

**TIBER COUNTY WATER DISTRICT
CONRAD, MONTANA**

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2014 AND 2013**

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Douglas Wilson & Company, P.C.

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TIBER COUNTY WATER DISTRICT

CONRAD, MONTANA

**OFFICIALS
JUNE 30, 2014**

OFFICERS

President	Michael Habets
Vice President	Gary Gollehon
Secretary	Carol Johns
Manager	Brad Pourroy

DIRECTORS

Michael Habets	Fred Bergstrom
Richard Preputin	Robert Copenhaver
Gary Buffington	Gary Gollehon
Dan Keil	Robert Orcutt
Maureen Wicks	Carl Flesch

TIBER COUNTY WATER DISTRICT

CONRAD, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The discussion and analysis of the Tiber County Water District's financial performance provides an overview of the Tiber County Water District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements and notes.

FINANCIAL STATEMENT HIGHLIGHTS AND OVERVIEW

The Tiber County Water District's net assets of our activities decreased by \$159,710 or 17.9%.

Total assets decreased by \$154,007 or 15.3%.

During the year, Tiber County Water District had operating expenses that were \$159,710 more than the \$451,281 generated in revenue and special items.

The restricted funds increased \$30,374 as did the restricted net assets.

	<u>6/30/14</u>	<u>6/30/13</u>
Statements of Net Position		
Current and Other Assets	\$ 401,685	\$ 408,330
Capital Assets	452,669	600,031
Total Assets	<u>854,354</u>	<u>1,008,361</u>
Other Liabilities	120,953	115,250
Total Liabilities	<u>120,953</u>	<u>115,250</u>
Total Assets and Liabilities	<u><u>\$ 733,401</u></u>	<u><u>\$ 893,111</u></u>
Net Position:		
Investment in Capital Assets	\$ 452,669	\$ 600,032
Restricted	201,668	171,294
Unrestricted (Deficit)	79,064	121,785
Total Net Position	<u><u>\$ 733,401</u></u>	<u><u>\$ 893,111</u></u>

Operating revenues for the year ended June 30, 2014 totaled \$445,663 compared to June 30, 2013 operating revenue of \$417,451. This was an increase of \$28,212.

TIBER COUNTY WATER DISTRICT
CONRAD, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Total operating expenses for the year ended June 30, 2014 totaled \$610,991 compared to June 30, 2013 operating expenses of \$584,353. This was an increase of \$26,638.

Non-operating revenues decreased by \$4,913.

The Tiber County Water District is the fiduciary for its employees' pension plans which are in trust with NTCA.

This annual report consists of a series of financial statements, which provide financial information about the activities and operations of the Tiber County Water District.

The Tiber County Water District did not adopt an operating budget for the 2013-2014 fiscal year.

Over the years, the Tiber County Water District Board has worked to minimize the water rate increases. However, Tiber County Water District Board increased the water rates on July 1, 2013.

CONTACTING THE TIBER COUNTY WATER DISTRICT'S MANAGEMENT

The Tiber County Water District had the financial report prepared in accordance with *Government Auditing Standards* to provide information to water users, lending institutions and governmental regulatory agencies. If you have any questions or need additional information contact Tiber County Water District, 276 Berland Road, Conrad, MT 59425. Telephone: 406-278-5682.



Douglas WILSON
and Company, PC

Officers and Directors
Tiber County Water District
Conrad, Montana

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

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Tiber County Water District as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 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 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 Tiber County Water District, as of June 30, 2014 and June 30, 2013, and the changes in financial position, and, cash flows thereof 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 and 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of the Tiber County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tiber County Water District's internal control over financial reporting and compliance.



Great Falls, Montana
September 30, 2014

TIBER COUNTY WATER DISTRICT

CONRAD, MONTANA

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013

	<u>6/30/14</u>	<u>6/30/13</u>
ASSETS		
Current Assets:		
Cash (Less Restricted Portion of \$201,668 and \$171,294)	\$ 108,710	\$ 156,866
Accounts Receivable	18,022	5,732
Inventory	8,609	8,351
Prepaid Water	1,663	1,663
Prepaid Insurance	1,687	3,018
Total Current Assets	<u>138,691</u>	<u>175,630</u>
Property, Plant and Equipment:		
Land	1,000	1,000
Building	9,500	9,500
Waterline	3,259,873	3,259,873
Equipment and Vehicles	607,160	607,160
Furniture and Fixtures	200	200
	<u>3,877,733</u>	<u>3,877,733</u>
Less: Accumulated Depreciation	<u>(3,425,064)</u>	<u>(3,277,702)</u>
Net Property, Plant and Equipment	<u>452,669</u>	<u>600,031</u>
Restricted Assets:		
Reserve Replacement Funds	<u>201,668</u>	<u>171,294</u>
Total Restricted Assets	<u>201,668</u>	<u>171,294</u>
Other Assets:		
Capital Credits	<u>61,326</u>	<u>61,406</u>
Total Other Assets	<u>61,326</u>	<u>61,406</u>
Total Assets	<u>\$ 854,354</u>	<u>\$ 1,008,361</u>

See accompanying notes to the financial statements.

TIBER COUNTY WATER DISTRICT

CONRAD, MONTANA

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013

	<u>6/30/14</u>	<u>6/30/13</u>
LIABILITIES, DEFERRED REVENUE, AND NET POSITION		
Deferred Revenue:		
Deferred Water Revenues	\$ 120,953	\$ 115,250
Net Position:		
Investment in Capital Assets	452,669	600,032
Restricted for:		
Replacement Funds	201,668	171,294
Unrestricted (Deficit)	79,064	121,785
Total Net Position	<u>733,401</u>	<u>893,111</u>
 Total Liabilities, Deferred Revenue, and Net Position	 <u>\$ 854,354</u>	 <u>\$ 1,008,361</u>

See accompanying notes to the financial statements.

TIBER COUNTY WATER DISTRICT

CONRAD, MONTANA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>6/30/14</u>	<u>6/30/13</u>
Operating Revenues:		
Water Sales	\$ 440,822	\$ 383,489
Sales - Materials and Supplies	4,841	33,962
Total Operating Revenues	<u>445,663</u>	<u>417,451</u>
Less Operating Expenses:		
Salaries	114,659	118,538
Payroll Taxes	10,496	10,948
Employee Benefits	39,622	39,532
Depreciation	147,363	143,852
Utilities	81,742	71,063
Repairs and Maintenance	88,362	56,664
Insurance - Liability and Fire	16,861	9,456
Vehicle Expenses	24,914	24,869
Accounting and Legal	21,265	21,815
Dues and Subscriptions	2,189	2,315
Office Supplies	1,295	5,455
Rents	3,370	3,778
Water Testing Expense	3,359	3,281
Secretarial Expense	500	650
Supplies	46,342	64,660
Telephone	5,975	4,353
Miscellaneous	2,484	2,901
Engineering Expense	193	223
Total Operating Expenses	<u>610,991</u>	<u>584,353</u>
Income (Loss) from Operations	<u>(165,328)</u>	<u>(166,902)</u>
Non-Operating Revenues (Expenses):		
Interest Earned on Investments	5,618	10,531
Interest Expense on Long-Term Debt	-	(1,233)
Change in Net Position	<u>(159,710)</u>	<u>(157,604)</u>
Net Position, Beginning of Year	<u>893,111</u>	<u>1,050,715</u>
Net Position, End of Year	<u><u>\$ 733,401</u></u>	<u><u>\$ 893,111</u></u>

See accompanying notes to the financial statements.

TIBER COUNTY WATER DISTRICT

CONRAD, MONTANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>6/30/14</u>	<u>6/30/13</u>
Cash Flows from Operating Activities:		
Receipts from Customers and Users	\$ 440,259	\$ 413,327
Payments to Suppliers	(220,257)	(182,709)
Payments to Employees	(164,777)	(169,018)
Payments for Administration Expenses	(61,762)	(65,870)
Payments for Insurance Premiums and Claims	<u>(16,861)</u>	<u>(9,456)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(23,398)</u>	<u>(13,726)</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Equipment	-	(37,150)
Principal Paid on Long-Term Debt	-	(68,351)
Interest Paid on Long-Term Debt	<u>-</u>	<u>(1,233)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>-</u>	<u>(106,734)</u>
Cash Flows from Investing Activities:		
Proceeds from Earnings on Investments	<u>5,615</u>	<u>10,532</u>
Net Cash Provided by (Used in) Investing Activities	<u>5,615</u>	<u>10,532</u>
Net (Decrease) Increase in Cash and Restricted Cash	(17,783)	(109,928)
Cash and Restricted Cash at Beginning of the Year	<u>328,160</u>	<u>438,088</u>
Cash and Restricted Cash at End of the Year	<u>\$ 310,377</u>	<u>\$ 328,160</u>
Reconciliation of Operating Income (Loss) to Net Cash (Used in) Provided by Operating Activities:		
Income (Loss) from Operations	\$ (165,328)	\$ (166,902)
Adjustment to Reconcile Operating Income (Loss)		
Depreciation	147,363	143,852
Changes in Assets and Liabilities		
(Increase) Decrease in Receivables	(12,289)	(89)
(Increase) Decrease in Inventory	(258)	13,182
(Increase) Decrease in Prepaid Expenses	1,331	(147)
(Increase) Decrease in Capital Credits	80	(2,069)
Increase (Decrease) in Deferred Revenues	5,703	(1,016)
Increase (Decrease) in Payroll Taxes Accrued	<u>-</u>	<u>(537)</u>
Total Adjustments	<u>141,930</u>	<u>153,176</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (23,398)</u>	<u>\$ (13,726)</u>

See accompanying notes to the financial statements

TIBER COUNTY WATER DISTRICT

CONRAD, MONTANA

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity - Tiber County Water District (the Water District) was incorporated in 1974, under the provisions of Section 16-4505 of the revised codes of Montana. The Water District was incorporated as a county water district to include portions of the counties of Teton, Toole, Pondera, Chouteau and Liberty. The general purpose for which the Water District was formed is to construct, operate and maintain rural water distribution in those counties and to sell and distribute water to its users. The powers which it may exercise are set forth in Sections 16-4501 through 16-4535 of the revised codes of Montana, 1947, as amended.

In evaluating how to define the reporting entity for the Water District, for financial reporting purposes, management applied the standards set forth in GASB 14.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

Based on the foregoing criteria, only the operations of the Water District are included in the Water District's financial reporting.

Basis of Accounting - The Water District has adopted the accrual method of accounting to record revenues and expenses. Therefore, revenues are recognized when earned and expenses are recognized when incurred without regard to time or receipt of payment. Customers prepay water sales for up to a one-year period and their accounts are charged as water is provided. Amounts prepaid and not used are reflected as deferred water revenues.

Operating revenues and expenses generally arise from operations of the water system. All other revenues and expenses are classified as non-operating.

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

The Water District is authorized to invest excess cash in the following investments authorized by the State of Montana: time or savings deposits with a bank, savings and loan association, or credit union located in the state; or placed in repurchase agreements that are fully collateralized by eligible securities. It may also invest in direct obligations of the U.S. Government and the Montana State Unified Investment Program.

Investments - The Water District determined the fair value of its investments through the application of Accounting Standards Codification (ASC) No. 820 *Fair Value Measurements*. The Water District carries investments at their fair values in the statement of financial position.

As required by ASC No. 820, which provides a framework for measuring fair value under GAAP, investments are classified within the level of lowest significant input considered in determining fair value. ASC No. 820 also establishes a fair value hierarchy, which prioritizes the valuation of inputs into three broad levels as described below:

Level 1 – quoted prices in active markets as of the measurement date

Level 2 – quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability

Level 3 – significant unobservable prices or inputs where there is little or no market activity for the asset or liability at the measurement date

Substantially all of the investments held by the Water District were valued using Level 3 inputs. The Water District's investments are summarized in Note 6.

Property, Plant and Equipment - Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings	20 years
Waterline	40 years
Equipment And Vehicles	3-8 years
Office Equipment	5-10 years

Inventory - The inventory consists of supplies maintained for repairs and maintenance to the waterline. The inventory reflects the cost of the original supplies placed into inventory.

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

Accounts Receivable - These amounts are due from water customers of the Water District. The Water District uses the allowance method for bad debts. Management believes all accounts receivable to be collectible.

Income Tax - The Water District is a tax-exempt organization per IRC regulation 115(a) and is not required to file Form 990.

Net Position - Net Position represents the difference between assets and liabilities and are classified into three categories:

- Net Investment in Capital Assets Component of Net Position – This reflects the net assets of the Water District that are invested in capital assets, net of related debt. This indicates that these net assets are not accessible for other purposes.
- Restricted Component of Net Position – This represents the net assets that are not accessible for general use because its use is subject to restrictions enforceable by third parties. A \$1,500,000 federal grant previously recorded in net assets was combined into this account as of June 30, 2007.
- Unrestricted Component of Net Position – This represents the net assets that are available for general use.

When both restricted and unrestricted resources are available for use, it is the Water District's policy to use restricted resources first, then unrestricted resources as they are needed.

Subsequent Events - In accordance with ASC No. 855, the Water District evaluated subsequent events through September 30, 2014, which is the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2: CASH:

Cash accounts consisted of the following:

	<u>6/30/14</u>	<u>6/30/13</u>
Cash in Bank - Checking - Operations and Maintenance	\$ 11,995	\$ 20,180
Cash in Bank - Money Market Account	298,383	307,980
Total Cash	310,378	328,160
Less: Amounts Allocated to Restricted Assets	(201,668)	(171,294)
Total Unrestricted Cash Available	<u>\$ 108,710</u>	<u>\$ 156,866</u>

For the years ended June 30, 2014 and 2013, the Water District had no uninsured deposits.

NOTE 3: RESTRICTED ASSETS:

The Board of Directors established a reserve for the replacement of the water system equipment. For fiscal years ending June 30, 2014 and 2013, a total amount of \$30,374 was transferred during each of the two years.

To fund the reserve, the Reserve Replacement Funds are transferred from the Operating Fund.

	<u>6/30/14</u>	<u>6/30/13</u>
Reserve Replacement	<u>\$ 201,668</u>	<u>\$ 171,294</u>

Cash and investments for the amount of the replacement fund are restricted. These restricted funds can be used only for water system equipment replacement.

Total Restricted Funds

	<u>6/30/14</u>	<u>6/30/13</u>
Cash	<u>\$ 201,668</u>	<u>\$ 171,294</u>

NOTE 4: PLANT, PROPERTY AND EQUIPMENT:

The Water District's plant, property and equipment are composed of the following:

June 30, 2014	<u>Balance 06/30/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/14</u>
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Building	9,500	-	-	9,500
Water Line	3,259,873	-	-	3,259,873
Equipment and Vehicles	607,160	-	-	607,160
Furniture and Fixtures	200	-	-	200
	<u>3,877,733</u>	-	-	<u>3,877,733</u>
Less: Accumulated Depreciation	<u>(3,277,702)</u>	<u>(147,362)</u>	-	<u>(3,425,064)</u>
	<u>\$ 600,031</u>	<u>\$ (147,362)</u>	<u>\$ -</u>	<u>\$ 452,669</u>

June 30, 2013	<u>Balance 06/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/13</u>
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Building	9,500	-	-	9,500
Water Line	3,259,873	-	-	3,259,873
Equipment and Vehicles	596,811	37,149	26,800	607,160
Furniture and Fixtures	2,754	-	2,554	200
	<u>3,869,938</u>	<u>37,149</u>	<u>29,354</u>	<u>3,877,733</u>
Less: Accumulated Depreciation	<u>(3,163,204)</u>	<u>(143,852)</u>	<u>(29,354)</u>	<u>(3,277,702)</u>
	<u>\$ 706,734</u>	<u>\$ (106,703)</u>	<u>\$ -</u>	<u>\$ 600,031</u>

NOTE 5: RETIREMENT PLAN:

The Water District participates in a retirement plan administered by the National Telephone Cooperative Association. This is a defined contribution type of plan with a fixed level of contributions made, and with benefits based upon the total amount of contributions, plus or minus investment returns. Because the plan is a money purchase plan, the contributions and investment returns are not tied to the profitability of the Water District. The Water District contributes 5% of the employees' gross salary each quarter. For the years ended June 30, 2014 and 2013, the Water District had total pension costs of \$3,629 and \$4,319, respectively.

NOTE 6: INVESTMENTS:

The Water District's investments in capital credits were valued using level 3 inputs. Management has determined cost approximates market value for these investments. The increases from the previous year consist of allocated patronage equity from the organizations.

June 30, 2014

	Investments Valued Using			Total
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Capital Credits	\$ -	\$ -	\$ 61,326	\$ 61,326
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,326</u>	<u>\$ 61,326</u>

June 30, 2013

	Investments Valued Using			Total
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Capital Credits	\$ -	\$ -	\$ 61,406	\$ 61,406
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,406</u>	<u>\$ 61,406</u>

June 30, 2014

	Change in Level 3 Investments		
	Balance as of 06/30/13	Patronage Capital	Balance as of 06/30/14
Capital Credits	\$ 61,406	\$ (80)	\$ 61,326
	<u>\$ 61,406</u>	<u>\$ (80)</u>	<u>\$ 61,326</u>

June 30, 2013

	Change in Level 3 Investments		
	Balance as of 06/30/12	Patronage Capital	Balance as of 06/30/13
Capital Credits	\$ 59,337	\$ 2,069	\$ 61,406
	<u>\$ 59,337</u>	<u>\$ 2,069</u>	<u>\$ 61,406</u>

There are no legal provisions applicable to the investment of funds by the Water District.

NOTE 7: INSURANCE:

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial coverage for the past three years.

NOTE 8: CONCENTRATIONS OF CREDIT AND MARKET RISK:

Financial instruments that potentially expose the Water District to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited. The Water District has not experienced any losses on its cash equivalents. The Water District's investments do not represent significant concentrations of market risk since the Water District's investment portfolio is adequately diversified among issuers.

The Water District grants credit to its customers, located in North Central Montana, during the normal course of business. The Water District monitors customer account activities and takes appropriate action when an account becomes delinquent.



Douglas WILSON
and Company, PC

To the Board of Directors
Tiber County Water District
Conrad, Montana

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

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

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

We have audited, in accordance with 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 business-type activities of Tiber County Water District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Tiber County Water District's basic financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tiber County Water District's internal control over financial reporting as a basis for designing our auditing procedures 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 Tiber County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tiber County Water District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Tiber County Water District, in a separate letter dated September 30, 2014.

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 internal 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

September 30, 2014

TIBER COUNTY WATER DISTRICT

CONRAD, MONTANA

**STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

None



Douglas **WILSON**
and Company, PC

September 30, 2014

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

Board of Directors
Tiber County Water District
P.O. Box 787
Conrad, MT 59425

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

We have audited the financial statements of the business-type activities of Tiber County Water District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies

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

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are management's estimate of depreciation of fixed assets, which is based on the estimated useful life of an asset, and the estimate of allowance for uncollectible accounts receivable. We evaluated the key factors and assumptions used to develop the above mentioned estimates in determining the reasonableness of the estimate in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were detected during the audit.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

Statement of Auditing Standards (SAS) #115 Disclosures

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Segregation of Duties (Customer Payments) – During our audit we noted that the accounting assistant has the responsibility to receive customer payments from the mail, post the payments to the customer accounts, prepare the deposit slip, and reconcile the bank deposit receipt to the payment posting report. To maintain strong internal control, it is suggested that the record keeping and cash handling duties be properly segregated and not vested in one individual.

Accrual Basis Method of Accounting – During the current period we noted Accounts Payable/Accrued Liabilities were not recorded using the accrual basis of accounting. This is not considered a deficiency in financial reporting. We recommend the accrual basis of accounting be used to record Accounts Payable / Accrued Liabilities in the preparation of monthly financial statements. This will more closely measure revenues and expenses in the periods earned or incurred.

This communication is intended solely for the information and use of management, the board of directors, or others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



DOUGLAS WILSON & COMPANY, P.C.