

BIGFORK COUNTY WATER AND SEWER DISTRICT

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BIGFORK COUNTY WATER AND SEWER DISTRICT

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-7
Independent Auditor's Report	8-9
Financial Statements	
Statement of Net Position – Proprietary Fund Types	10
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund Types	11
Statement of Cash Flows – Proprietary Fund Types	12
Notes to Financial Statements	13-26
Required Supplementary Information	
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	27
Independent Auditor's Report on Compliance and 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	28-30
Report on Prior Audit Recommendations	31

BIGFORK COUNTY WATER AND SEWER DISTRICT

FLATHEAD COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

DISTRICT BOARD

Eugene L. Helberg
Michael Houtonen
Robert Hand
Mark Langlois
Robert Keenan

Board President
Vice President
Board Member
Board Member
Board Member

COUNTY OFFICIALS

M. Richard Gebhardt
Julie Spencer

District Attorney
District Manager

BIGFORK COUNTY WATER AND SEWER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The Bigfork County Water and Sewer District (the District) submits this discussion and analysis of the District's financial activities for the fiscal year ending June 30, 2014. In addition to this overview and analysis based on currently known facts, decisions and conditions, the District would encourage readers to consider the information presented in the District's letter of transmittal and the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's net assets decreased by \$63,403 in fiscal year 2014.
- The District's total liabilities decreased by \$558,443 in fiscal year 2014.
- The District's operating revenues exceeded the operating expenses.
- The District's revenues increased during fiscal year 2014. Charges for services increased slightly. Income from new connection fees and contributed capital from new developments are increasing as the economy improves.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the District as a whole as well as the two enterprise funds. These statements tell how the governmental services were financed in the short term as well as what remains for future spending.

REPORTING THE DISTRICT AS A WHOLE

- This is the tenth year that the District has presented its financial statements under the reporting model required by GASB 34.
- This District's financial statements use the accrual basis of accounting, the same basis of accounting used by most private-sector businesses.
- The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for a specific activity.

The Balance Sheet

The Balance Sheet presents information about the District's assets and liabilities. The difference between assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may provide an indication of whether the District's financial position is improving or deteriorating. (See Last 3 Years Balance Sheet Comparison).

The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the types of revenue as well as how funds were spent in the course of doing business. The statement is split between the Water and Sewer funds and also gives a total for the two funds. (See the Notes to the Financial Statements).

Reporting the District's Most Significant Funds

The District has two enterprise funds--water and sewer. Revenues and expenses for the two funds are segregated because not all customers use both water and sewer services. Both funds have positive net assets. Operating Revenues for both funds exceed Operating Expenses providing funds for minor capital repairs and replacements without incurring additional debt. Major capital repairs and replacements will still be funded by grants and loans.

REPORTING THE DISTRICT'S FIDUCIARY RESPONSIBILITIES

The District's Funds

The District maintains bank accounts that are insured by FDIC. Additional funds are invested in repurchase agreements, which are secured by assets per state statutes. Including \$383,843 set aside in Debt Reserve Funds, the District had \$1,437,011 available cash on June 30, 2014. (See Last 3 Years Balance Sheet Comparison).

Capital Asset and Debt Administration

The District's investment in capital assets net of accumulated depreciation as of June 30, 2014 was \$30,570,056. In addition, the District owns land historically valued at \$1,101,921.

Additional expenses for the Grand Drive Water Tank Painting were added to District assets during FY 2014. Water infrastructure for the Assisted Living Water Main Extension on Coverdell Road, and Sewer infrastructure for the Equalization Valves and Control Project were added as well. This infrastructure will increase future depreciation expenses.

Construction in progress was valued at \$1,305,330 at the end for fiscal year 2014 for projects under construction but not added to capital assets at year-end. These included the Wastewater PER Survey & Mapping Project, the Amended 2012 Wastewater PER, the Outfall Upgrade Project, the Downtown Bay Sewer Project, the Sludge Farm Water Rights, the Eagle Bend Water Tank Abandonment, the New Water Tank Site Project, the 2010 Water PER Survey & Mapping Project, the Ramsfield Well and Transmission Main Project, and the Service Line to Meter Pit Replacement Project.

The District had total debts outstanding as of June 30, 2014 in the amount of \$9,494,430. This is \$557,091 less than fiscal year 2013. (See Last 3 Years Balance Sheet Comparison).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Next year's budget has increases for operating revenues and expenses. Charges for Services increased due to a 5% water and sewer rate increase. The District has been undergoing extensive repairs to its aging water and sewer infrastructure. Water mains, meters, pumps and other equipment are being replaced and upgraded in an effort to control costs. More efficient methods of meter reading, billing and monitoring equipment are being instituted in order to minimize increasing labor costs in the long-term. Labor costs will increase in the short-term as these labor saving devices are being installed.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District Manager, Julie Spencer, at 108 Harbor Heights Blvd., PO Box 1108, Bigfork, Montana 59911

LAST THREE YEARS COMPARISON

BALANCE SHEET

	FISCAL YEAR	FISCAL YEAR	FISCAL YEAR
ASSETS	2012	2013	2014
CURRENT ASSETS:			
CASH AND INVESTMENTS	\$907,441	\$1,260,083	\$1,053,168
TAXES/ASSESSMENTS RECEIVABLE, NET	\$158,887	\$137,890	\$154,456
SPECIAL ASSESSMENTS RECEIVABLE DEFERRED		\$8,282,642	\$7,790,134
ACCOUNTS RECEIVABLE, NET	\$104,583	\$115,613	\$121,794
DUE FROM OTHER GOVERNMENTS	\$29,462	\$0	\$0
ESTIMATED UNCOLLECTIBLE LOANS RECEIVABLE	(\$29,462)	\$0	\$0
INVENTORIES	\$64,185	\$66,126	\$66,470
TOTAL CURRENT ASSETS	\$1,235,096	\$9,862,354	\$9,186,022
NONCURRENT ASSETS:			
RESTRICTED CASH AND INVESTMENTS	\$371,407	\$389,536	\$383,843
DEFERRED ASSESSMENT RECEIVABLE	\$10,577,829	\$0	
CAPITAL ASSETS-DEPRECIABLE, NET	\$23,203,995	\$31,215,264	\$30,570,056
CAPITAL ASSETS-LAND	\$1,101,921	\$1,101,921	\$1,101,921
CAPITAL ASSETS- WATER RIGHTS	\$23,683	\$23,683	\$23,683
CAPITAL ASSETS-CONSTRUCTION IN PROGRESS	\$9,138,689	\$599,943	\$1,305,330
TOTAL NON CURRENT ASSETS	\$44,417,524	\$33,330,347	\$33,384,833
TOTAL ASSETS	\$45,652,620	\$43,192,701	\$42,570,855

LIABILITIES

CURRENT LIABILITIES:

ACCOUNTS PAYABLE	\$59,526	\$41,295	\$69,943
ACCRUED PAYROLL	\$14,000	\$14,000	\$14,000
DUE TO OTHER GOVERNMENTS		\$30,000	\$0
CURRENT PORTION OF LONG-TERM CAPITAL LIABILITIES	\$583,638	\$606,220	\$0
CURRENT PORTION OF COMPENSATED ABSENCES	\$28,226	\$30,336	\$25,752
TOTAL CURRENT LIABILITIES	\$685,390	\$721,851	\$109,695

NONCURRENT LIABILITIES:

LONG-TERM PORTION OF COMPENSATED ABSENCES	\$17,086	\$18,834	\$20,700
NONCURRENT PORTION OF LONG-TERM LIABILITIES (OPEB)	\$27,306	\$67,172	\$107,038
LONG-TERM CAPITAL LIABILITIES-DUE WITHIN ONE YEAR			
LONG-TERM CAPITAL LIABILITIES-DUE IN MORE THAN ONE YEAR	\$10,237,638	\$9,328,959	\$9,340,940
TOTAL NON CURRENT LIABILITIES	\$10,282,030	\$9,414,965	\$9,468,678

TOTAL LIABILITIES	\$10,967,420	\$10,136,816	\$9,578,373
--------------------------	---------------------	---------------------	--------------------

NET ASSETS

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	\$22,647,012	\$23,005,632	\$23,660,050
UNRESTRICTED	\$12,038,188	\$10,050,2553	\$9,332,432
TOTAL NET ASSETS	\$34,685,200	\$33,055,885	\$32,992,482
TOTAL LIABILITIES AND NET ASSETS	\$45,652,620	\$43,192,701	\$42,570,855

	FISCAL YEAR	FISCAL YEAR	FISCAL YEAR
INCOME STATEMENT	2012	2013	2014
OPERATING REVENUES:			
TAXES AND ASSESSMENTS	\$775,622	\$0	\$872
MISCELLANEOUS REVENUES	\$48	\$234,777	\$432,517
CHARGES FOR SERVICES	\$1,260,909	\$1,294,931	\$1,515,247
TOTAL OPERATING REVENUES	\$2,036,579	\$1,529,708	\$1,948,636
OPERATING EXPENSES:			
PERSONAL SERVICES	\$430,408	\$470,623	\$476,637
SUPPLIES	\$142,989	\$113,637	\$128,086
PURCHASED SERVICES	\$160,966	\$180,838	\$210,770
FIXED CHARGES	\$16,157	\$20,183	\$22,147
LOSS/BAD DEBT EXPENSE	\$29,462	\$0	\$0
DEPRECIATION	\$526,990	\$528,234	\$808,019
TOTAL EXPENSES	\$1,306,972	\$1,313,515	\$1,645,659
OPERATING INCOME (LOSS)	\$729,607	\$216,193	\$302,977
NON-OPERATING REVENUES (EXPENSES):			
INTEREST REVENUE	\$3,747	\$4,145	\$4,289
DEBT SERVICE INTEREST EXPENSE	(\$332,601)	(\$390,529)	(\$366,815)
LAND LEASE	\$24,167	\$0	\$0
CONTRIBUTED CAPITAL ASSET	\$7,623,887	\$0	\$0
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$7,319,200	(\$386,384)	(\$362,526)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFES	\$8,048,807	(\$170,191)	(\$59,549)
SPECIAL AND EXTRAORDINARY ITEMS			
GAIN (LOSS) ON SALE OF CAPITAL ASSETS	(\$67,323)	(\$209,899)	\$3,560
CHANGE IN NET ASSETS	\$7,981,484	(\$380,090)	(\$55,989)

NET ASSETS-BEGINNING OF YEAR	\$26,694,616	\$34,685,200	\$33,055,885
RESTATEMENTS	\$9,100	(\$1,249,225)	(\$7,414)
NET ASSETS-BEGINNING OF YEAR-RESTATED	\$26,703,716	\$33,435,975	\$33,048,471
NET ASSETS-END OF YEAR	\$34,685,200	\$33,055,885	\$32,992,482

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bigfork County Water and Sewer District
Flathead County
Bigfork, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and each major fund, of Bigfork County Water and Sewer District, Flathead County, 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

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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and each major fund, of Bigfork County Water and Sewer District, Flathead County, Montana, as of and for the year ended 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, budgetary and schedule of funding for other post employment benefits other than pensions on pages 2 through 12, and 26 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 January 7, 2014, on our consideration of the Bigfork County Water and Sewer District, Flathead County, Montana'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 Bigfork County Water and Sewer District, Flathead County, Montana's internal control over financial reporting and compliance.

Derring, Downey and Associates, CPAs, P.C.

January 7, 2014

Bigfork Water & Sewer District, Flathead County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities - Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and investments	\$ 420,535	\$ 632,633	\$ 1,053,168
Taxes and assessments receivable, net	-	154,456	154,456
Special assessments receivable deferred	-	7,790,134	7,790,134
Accounts receivable - net	51,680	70,114	121,794
Inventories	61,119	5,351	66,470
Total current assets	<u>\$ 533,334</u>	<u>\$ 8,652,688</u>	<u>\$ 9,186,022</u>
Noncurrent assets:			
Restricted cash and investments	\$ -	\$ 383,843	\$ 383,843
Capital assets - land	301,835	800,086	1,101,921
Capital assets - construction in progress	1,199,971	105,359	1,305,330
Capital assets - depreciable, net	9,522,689	21,047,367	30,570,056
Capital assets - water rights	23,683	-	23,683
Total noncurrent assets	<u>\$ 11,048,178</u>	<u>\$ 22,336,655</u>	<u>\$ 33,384,833</u>
Total assets	<u>\$ 11,581,512</u>	<u>\$ 30,989,343</u>	<u>\$ 42,570,855</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 52,024	\$ 17,919	\$ 69,943
Medical deductible payable	7,000	7,000	14,000
Current portion of long-term capital liabilities	-	554,914	554,914
Current portion of compensated absences payable	12,876	12,876	25,752
Total current liabilities	<u>\$ 71,900</u>	<u>\$ 592,709</u>	<u>\$ 664,609</u>
Noncurrent liabilities:			
Noncurrent portion of long-term liabilities	\$ 53,519	\$ 53,519	\$ 107,038
Noncurrent portion of long-term capital liabilities	-	8,786,026	8,786,026
Noncurrent portion of compensated absences	10,350	10,350	20,700
Total noncurrent liabilities	<u>\$ 63,869</u>	<u>\$ 8,849,895</u>	<u>\$ 8,913,764</u>
Total liabilities	<u>\$ 135,769</u>	<u>\$ 9,442,604</u>	<u>\$ 9,578,373</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 11,048,178	\$ 12,611,872	\$ 23,660,050
Unrestricted	397,565	8,934,867	9,332,432
Total net position	<u>\$ 11,445,743</u>	<u>\$ 21,546,739</u>	<u>\$ 32,992,482</u>
Total liabilities and net position	<u>\$ 11,581,512</u>	<u>\$ 30,989,343</u>	<u>\$ 42,570,855</u>

See accompanying Notes to the Financial Statements

Bigfork Water & Sewer District, Flathead County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 675,334	\$ 839,913	\$ 1,515,247
Miscellaneous revenues	92,854	339,663	432,517
Special assessments	872	-	872
Total operating revenues	<u>\$ 769,060</u>	<u>\$ 1,179,576</u>	<u>\$ 1,948,636</u>
OPERATING EXPENSES			
Personal services	\$ 238,979	\$ 237,658	\$ 476,637
Supplies	52,253	75,833	128,086
Purchased services	80,752	130,018	210,770
Fixed charges	10,831	11,316	22,147
Depreciation	212,580	595,439	808,019
Total operating expenses	<u>\$ 595,395</u>	<u>\$ 1,050,264</u>	<u>\$ 1,645,659</u>
Operating income (loss)	<u>\$ 173,665</u>	<u>\$ 129,312</u>	<u>\$ 302,977</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	\$ 1,631	\$ 2,658	\$ 4,289
Debt service interest expense	-	(366,815)	(366,815)
Total non-operating revenues (expenses)	<u>\$ 1,631</u>	<u>\$ (364,157)</u>	<u>\$ (362,526)</u>
Income (loss) before contributions and transfers	<u>\$ 175,296</u>	<u>\$ (234,845)</u>	<u>\$ (59,549)</u>
SPECIAL AND EXTRAORDINARY ITEMS			
Gain (loss) on sale of capital assets	\$ -	\$ 3,560	\$ 3,560
Change in net position	<u>\$ 175,296</u>	<u>\$ (231,285)</u>	<u>\$ (55,989)</u>
Net Position - Beginning of the year	\$ 11,274,154	\$ 21,781,731	\$ 33,055,885
Restatements	(3,707)	(3,707)	(7,414)
Net Position - Beginning of the year - Restated	<u>\$ 11,270,447</u>	<u>\$ 21,778,024</u>	<u>\$ 33,048,471</u>
Net Position - End of the year	<u>\$ 11,445,743</u>	<u>\$ 21,546,739</u>	<u>\$ 32,992,482</u>

See accompanying Notes to the Financial Statements

Bigfork Water & Sewer District
Combined Statement of Cash Flows
All Proprietary Fund Types
Fiscal Year Ended June 30, 2014

	Business - Type Activities		
	Water	Sewer	Totals
Cash flows from operating activities:			
Cash received from providing services	\$ 674,161	\$ 834,905	\$ 1,509,066
Cash received from miscellaneous sources	90,019	335,956	425,975
Cash payments to suppliers	(31,249)	(90,680)	(121,929)
Cash payments for professional services	(80,752)	(130,018)	(210,770)
Cash payments to employees	(220,405)	(249,084)	(469,489)
Net cash provided (used) by operating activities	\$ 431,774	\$ 701,079	\$ 1,132,853
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	\$ (853,647)	\$ (14,551)	\$ (868,198)
Gain (loss) on the sale of capital assets	-	3,560	
Principal paid on debt	-	(594,239)	(594,239)
Interest paid on debt	-	(366,815)	(366,815)
Net cash provided (used) by capital and related financing activities	\$ (853,647)	\$ (972,045)	\$ (1,829,252)
Cash flows from non-capital financing activities:			
Tax levies and contributions from the County	\$ -	\$ 475,942	\$ 475,942
Net cash provided (used) from non-capital financing activities	\$ -	\$ 475,942	\$ 475,942
Cash flows from investing activities:			
Interest on investments	\$ 1,631	\$ 2,658	\$ 4,289
Net cash provided (used) by investing activities	\$ 1,631	\$ 2,658	\$ 4,289
Net increase (decrease) in cash and cash equivalents	\$ (420,242)	\$ 207,634	\$ (216,168)
Cash and cash equivalents at beginning	840,777	808,842	1,649,619
Cash and cash equivalents at end	\$ 420,535	\$ 1,016,476	\$ 1,433,451
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 175,296	\$ (234,845)	\$ (59,549)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	212,580	595,439	808,019
Other post-employment benefits	19,933	19,933	39,866
Changes in assets and liabilities:			
Changes in accounts receivable	(4,880)	(8,715)	(13,595)
Changes in interest revenue	(1,631)	(2,658)	(4,289)
Changes in debt service interest expense	-	366,815	366,815
Changes in inventory	1,935	(2,279)	(344)
Changes in accounts payable	29,900	(1,252)	28,648
Changes in compensated absences	(1,359)	(1,359)	(2,718)
Changes in due from other governments	-	(30,000)	(30,000)
Net cash provided (used) by operating activities	\$ 431,774	\$ 701,079	\$ 1,132,853

See accompanying notes to the financial statements

BIGFORK COUNTY WATER AND SEWER DISTRICT
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates the pre-November 30, 1989 FASB, APB and ARB pronouncements that the GASB considers to be applicable to state and local governments. This standard is effective for fiscal year ending June 30, 2013.

Financial Reporting Entity

In determining the financial reporting entity, the District complies with the provisions of GASB statement No, 14, *The Financial Reporting Entity*, GASB statement No, 39 and GASB statement No 61, and includes all component units of which the District appointed a voting majority of the units' board; the District is either able to impose its' will on the unit or a financial benefit or burden relationship exists.

Primary Government

The District is a political subdivision of the State of Montana governed by a five member Board of Directors. All five members of the board are elected constituent of the District. The District is considered a primary government and has no component units.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting District are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

BIGFORK COUNTY WATER AND SEWER DISTRICT
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Major Funds:

The District reports the following major proprietary funds:

Water Fund – An enterprise fund that accounts for the activities of the District's water distribution operations.

Sewer Fund – An enterprise fund that accounts for the activities of the District's sewer collection and treatment operations.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2014, are as follows:

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 100
Cash in banks:	
Demand deposits	1,436,911
Total	\$ <u><u>1,437,011</u></u>

Credit Risk

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be place in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act.

The government has no investment policy that would further limit its investment choices.

The government has no investments that require credit risk disclosure.

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2014 of the government's bank balance of was exposed to custodial credit risk as follows:

	June 30, 2014 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 250,000
- Collateral held by the pledging bank's trust department but not in the District's name.	1,191,740
Total deposits and investments	<u>\$ 1,441,740</u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- (a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- (b) 100% if the institution in which the deposit is made has a net worth of total assets ration of less than 6%.

The amount of collateral held for the District deposits at June 30, 2014, equaled or exceeded the amount required by State statutes.

Cash equivalents

For purposes of the statement of cash flows, the enterprise and internal services funds consider all funds (including restricted assets) held in the District's cash management pool to be cash equivalents.

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the District as of June 30, 2014. These amounts are reported within the cash/investment account on the Statement of Net Assets.

<u>Description</u>	<u>Amount</u>
N Hwy 35 Bond A Reserve	\$ 175,629
N Hwy 35 Bond B Reserve	21,576
Mayport Harbor Reserve	37,535
WWTP Phase 1 Reserve	<u>149,103</u>
	<u>\$ 383,843</u>

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

NOTE 4. RECEIVABLES

The District has two general obligation bonds and two special assessments that are payable primarily from the collection of assessments levied against benefited property owners.

The 1998 DNRC Bond was incurred in 1998, and has terms of 20 years at 4% interest. This bond is paid from income that the District receives from a farm rental property, as well as special assessments from the tax payers. In the fiscal year 2014, there were no prepaid assessments. Below is the summary of the receivables in relation to the outstanding debt for the 1998 DNRC Bond.

<u>Fund</u>	<u>Name</u>	<u>Current</u> <u>Receivables</u>	<u>Deferred</u> <u>Assessment</u> <u>Receivable</u>	<u>Total</u>	<u>Related</u> <u>Debt</u>
Sewer	1998 DNRC	\$ 10,537	\$ 241,194	\$ 251,731	\$ 269,000

The Hwy 35 A and B Bonds were incurred in March 2006. Bond A has terms of 20 years at 3.75% interest, and Bond B has terms of 10 years at 5.1% interest. The District is required to maintain a reserve account for the maximum future principal and interest payment. The District is in compliance with the reserve account requirement. Below is a summary of the receivable in relation to the outstanding debt for Hwy Bond A and B. The District is aware that the bond has more net assets than the total debt owed, in the amount of \$260,796. The District plans to correct this by not collecting in the final year.

<u>Fund</u>	<u>Name</u>	<u>Cash</u>	<u>Current</u> <u>Receivables</u>	<u>Deferred</u> <u>Assessment</u> <u>Receivable</u>	<u>Total</u>	<u>Related</u> <u>Debt</u>
Sewer	North Sewer A & B Bonds	\$ 197,205	\$ 63,591	\$ 1,558,940	\$ 1,819,736	\$ 1,558,940

The Mayport Harbor Bond was incurred in March 2009, and has terms of 20 years at 3.75% interest. The District is required to maintain a reserve account for the maximum future principal and interest payment. The District is in compliance with the reserve account requirement. Below is a summary of the receivable in relation to the outstanding debt for Mayport Harbor.

<u>Fund</u>	<u>Name</u>	<u>Cash</u>	<u>Current</u> <u>Receivables</u>	<u>Deferred</u> <u>Assessment</u> <u>Receivable</u>	<u>Total</u>	<u>Related</u> <u>Debt</u>
Sewer	Mayport Harbor	\$ 37,535	\$ 4,412	\$ 364,000	\$ 405,947	\$ 364,000

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

The WWTP Phase 2A Bond was incurred in two parts, with the first part in December of 2011 and the second portion in June 2012. Both portions have terms of 20 years at 3.75% interest. The District is aware that the bond has more net assets than total debt owed, in the amount of \$225,019. This excess is due to the District Assessing for the total \$8,100,000, even though the full amount of the debt allowed has not been taken. The District plans to not collect in the final year of assessment to correct this issue.

<u>Fund</u>	<u>Name</u>	<u>Cash</u>	<u>Current Receivables</u>	<u>Deferred Assessment Receivable</u>	<u>Total</u>	<u>Related Debt</u>
Sewer	WWTP Phase 2A	\$ 149,103	\$ 75,916	\$ 5,626,000	\$ 5,851,019	\$ 5,626,000

NOTE 5. INVENTORIES

Inventories are recorded as an asset when they are purchased and recorded as an expenditure/expense when consumed or sold. The first in first out inventory method is used.

NOTE 6. CAPITAL ASSETS

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	27 - 40 years
Equipment	5 - 25 years
Infrastructure	10 - 100 years

**BIGFORK COUNTY WATER AND SEWER DISTRICT
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

A summary of changes in business-type capital assets was as follows:

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 1,101,921	\$ -	\$ 1,101,921
Construction in progress	599,943	705,388	1,305,331
Water Rights	23,683	-	23,683
Total capital assets not being depreciated	<u>\$ 1,725,547</u>	<u>\$ 705,388</u>	<u>\$ 2,430,935</u>
Other capital assets:			
Buildings	\$ 4,171,834	\$ -	\$ 4,171,834
Machinery and equipment	1,447,698	71,810	1,519,508
General Plant	10,187,659	91,000	10,278,659
Sludge Facility	709,620	-	709,620
Pumping Plant	12,238,536	-	12,238,536
MBR Plant	7,946,062	-	7,946,062
Total other capital assets at historical cost	<u>\$ 36,701,409</u>	<u>\$ 162,810</u>	<u>\$ 36,864,219</u>
Less: accumulated depreciation	<u>\$ (5,486,145)</u>	<u>\$ (808,019)</u>	<u>\$ (6,294,164)</u>
Total	<u><u>\$ 32,940,811</u></u>	<u><u>\$ 60,179</u></u>	<u><u>\$ 33,000,990</u></u>

NOTE 7. LONG TERM DEBT OBLIGATIONS

In the proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Business-type Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
General obligation bonds	\$ 6,195,123	\$ -	\$ (300,123)	\$ 5,895,000	\$ 314,000
Special assessment bond	2,132,056	-	(209,116)	1,922,940	152,914
Revenue bonds	1,608,000	-	(85,000)	1,523,000	88,000
Compensated absences	49,170	-	(2,718)	46,452	25,752
Other post-employment benefits*	67,172	39,866	-	107,038	-
Total	<u><u>\$ 10,051,521</u></u>	<u><u>\$ 39,866</u></u>	<u><u>\$ (596,957)</u></u>	<u><u>\$ 9,494,430</u></u>	<u><u>\$ 580,666</u></u>

*See Note 8

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

General Obligation Bonds - The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Wastewater Facility Improvement Loan B	12/15/10	3.75%	20 yrs	7/1/31	\$ 816,000	Varies	\$ 729,000
General Obligation Bond Series 2010C	6/15/11	3.75%	20 yrs	7/1/31	7,284,000	Varies	4,897,000
1998 DNRC Series (Sludge Farm)	1/21/98	4.00%	20 yrs	7/1/18	<u>1,000,000</u>	Varies	<u>269,000</u>
Totals					<u>\$ 9,100,000</u>		<u>\$ 5,895,000</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 314,000	\$ 116,984
2016	326,000	110,474
2017	339,000	103,728
2018	351,000	96,724
2019	290,000	89,860
2020	302,000	84,000
2021	313,000	77,910
2022	325,000	71,590
2023	337,000	65,030
2024	350,000	58,220
2025	362,000	51,170
2026	376,000	43,860
2027	391,000	36,270
2028	406,000	28,370
2029	422,000	20,170
2030	438,000	11,650
2031	<u>253,000</u>	<u>2,810</u>
Total	<u>\$ 5,895,000</u>	<u>\$ 1,068,820</u>

Special Assessment Debt - Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected.

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Hwy 35 2006 Series A Bond	3/30/06	3.75%	20 yrs	7/1/26	\$ 2,486,000	Varies	\$ 1,487,000
Hwy 35 2006 Series B Bond	6/18/08	5.10%	10 yrs	7/1/26	297,701	Varies	71,940
Mayport Harbor - DNRC	3/1/09	3.75%	20 yrs	7/1/29	<u>460,000</u>	Varies	<u>364,000</u>
Totals					\$ <u>3,243,701</u>		\$ <u>1,922,940</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 152,914	\$ 73,914
2016	162,026	67,497
2017	127,000	61,126
2018	132,000	56,100
2019	139,000	50,906
2020	143,000	45,507
2021	148,000	39,937
2022	154,000	35,105
2023	160,000	28,087
2024	166,000	21,806
2025	172,000	15,300
2026	178,000	8,550
2027	29,000	3,075
2028	30,000	1,969
2029	30,000	843
Total	\$ <u>1,922,940</u>	\$ <u>509,722</u>

Revenue Bonds - The District also issues bonds where the District pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Wastewater Facility Improvement	2/13/08	3.75%	20 yrs	1/1/28	\$ <u>2,025,000</u>	Varies	\$ <u>1,523,000</u>

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The District was in compliance with applicable covenants as of June 30, 2014.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 88,000	\$ 56,287
2016	92,000	52,950
2017	95,000	49,481
2018	99,000	45,881
2019	103,000	42,131
2020	107,000	38,232
2021	111,000	34,181
2022	115,000	29,981
2023	119,000	25,632
2024	123,000	21,132
2025	129,000	16,462
2026	133,000	11,588
2027	138,000	6,563
2028	71,000	1,331
Total	<u>\$ 1,523,000</u>	<u>\$ 431,832</u>

Compensated Absences

It is the District's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from District service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with proprietary fund-type employees is recorded in the respective fund.

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Funding Status and funding Progress. The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$	166,787
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	166,787
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	195,793
UAAL as a percentage of covered payroll		85.19%

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

Annual Required Contribution (ARC)	\$	39,866
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	39,866
Contributions made	\$	-
Increase in net OPEB obligation	\$	39,866
Net OPEB obligation - beginning of year	\$	67,172
Net OPEB obligation - end of year	\$	107,038

Actuarial Methods and Assumptions. The following actuarial methods and assumptions were used:

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	1.00%
Average salary increase (Consumer Price Index)	2.00%

Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2012	3.8%
2013	4.0%
2014	7.8%
2015	6.4%
2016	6.2%
2017	6.0%
2018	6.4%
2019	6.8%
2020	6.9%
2021	6.7%
2022 and after	6.9%

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

NOTE 9. STATE-WIDE RETIREMENT PLANS

All full-time District employees are covered by the following retirement plan: Montana Public Employees Retirement System (PERS). The plans is established by State law and administered by the State of Montana. The plan consists of two opti0ns, one being a Defined Benefit Retirement Plan and the other being a Defined Contribution Retirement Plan.

The Defined Benefit Retirement Plan is a cost-sharing, multiple-employer defined contribution option that provides retirement, disability and death benefits to plan members and beneficiaries, with amount determined by the state.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014 for the defined benefit plans, were:

<u>PERS**</u>	
Employer	7.07%
Employee	6.90%*
State	0.10%

* For PERS members hired after 7/1/2011 that rate is 7.9%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account.

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the District’s financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

The Entity's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>
2012	\$ 19,127
2013	\$ 18,264
2014	\$ 22,224

BIGFORK COUNTY WATER AND SEWER DISTRICT
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2013

NOTE 10. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net assets.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Water	\$ (3,707)	Prior period revenue adjustment
Sewer	<u>(3,707)</u>	Prior period revenue adjustment
	<u>\$ (7,414)</u>	

NOTE 11. RISK MANAGEMENT

The District faces 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

NOTE 12. SUBSEQUENT EVENTS

The water well and transmission main project is under construction. The wells were drilled in the winter of 2013 and the District plans to start construction of the mains and well house addition in August of 2014.

The District currently has water well and transmission main project that is under construction. The project originally started in winter of 2013 when new wells were drilled. The District is in the process of starting construction on the new water mains and an addition to the well house. This project will also include a back-up generator for emergency power.

The construction is starting on August 18, 2014. The project is budgeted to cost \$2,995,145 in total. The District has been approved for TSEP funding in the amount of \$750,000 and an SRF loan in the amount of \$1,173,636. In total the District funds will expend \$1,173,636 on the project.

As of August 8, 2014 the first TSEP draw request has been sent. The SRF loan will not close until late September of 2014.

The District hopes to complete this project by December 1, 2014.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Bigfork County Water and Sewer District, Flathead County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 33,058	\$ 33,058	0%	\$ 237,144	14%
July 2, 2009	\$ -	\$ 166,787	\$ 166,787	0%	\$ 195,793	85%

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

**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
Bigfork County Water and Sewer District
Flathead County
Bigfork, Montana

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 business-type activities, and each major fund, of Bigfork County Water and Sewer District, Flathead County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Bigfork County Water and Sewer District's basic financial statements and have issued our report thereon dated January 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bigfork County Water and Sewer District, Flathead County, 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bigfork County Water and Sewer District, Flathead County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Bigfork County Water and Sewer 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below that we consider to-be significant deficiencies listed as item 14-1.

14-1 Segregation of Duties

Condition:

The Assistant clerk is responsible for handling cash and recording transactions to the accounting system.

Criteria:

Internal control procedures require segregation of duties with regard to the collection and record keeping of cash.

Effect:

Improper segregation of duties increases the District's vulnerability for misappropriation of funds and improper transactions that will not be detected on a timely basis.

Cause:

The District, like many other small governmental entities, has a limited staff. As a result, it is difficult to maintain a system of checks and balances.

Recommendation:

We recommend that the cash receipting duties be segregated to the greatest extent possible. The person who is responsible for receipting cash should be different from the person who records the collection of cash.

Auditee Response:

The District has recently purchased the Black Mountain Software Cash Receipting module in order to automate the process and minimize the chance of errors. My office Assistant and I, as the two employees responsible for handling cash transactions make every effort to check each other's work and segregate the duties of collection and record keeping whenever possible. Julie Spencer

Compliance and Other Matters

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

Bigfork County Water and Sewer District's Response to Findings

Bigfork County Water and Sewer District's response to the findings identified in our audit is described above. Bigfork County Water and Sewer District's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

Denning, Downey and Associates, CPA's, P.C.

January 7, 2014

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Directors
Bigfork County Water and Sewer District
Flathead County
Bigfork, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Segregation of Duties	Repeated

Denning, Downey and Associates, CPAs, P.C.

January 7, 2014