.

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned or the District will not be able to recover the collateral securities in the possession of the outside party. The District minimizes custodial credit risk by restrictions set forth in State law and District policy. At June 30, 2014, the carrying amount of the District's deposits with local financial institutions was \$2,058,618 and the bank balance was \$2,066,013. Of the bank balance, \$1,647,158 was covered by federal depository insurance and \$418,855 was uninsured and uncollateralized.

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

The District's investments contain an element of concentration of credit risk since certificates of deposit represent all of the District's investments. The District does not further diversify because the investments are conservative and further diversification does not significantly reduce credit risk for the District.

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

Cash on Hand	\$ 125
Demand Deposits	930,974
Certificates of Deposit	<u>1,127,644</u>
Total Cash and Investments	<u><u>\$ 2,058,743</u></u>

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Notes to the Financial Statements**  
**June 30, 2014**

**3. CAPITAL ASSETS**

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

	Beginning Balance	Additions	Deletions	Ending Balance
<b>WATER</b>				
Nondepreciable Capital Assets:				
Land	\$ 502,144	\$ -	\$ -	\$ 502,144
Easements	7,500	-	-	7,500
Construction in Process	27,090	28,640	-	55,730
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 536,734</b>	<b>\$ 28,640</b>	<b>\$ -</b>	<b>\$ 565,374</b>
Depreciable Capital Assets:				
Buildings	\$ 32,611	\$ -	\$ -	\$ 32,611
Other Improvements	46,102	-	-	46,102
Office Equipment	23,688	-	-	23,688
Vehicles	41,672	-	-	41,672
Tools and Radios	96,152	-	-	96,152
Wells and Pump Stations	2,649,123	-	-	2,649,123
Water Tank	2,078,673	-	-	2,078,673
Distribution Mains	6,554,396	13,970	-	6,568,366
Less Accumulated Depreciation	(3,054,722)	(156,960)	-	(3,211,682)
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 8,467,695</b>	<b>\$ (142,990)</b>	<b>\$ -</b>	<b>\$ 8,324,705</b>
<b>SEWER</b>				
Nondepreciable Capital Assets:				
Land	\$ 5,338	\$ -	\$ -	\$ 5,338
Depreciable Capital Assets:				
Buildings	\$ 159,184	\$ -	\$ -	\$ 159,184
Other Improvements	39,486	-	-	39,486
Office Equipment	58,118	-	-	58,118
Vehicles	51,451	-	-	51,451
Tools and Radios	244,663	-	-	244,663
Sewer System	14,945,032	-	-	14,945,032
Less Accumulated Depreciation	(4,435,578)	(193,288)	-	(4,628,866)
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 11,062,356</b>	<b>\$ (193,288)</b>	<b>\$ -</b>	<b>\$ 10,869,068</b>

**4. COMPENSATED ABSENCES**

All full-time employees accumulate vacation and sick leave hours in proportion to the hours they work. Employees earn annual leave at the rate of 15 days per year for each year of their first ten years of employment. Between ten and fifty years of employment, they earn increasing rates to a maximum of 39 days. There is no requirement that annual leave be taken. However, the maximum accumulation is two times the annual rate, determined at the end of the calendar year. At termination, employees are paid for any accumulated annual leave. Sick leave is earned at the rate of twelve days per year. There is no limit on the accumulation of sick leave. At termination, employees are paid for one-fourth of their accumulated sick leave.

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Notes to the Financial Statements**  
**June 30, 2014**

**4. COMPENSATED ABSENCES (CONTINUED)**

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due within one year
Compensated Absences	\$ 25,693	\$ 3,133	\$ -	\$ 28,826	\$ 28,826

**5. RETIREMENT PLAN**

The District sponsors a Section 457 defined contribution plan administered by Waddell & Reed, Inc. Employees are eligible to participate in the plan when they attain age 21 and complete one year of service. Eligible employees can elect to contribute 6.9% of their gross wages to the plan. The District also contributes 6.9% of gross wages for participating employees. Contributions are available for distribution upon employee termination, retirement, death, or unforeseeable emergency. The plan was established and can be amended by the District board of directors. Contributions for fiscal year 2014 for participating employees and the District totaled \$33,654. A member of the Board of Directors received a sales commission and 12b(1) fees of approximately \$3,222 for fiscal year 2014.

**6. POST EMPLOYMENT BENEFITS**

The District has a policy to provide up to six months of health insurance for terminated employees with over ten years of employment with the District. These benefits are at the discretion of the General Manager and are financed on a pay-as-you-go basis. During fiscal year 2014, there were no terminated employees eligible to receive these benefits.

**7. SEWER PROJECT**

The District provides a sanitary sewer collection service to a large area of the District. The system was completed in 1995. The District has an interlocal agreement with the City of Kalispell to treat the effluent. The agreement limits the service area that the District can provide sewer service to, and limits the quantity of effluent transmitted to the City. The rate paid by the District for treatment of effluent is set annually by the City based on the terms of the agreement. In addition, the District pays 22% of the debt service cost (\$167,645 for this year) as its contribution to the capital cost of the City's plant. Part of the treatment rate recognizes a replacement fund held by the City for improvements to the plant. The District shares in the equity of the replacement account. The District's equity share in the replacement account was \$339,122 at June 30, 2014. If the District terminates their agreement with the City their equity share would be refunded. The account is not controlled by the District and there are no plans to terminate the agreement, therefore the balance is not reported as a District asset.

**Flathead County Water and Sewer District No. 1 (Evergreen)**  
**Notes to the Financial Statements**  
**June 30, 2014**

**8. RISK MANAGEMENT**

The District faces a considerable number of risks of loss, including: (a) damage to and loss of property and contents; (b) employee torts; (c) professional liability, i.e., errors and omissions; (d) environmental damage; (e) workers' compensation, i.e., employee injuries; and (f) medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for general liability, property and contents damage, employee medical costs, and tort liability. The District purchases workers' compensation insurance from the State Fund. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages. Coverage limits and deductibles on the commercial policies have stayed relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the last three fiscal years.

**9. INTERFUND TRANSACTIONS**

In fiscal year 2011, the sewer fund advanced \$877,230 to the water fund for the tank project. In fiscal year 2012, an additional \$100,614 was advanced to complete the project. The advance has an interest rate of 1.5%, with a balance of \$879,959 at June 30, 2014. The water fund makes monthly payments of \$5,000 to the sewer fund, with the advance maturing January 15, 2031.

***Nicole M. Noonan, CPA, P.C.***

*435 Little Mill Creek Road*

*St. Regis, Montana 59866*

*Phone and FAX: (406) 649-2436*

*Cell phone: (406) 239-4260*

*E-mail: noonanaccounting@hotmail.com*

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

Board of Directors  
Flathead County Water and Sewer  
District No. 1 (Evergreen)  
Kalispell, Montana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana's basic financial statements and have issued my report thereon dated December 12, 2014.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana's internal control. Accordingly, I do not express an opinion on the effectiveness of Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana'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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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



Nicole M. Noonan, CPA, P.C.  
St. Regis, Montana  
December 12, 2014

***Nicole M. Noonan, CPA, P.C.***

*435 Little Mill Creek Road*

*St. Regis, Montana 59866*

*Phone and FAX: (406) 649-2436*

*Cell phone: (406) 239-4260*

*E-mail: noonanaccounting@hotmail.com*

December 12, 2014

Board of Directors  
Flathead County Water and Sewer  
District No. 1 (Evergreen)  
Kalispell, Montana

In planning and performing my audit of the financial statements of Flathead County Water and Sewer District No. 1 (Evergreen), Kalispell, Montana, for the year ended June 30, 2014, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on internal control. This letter does not affect my report on those financial statements dated December 12, 2014.

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

**Capital Assets**

Expenses that meet the District's capitalization policy should be capitalized. During expense review it was noted that \$5,626 in repairs were for items that could be considered betterments of the equipment, therefore they should be capitalized. This item was not adjusted to capital assets for the audited financial statements. In the future, the District should perform a detailed review of expenses for items that should be capitalized.

*District Response*

*I discussed this again with Jessica when she was here as we had another item that had to be replaced and I had categorized it as a repair and replacement, because it looks more accurate on the income and expense statements that the board reviews monthly. We decided that we would do that for the monthly statements and make an adjustment capitalizing it at the end of the fiscal year.*

**Advances**

The balance of the advances between funds should be agreed to supporting documentation to ensure an accurate balance. At June 30, 2014, the balance of the advance was overstated by \$7,842. The overstatement was the result of two payments being miscoded, with both the debit and credit posted to the same account. In the future, the balance of the advance after each payment should be agreed to the supporting amortization schedule.

District Response

*This year I miscoded one of the entries pertaining to this and an adjustment was made at year end to straighten that out. I will make sure to be comparing the balance on the amortization schedule with the balance on Quickbooks to insure this does not occur again.*

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

<u>Finding</u>	<u>Status</u>
Closing Entries	Implemented
Capital Assets	Repeated

\* \* \* \* \*

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

Respectfully,



Nicole M. Noonan, CPA, P.C.