

**TRI-COUNTY WATER  
DISTRICT**

**DUTTON, MONTANA**

**FINANCIAL STATEMENTS**

**AS OF**

**JUNE 30, 2014 AND 2013**

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***Douglas Wilson & Company, P.C.***

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**WILSON**

To the Board of Directors  
Tri-County Water District  
Dutton, Montana

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

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

## INDEPENDENT AUDITOR'S REPORT

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-County Water District, as of June 30, 2014 and 2013, and the changes in financial position and, where applicable, 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 5 to 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 any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014 on our consideration of Tri-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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Great Falls, Montana  
September 18, 2014

## TRI-COUNTY WATER DISTRICT

### DUTTON, MONTANA

#### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

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This section of the Tri-County Water District's annual financial report presents management's analysis of the District's financial performance as of and for the years ended June 30, 2014 and 2013. Readers should review this section in conjunction with the financial statements and notes to financial statements to enhance their understanding of the District's financial performance.

#### FINANCIAL HIGHLIGHTS

Key financial highlights of the District as of and for the years ended June 30, 2014 and 2013, are as follows:

- 1) Total assets increased \$30,242 and \$69,056, respectively.
- 2) Operating expenses increased \$46,572 and increased \$1,509, respectively.
- 3) Operating revenues, consisting of charges for services, decreased \$400 and increased \$20,070 respectively.
- 4) Non-operating revenues, consisting of grants, interest, and lease income increased \$3,825 and \$32,560, respectively.
- 5) Change in net position amounted to \$21,685 and \$64,832, respectively.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two parts: management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include a statement of net position, a statement of revenues and expenditures and changes in fund net position, a statement of cash flows, and notes to financial statements. The District is categorized as a special-purpose entity engaged in business-type activities. As the District utilizes the accrual basis of accounting, no difference in presentation exists between government-wide and fund financial reporting, as described in GASB Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*. Therefore, the statement of revenues and expenditures and changes in fund net position is presented in a single format appropriate for government-wide financial statements. See Note 1 of the notes to financial statements for further discussion of the District's basis of accounting.

## FINANCIAL ANALYSIS

The statement of net position reflects all of the District's assets and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the District is improving or deteriorating.

	<u>6/30/14</u>	<u>6/30/13</u>	<u>6/30/12</u>
<b>Assets</b>			
Current	\$ 1,824,602	\$ 1,690,315	\$ 1,517,962
Capital	1,071,854	1,174,935	1,278,017
Other	1,502	2,466	2,681
Total Assets	<u>\$ 2,897,958</u>	<u>\$ 2,867,716</u>	<u>\$ 2,798,660</u>
<b>Liabilities</b>			
Current	\$ 22,836	\$ 14,279	\$ 10,055
Total Current Liabilities	<u>22,836</u>	<u>14,279</u>	<u>10,055</u>
<b>Net Postion</b>			
Net Investment in Capital Assets	1,071,854	1,174,935	1,278,017
Unrestricted	1,803,268	1,678,502	1,510,588
Total Net Position	<u>2,875,122</u>	<u>2,853,437</u>	<u>2,788,605</u>
 Total Liabilities and Net Position	 <u>\$ 2,897,958</u>	 <u>\$ 2,867,716</u>	 <u>\$ 2,798,660</u>

Significant differences in the balance sheet are as follows:

A major system upgrade was completed in the fiscal year ended June 30, 2010. Since then, the District has been able to invest excess cash flow into interest bearing bonds and savings accounts. The cash balances decreased \$51,628 and increased \$42,048, respectively.

Investments increased \$185,852 and \$131,247, respectively.

The following information summarizes the changes in net position during fiscal years ended June 30, 2014 and 2013:

	<u>6/30/14</u>	<u>6/30/13</u>	<u>6/30/12</u>
Operating Revenue	\$ 163,710	\$ 164,110	\$ 144,040
Operating Expenses	229,492	182,920	181,411
Operating Income	(65,782)	(18,810)	(37,371)
Nonoperating Revenue (Expense)	87,467	83,642	51,082
Increase in Net Position	21,685	64,832	13,711
Net Position, Beginning of the Year	2,853,437	2,788,605	2,774,894
Net Position, end of year	<u>\$ 2,875,122</u>	<u>\$ 2,853,437</u>	<u>\$ 2,788,605</u>

Significant changes in the statement of revenue and expenditures and changes in fund net position are as follows:

Effective January 1, 2012, the District implemented a \$20 per month rate increase. The District also implemented fees for water transfers to help offset the costs incurred by the District. Non-operating revenues increased \$3,825 and \$32,560 due to the cash flow that has been invested in interest bearing bonds and savings and the increase in fair market value of the bonds.

### **CAPITAL ASSETS**

Capital assets, consisting of the original water system and new water system, decreased \$103,081 and \$103,082, respectively. These decreases were due to depreciation expense in each year.

### **CURRENTLY KNOWN FACTS AND/OR CONDITIONS/EXPECTATIONS**

The Board of Directors is composed of District water users. The Board has recently completed an engineering study and applied for grants in anticipation of replacing the water tank and making other water system improvements. The results of the grant applications will be announced in the spring of 2015. Even with the anticipated grant money, the District will also spend a significant amount of its reserves to complete these projects. The Board is taking a pro-active approach in looking out for the long-term welfare of the District. The replacement cost of the water system is estimated to be in the range of \$13-15 million. The Board feels it is necessary to have sufficient reserves should significant upgrades or repairs be needed.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide a general overview of the District's finances for all those with an interest. If you have any questions concerning any of the information provided in the report or would like to request additional information, contact Dale Grabofsky, Tri-County Water District, P.O. Box 635, Great Falls, MT 59403.

TRI-COUNTY WATER DISTRICT

DUTTON, MONTANA

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

	<u>6/30/14</u>	<u>6/30/13</u>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 120,972	\$ 172,600
Investments	1,701,710	1,515,858
Accounts Receivable	1,920	1,857
Total Current Assets	<u>1,824,602</u>	<u>1,690,315</u>
Capital Assets		
Property Plant and Equipment - Net of Accumulated Depreciation	1,071,854	1,174,935
	<u>1,071,854</u>	<u>1,174,935</u>
Other Assets		
Organization Costs (Net of Amortization)	1,502	1,716
Deposits	-	750
	<u>1,502</u>	<u>2,466</u>
 Total Assets	 <u>2,897,958</u>	 <u>2,867,716</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	14,895	6,897
Accrued Liabilities	849	946
Advances from Members	7,092	6,436
Total Current Liabilities	<u>22,836</u>	<u>14,279</u>
 Total Liabilities	 <u>22,836</u>	 <u>14,279</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	1,071,854	1,174,935
Unrestricted	1,803,268	1,678,502
 Total Net Position	 <u>\$ 2,875,122</u>	 <u>\$ 2,853,437</u>

See accompanying notes to financial statements.

TRI-COUNTY WATER DISTRICT

DUTTON, MONTANA

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

	<u>6/30/14</u>	<u>6/30/13</u>
Operating Revenue		
Charges for Services	\$ 163,560	\$ 163,560
Hook-up Fees	150	550
Total Operating Revenue	<u>163,710</u>	<u>164,110</u>
Operating Expenses		
Accounting and Audit	10,240	14,440
Advertising	-	45
Amortization	214	215
Depreciation	103,081	103,082
Directors' Fees	3,120	2,520
Insurance	3,468	3,330
Licenses And Fees	954	544
Office	2,125	1,473
Professional Services	49,431	-
Rent	1,676	1,603
Repairs And Maintenance	7,805	7,373
Salaries	18,602	18,181
Taxes - Payroll And Property	3,799	3,897
Travel	13,882	13,512
Utilities	10,189	11,525
Water Analysis	906	1,180
Total Operating Expenses	<u>229,492</u>	<u>182,920</u>
Change in Net Position from Operations	<u>(65,782)</u>	<u>(18,810)</u>
Nonoperating Revenue (Expense)		
RRG Revenue	5,000	-
Interest Income	52,618	52,666
Lease Income	12,376	10,920
Other Income	162	-
Change In Fair Value of Investments	12,891	13,728
Gain (Loss) on Sale of Investments	4,420	6,328
Total Nonoperating Revenue (Expense)	<u>87,467</u>	<u>83,642</u>
Change in Net Position	21,685	64,832
Net Position, Beginning of Year	<u>2,853,437</u>	<u>2,788,605</u>
Net Position, End of Year	<u><b>\$ 2,875,122</b></u>	<u><b>\$ 2,853,437</b></u>

See accompanying notes to financial statements.

TRI-COUNTY WATER DISTRICT

DUTTON, MONTANA

STATEMENTS OF CASH FLOWS  
AS OF JUNE 30, 2014 AND 2013

	6/30/14	6/30/13
Cash Flows from Operating Activities		
Cash Receipts from Customers	\$ 165,053	\$ 167,974
Cash Payments to Employees	(18,699)	(18,090)
Cash Payments for Administrative Expenditures	(99,597)	(60,231)
Net Cash Provided by Operating Activities	<u>46,757</u>	<u>89,653</u>
Cash Flows from Investing Activities		
Sale (Purchases) of Investments	(172,961)	(117,519)
Gain/Loss on Sale of Investments	4,420	6,328
Interest Income	52,618	52,666
Cash Proceeds from Land Lease	12,376	10,920
Other Income	162	-
Net Cash Provided (Used) by Investing Activities	<u>(103,385)</u>	<u>(47,605)</u>
Cash Flows from Capital and Related Financing Activities:		
Grant Revenue	5,000	-
Net Cash Provided by Capital and Related Financing Activities	<u>5,000</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(51,628)	42,048
Cash and Cash Equivalents, Beginning of Year	172,600	130,552
Cash and Cash Equivalents, End of Year	<u>\$ 120,972</u>	<u>\$ 172,600</u>
Reconciliation of Net Position to Net Cash Provided (Used) by Operating Activities		
Change in Net Position from Operations	\$ (65,782)	\$ (18,810)
Adjustments to Reconcile Decrease in Net Position to Net Cash Provided (Used) by Operating Activities		
Depreciation	103,081	103,082
Amortization of Fees	214	215
(Increase) Decrease in Accounts Receivable	(63)	942
(Increase) Decrease in Other Assets	750	-
Increase (Decrease) in Accounts Payable	7,998	1,211
Increase (Decrease) in Accrued Liabilities	(97)	91
Increase (Decrease) Advances from Members	656	2,922
Net Cash Provided (Used) by Operating Activities	<u>\$ 46,757</u>	<u>\$ 89,653</u>

SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES

Change in Fair Market Value of Investments	<u>\$ 12,891</u>	<u>\$ 13,728</u>
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See accompanying notes to financial statements.

TRI-COUNTY WATER DISTRICT

DUTTON, MONTANA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

- A. Nature of Operations** - Tri-County Water District was voted into existence for the purpose of constructing and operating a rural water system. This water system services users in Teton, Chouteau, and Cascade Counties. The system was first placed in service on September 1, 1982 and updated on August 1, 2009. In accordance with state law, the District is governed by an eight-person board of directors consisting of five elected directors and three directors appointed by the county commissioners representing the counties within the District.
- B. Reporting Entity** - The District is a primary government, meeting the criteria embodied in GASB 14, *The Financial Reporting Entity* of a separately elected governing body, having a separate legal standing and being fiscally independent. There are no component units for which the District's board is financially accountable.

The District adopted the provisions of Government Accounting Standards Board statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and statement 65, *Items Previously Reported as Assets and Liabilities*. Statement 63 provides guidance for deferred outflows of resources and deferred inflows of resources. Statement 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

- C. Basis of presentation** - The District is characterized under GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis* - for State and Local Governments as a special-purpose entity engaged only in business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties. As such, only those financial statements required for enterprise funds under GASB 34 are included in the basic financial statements. Those basic financial statements, the statement of net position, statement of revenues, expenses, and changes in fund net position, and statement of cash flows - are presented in a format defined under GASB 34 as fund financial statements.
- D. Fund accounting** - The activity of the District is accounted for within a single fund, treated for financial reporting purposes as an enterprise fund. An enterprise fund accounts for operations that are financed and operated in a manner similar to private business enterprises, or for operations where periodic determination of revenues, expenses, and net income is considered desirable. An enterprise fund accounts for services rendered to the general public on a user charge basis.

- E. Measurement Focus/Basis of Accounting** - The basic financial statements of the District are reported using the economic resources measurement focus under the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.
- F. Revenue and Expense Classification** - The District distinguishes operating revenues and expenses from non-operating items in preparation of these financial statements. Operating revenues and expenses generally result from providing water services in connection with the District's principal on-going operations. The principal operating revenues are generated from water user fees. The District's operating expenses include labor, materials, supplies, utilities, insurance, and other expenses related to the delivery of water services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*.
- G. Investments** - The District's Investment Policy allows funds to be invested in FDIC issued certificates of deposit, U.S. government obligations, U.S. government agency obligations and investment grade corporate notes and bonds. The interest will be reinvested unless otherwise needed. The District's investments consist of time deposits in a state or national bank, building or loan association or credit union located in the county, city or town of the District, and corporate bonds held by investment firms in the name of the District. Under generally accepted accounting principles, the District is required to comply with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. This pronouncement requires governmental entities to record certain investments at fair value, rather than historical cost. The fair value of investments at June 30, 2014 and 2013 is based on quoted market prices. The fair value of investments at June 30, 2014 is \$47,656 more than cost and at June 30, 2013 was \$34,765 more than cost.
- H. Accounts Receivable** - Accounts receivable at June 30, 2014 and 2013 represent amounts due from users of the District's water system. Users of the system are charged a flat rate per month for their use. An allowance for uncollectible accounts is not maintained by the District. Bad debts are expensed using the direct write-off method. Although this method is not in accordance with generally accepted accounting principles, the difference in reporting amounts between the direct charge-off method and using an allowance method is immaterial.
- I. Capital Assets** - Property, plant, and equipment of the water system are recorded at historical cost. Depreciation is computed using the straight-line method with an estimated life of forty (40) years.
- J. Organization Costs** - Amortization is provided over the estimated useful lives of the assets. The organization expenses of the District are being amortized over the estimated life of the water system (40 years).
- K. Statements of Cash Flows** - For purposes of the statements of cash flows the District considers all cash and certificates of deposit of the District to be cash equivalents.

- L. Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- M. Net Position** - During the 2013 year, the District implemented GASB Statement No. 63, resulting in new reporting terminology for net position. GASB Statement No. 34 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:
- a. **Net Investment in Capital Assets** - This reflects the net position of the District that are invested in capital assets, net of related debt. This indicates that amounts are not accessible for other purposes.
  - b. **Restricted** - This represents net position that is not accessible for general use because its use is subject to restrictions enforceable by third parties.
  - c. **Unrestricted** - This represents the net position that does not meet the definition of “restricted” or “net investment in capital assets” and is available for general use.

The District will first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**NOTE 2: CASH AND INVESTMENTS:**

Cash and investments June 30, 2014 and 2013 consist of the following:

	<u>6/30/14</u>	<u>6/30/13</u>
Cash	\$ 120,972	\$ 172,600
Investments	1,701,710	1,515,858
	<u>\$ 1,822,682</u>	<u>\$ 1,688,458</u>

The composition of cash and investments on June 30, 2014 and 2013, is as follows:

	<u>6/30/14</u>	<u>6/30/13</u>
Demand Deposit	\$ 20,972	\$ 47,600
Certificates of Deposit	100,000	125,000
Equity Securities	-	-
Corporate Bonds	846,566	776,660
Taxable Fixed Income	855,144	739,198
	<u>\$ 1,822,682</u>	<u>\$ 1,688,458</u>

**Valuation of Investments at Fair Market Value** - The net increase in the fair market value of investments during the year ended June 30, 2014 and 2013 was \$12,891 and \$13,728, respectively. This amount increases the amount of investments reported on the statement of net position.

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of or guaranteed by the U.S. government do not require disclosure of credit quality. The certificates of deposit are all fully insured by FDIC coverage. The other investments are not rated.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a formal investment policy limiting the amount the District may invest in anyone issuer. As there is minimal credit risk associated with investments issued or guaranteed by the U.S. government, no disclosure of concentration of credit risk is required for these investments.

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of a bank failure, the local government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

The carrying value of demand deposits and certificates of deposit at June 30, 2014 and 2013, was \$120,972 and \$172,600, respectively, while the bank balance and investment balances were \$120,179 and \$172,149, respectively. Of the bank and investment balances, the amounts covered by Federal Depository Insurance Corporation for the years ended June 30, 2014 and 2013, totaled \$116,601 and \$162,061, respectively, and the amounts uninsured and uncollateralized totaled \$0 as of June 30, 2014 and 2013.

**NOTE 3: CAPITAL ASSETS:**

**Property And Equipment** - A summary of the changes in property and equipment during the year ended June 30, 2014 and 2013 is as follows:

	<u>Balance 6/30/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/14</u>
Capital Assets Not Being Depreciated:				
Land	\$ 113,600	\$ -	\$ -	\$ 113,600
Capital Assets Being Depreciated:				
Water System	<u>2,666,218</u>	<u>-</u>	<u>-</u>	<u>2,666,218</u>
Total Capital Assets	2,779,818	-	-	2,779,818
Less Accumulated Depreciation:				
Water System	<u>(1,604,883)</u>	<u>(103,081)</u>	<u>-</u>	<u>(1,707,964)</u>
Capital Assets Being Depreciated, Net	<u>1,061,335</u>	<u>(103,081)</u>	<u>-</u>	<u>958,254</u>
Capital Assets, Net	<u><u>\$ 1,174,935</u></u>	<u><u>\$ (103,081)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,071,854</u></u>

	<u>Balance 6/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/13</u>
Capital Assets Not Being Depreciated:				
Land	\$ 113,600	\$ -	\$ -	\$ 113,600
Capital Assets Being Depreciated:				
Water System	<u>2,666,218</u>	<u>-</u>	<u>-</u>	<u>2,666,218</u>
Total Capital Assets	2,779,818	-	-	2,779,818
Less Accumulated Depreciation:				
Water System	<u>(1,501,801)</u>	<u>(103,082)</u>	<u>-</u>	<u>(1,604,883)</u>
Capital Assets Being Depreciated, Net	<u>1,164,417</u>	<u>(103,082)</u>	<u>-</u>	<u>1,061,335</u>
Capital Assets, Net	<u><u>\$ 1,278,017</u></u>	<u><u>\$ (103,082)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,174,935</u></u>

**NOTE 4: PROPERTY LEASED TO OTHERS:**

The District entered into a farm lease agreement on November 15, 2003. The lease shall renew automatically for each year until November 30, 2010. The lessee agreed to pay the District \$9,464 annually during the term of the lease. If the lessee is not in default of the lease and has complied with the terms and conditions and upon the end of the initial seven year lease, the lease will automatically renew for an additional seven years with the same terms and conditions. However, the rental rate for each year of the lease shall be based upon the prevailing rental rate per acre of irrigated land, and this prevailing rental rate shall be fixed by the District for the seven year term of the renewal lease. The Board adjusted the rates in September of 2012, to \$85 per acre, effective May 2013. The lease rate for the renewal period is \$12,376 annually as follows:

November 30, 2015	<u><u>\$ 12,376</u></u>
November 30, 2016	<u><u>\$ 12,376</u></u>
November 30, 2017	<u><u>\$ 12,376</u></u>

**NOTE 5: UNRESTRICTED NET ASSETS:**

Unrestricted net assets at June 30, 2014 and 2013 included amounts identified on the District's financial records as:

	<u>6/30/14</u>	<u>6/30/13</u>
Contributions in Aid of Construction:		
Members	\$ 285,324	\$ 285,324
Government	613,500	613,500
Membership Fees	10,055	10,055

**Contributions in Aid of Construction - Members** - Monthly user charges on members were treated as "contributions in aid of construction - members" until the user received his use of water. All charges after the operational date is income to the District.

**Contributions in Aid of Construction - Government** – Grants were received for the original construction of the water system and during the construction project that took place in 2009 and 2010. Grant sources include the Treasure State Endowment Program (TSEP) and the Department of Natural Resources (RRG Program).

**Membership Fees** - Users of the water system are required to pay a one-time membership fee to the District to become eligible for water service. Amounts paid to the District for membership fees totaled \$10,055 each year, and are included in the unrestricted net asset balance at June 30, 2014 and 2013.

**NOTE 6: RISK MANAGEMENT:**

The District is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. 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 property and content damage and professional liabilities. The District participates in the State Fund for workers' compensation coverage.

Coverage limits and the deductibles on the commercial policies and the State Fund workers' compensation have stayed relatively constant for the last several years. Settled claims resulting from these risks have not exceeded insurance coverage.



**WILSON**

To the Board of Directors  
Tri-County Water District  
Dutton, Montana

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tri-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 Tri-County Water District's basic financial statements, and have issued our report thereon dated September 18, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Tri-County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-County Water 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 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 Tri-County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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



Great Falls, Montana  
September 18, 2014

**TRI-COUNTY WATER DISTRICT**

**DUTTON, MONTANA**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**SUMMARY OF AUDITORS' RESULTS:**

There were no audit findings, deficiencies, or issues of noncompliance requiring action by Tri-County Water District in either year ending June 30, 2014 and 2013.

**TRI-COUNTY WATER DISTRICT**

**DUTTON, MONTANA**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014 AND 2013**

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**FINDINGS FOR FISCAL YEARS 2012 AND 2011:**

The District did not have any prior year audit findings requiring action by Tri-County Water District.