

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.



**FORT SMITH WATER AND
SEWER DISTRICT**

FINANCIAL REPORT

JUNE 30, 2014



C O N T E N T S

	<u>Page</u>	
INDEPENDENT AUDITOR’S REPORT	1 and 2	
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 through 8	
 FINANCIAL STATEMENTS		
Statement of Net Position.....	9 and 10	
Statement of Revenues, Expenses, and Changes in Net Position	11	
Statement of Cash Flows.....	12 and 13	
Notes to Financial Statements	14 through 18	
 REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>		19 and 20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fort Smith Water and Sewer District
Fort Smith, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the Fort Smith Water & Sewer District (the District) 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014, and the change in its financial position and its cash flows for the year then ended in conformity 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 3 through 8 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 February 23, 2015, on our consideration of the 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 or on 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.

Anderson Zurmuehlen + Co, P.C.

Billings, Montana
February 23, 2015

FORT SMITH WATER AND SEWER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2014

USING THIS ANNUAL REPORT

The annual report consists of two parts; Management's Discussion and Analysis (MD&A) and Financial Statements. Financial Statements also includes notes that explain in more detail some of the information in the financial statements.

Our discussion and analysis of the Fort Smith Water and Sewer District (the District) financial performance provide an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements beginning on page 9.

EXPLANATION OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the basic financial statements of the District. The basic financial statements are comprised of three statements: 1) statement of net position, 2) statement of revenues, expenses, and change in net position, and 3) the statement of cash flows.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and change in net position presents information showing how the District's net position changed during the presented fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows presents information on all of the District's cash inflows and outflows resulting in the change in cash balances during the presented fiscal year. The statement of cash flows may serve as a useful indicator of what activities (operating, financing, and investing) provide and use the District's cash balance. The statement of cash flows also provides a reconciliation of operating income to cash provided by operating activities.

The financial statements can be found on pages 9-13 of this report.

FORT SMITH WATER AND SEWER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

ORIGINATION

The current Fort Smith Water and Sewer District was created by the combination of the old Yellowtail and the old Fort Smith Water and Sewer Districts in 2007. The District operates under by-laws and a policy manual that defines the responsibilities and authorities of both the user and the District. Both describe how activities inside the District are to be conducted as interpreted by Montana Code Annotated Chapter 7.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District operating revenues consist of water and sewer charges to users inside the District, bulk water sales, and from a contract for use of the District's water tower as a wireless internet antenna. Operating revenues for user payments of water and sewer increased during the current fiscal year since the water project was in service for the entire fiscal year. The other operating revenues were comparable to the previous fiscal year.

There are 191 different users of water and sewer services that are connected through 253 hookups in the District. There are 19 commercial users in the District, 5 governmental users, 218 residential users, and 11 properties which are exempt. Overall, the 10 percent of users considered commercial in the entire District generate 14 percent of the total revenue of the District.

The District Board has a contract with TCT Wireless of Wyoming to use the water tower as an antenna to provide wireless internet service for the amount of \$1,200 per year.

CAPITAL IMPROVEMENTS PROJECT

The District completed the Fort Smith Water Improvement project in fiscal year 2013. The Fort Smith Water & Sewer District Water Improvement project completely replaced the water distribution system, added a 200,000 gallon elevated water storage tank, installed 31 fire hydrants, and replaced 2 of the water wells in the community. All water services are connected to the distribution system through meter pits and water meters so that the District can charge for water by actual gallons used instead of by a flat rate.

The water well behind the Trout Shop showed phthalate contamination in its water samples of 2011 that were above drinking water standards. The water well was abandoned and the drilling of a replacement well was completed in mid-April 2012. The analysis of water samples from the new replacement well showed no phthalate contamination. In February of 2013, this new replacement well began showing toluene contamination in water samples below maximum contaminant levels but high enough to trigger quarterly sampling. These samples have been relatively expensive and were continued until the toluene levels were reduced.

FORT SMITH WATER AND SEWER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

CAPITAL IMPROVEMENTS PROJECT (CONTINUED)

Montana Department of Environmental Quality has now reduced the sampling of toluene to yearly. The District has also outfitted this replacement well with a chlorination injection system to meet the minimum daily residual chlorine levels, which is a requirement with MTDEQ.

Flushing equipment was purchased to ensure proper flushing of the fire hydrants, which is on a spring and fall flushing schedule.

Lumber was purchased to build a small housing unit inside the bottom of the water tank. This was necessary so the pipes will not break when temperatures drop to below freezing.

GRANT ACTIVITY

The District used grant monies for its water improvement project from the Treasure State Endowment Program, the Department of Natural Resources and Conservation, USDA Rural Development, and a congressional appropriation to replace the entire water system of the Fort Smith Water and Sewer District. The District created a Special Assessment Bond in the amount of \$1,218,000 by Resolution 2011-1 and election that completed the financing of the water improvement project. Since the water improvement project was completed in fiscal year 2013, no additional grant monies were received or used in fiscal year 2014.

SPECIAL ASSESSMENTS BOND

Resolution 2011-1 was passed by the District to levy special assessments to repay a special assessment bond issued for the purpose of constructing a water system improvement project benefiting properties in the District. The assessments were submitted to the Montana Department of Revenue to be collected on the District's owners' property taxes in fiscal year 2014 in the amount of \$46,724. Semi-annual Special Assessment Bond payments are made to the United States Department of Agriculture Rural Development in January and July of each fiscal year.

USER RATES

The Board approved, through resolution and after a public hearing, to increase the user fees starting January 1, 2014. This rate increase brought the equivalent dwelling unit charge (EDU) in the District to \$44.47 and an additional \$4.09 per 1,000 gallons for usage over 4,000 gallons. The Board began direct billing to users in January, 2014. The meters are read monthly; however, bills are sent out quarterly.

FORT SMITH WATER AND SEWER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

USER RATES (CONTINUED)

The District conducted a one-year study of user water consumption in the District and an analysis of the District's fixed and variable water and sewer system expenses to be able to set the new user rates. The new water meters detect leaks in the water system installations and the Board tracked down and corrected many water leaks in the service installations of the District.

New 2014 Rates:

Quarterly Rate Charge for the Water and Sewer System as of January 1, 2014.

¾ inch meter	\$133.41 per quarter + \$4.09 per 1000 gallons over 12,000 gallons
1 inch meter	\$238.80 per quarter + \$4.09 per 1000 gallons over 21,480 gallons
1 ½ inch meter	\$533.64 per quarter + \$4.09 per 1000 gallons over 48,000 gallons

BASIS OF ACCOUNTING

The District's finances are maintained on a full accrual basis of accounting. All accounts in the District's chart of accounts conform to the Budgetary Accounting and Reporting System (BARS) for Montana cities, towns, and counties. The District's accounting methods provide the information needed for administrative and reporting purposes on a uniform basis.

Annual financial reports and annual budget reports are required by the USDA Rural Development Agency because of their funding of the water improvement project. USDA Rural Development also requires annual GAGAS audits until the Special Assessment Bond balance falls below \$1 million. The Board estimates that the bond balance will not fall below that threshold for another nine years.

The District also is required to file an annual financial report form with the Department of Administration's State Accounting Division.

FORT SMITH WATER AND SEWER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

CONDENSED FINANCIAL INFORMATION

STATEMENTS OF NET POSITION

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
<u>ASSETS</u>			
Current assets	\$ 223,810	\$ 163,279	\$ 60,531
Capital assets	4,097,258	4,439,323	(342,065)
Noncurrent assets	<u>103,430</u>	<u>86,022</u>	<u>17,408</u>
Total assets	<u>\$ 4,424,498</u>	<u>\$ 4,688,624</u>	<u>\$ (264,126)</u>
LIABILITIES			
Current liabilities	\$ 36,644	\$ 37,999	\$ (1,355)
Noncurrent liabilities	<u>1,158,275</u>	<u>1,178,703</u>	<u>(20,428)</u>
Total liabilities	<u>1,194,919</u>	<u>1,216,702</u>	<u>(21,783)</u>
NET POSITION			
Net investment in capital assets	2,918,666	3,240,753	(322,087)
Restricted	103,431	86,022	17,409
Unrestricted	<u>207,482</u>	<u>145,147</u>	<u>62,335</u>
Total net position	<u>3,229,579</u>	<u>3,471,922</u>	<u>(242,343)</u>
Total liabilities and net position	<u>\$ 4,424,498</u>	<u>\$ 4,688,624</u>	<u>\$ (264,126)</u>

FORT SMITH WATER AND SEWER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
(CONTINUED)
Year Ended June 30, 2014

CONDENSED FINANCIAL INFORMATION (CONTINUED)

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Operating Revenue:			
User fees	\$ 173,574	\$ 113,573	\$ 60,001
User penalties and interest	2,767	3,866	(1,099)
Miscellaneous	582	-	582
Special assessments	46,724	46,724	-
Grant revenue	-	498,671	(498,671)
Rental income	<u>1,200</u>	<u>1,200</u>	<u>-</u>
Total operating revenue	224,847	664,034	(439,187)
Operating expenses	<u>440,444</u>	<u>344,485</u>	<u>95,959</u>
Operating income (loss)	(215,597)	319,549	(535,146)
Non-operating expense	<u>26,746</u>	<u>21,608</u>	<u>5,138</u>
Change in net position	(242,343)	297,941	(540,284)
Net position, beginning of year	<u>3,471,922</u>	<u>3,173,981</u>	<u>297,941</u>
Net position, end of year	<u>\$ 3,229,579</u>	<u>\$ 3,471,922</u>	<u>\$ (242,343)</u>

FINANCIAL STATEMENTS

FORT SMITH WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 152,254
Accounts receivable	56,910
Due from Big Horn County	<u>14,646</u>
Total current assets	<u>223,810</u>

PROPERTY AND EQUIPMENT

Land	60,000
Building and wells	4,201,056
Equipment	<u>521,951</u>
	4,783,007
Less accumulated depreciation	<u>(685,749)</u>
Total property and equipment	<u>4,097,258</u>

OTHER ASSETS

Bond reserves - restricted cash and equivalents	6,612
Special assessment bond payment - restricted cash and equivalents	23,624
Short-lived asset replacement - restricted cash and equivalents	<u>73,194</u>
Total other assets	<u>103,430</u>
Total assets	<u>\$ 4,424,498</u>

FORT SMITH WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
(CONTINUED)
June 30, 2014

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 2,102
Accrued expenses	1,514
Accrued interest payable	12,561
Service deposits	150
Current portion of long-term debt	<u>20,317</u>
Total current liabilities	<u>36,644</u>

LONG-TERM DEBT, net of current portion	<u>1,158,275</u>
--	------------------

NET POSITION

Net investment in capital assets	2,918,666
Restricted	
Bond reserves	6,612
Special assessment bond payment	23,625
Short-lived asset replacement	73,194
Unrestricted	<u>207,482</u>
Total net position	<u>3,229,579</u>
Total liabilities and net position	<u>\$ 4,424,498</u>

FORT SMITH WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
Year Ended June 30, 2014

OPERATING REVENUE	
User fees	\$ 173,574
User penalties and interest	2,767
Miscellaneous	582
Special assessments	46,724
Rental income	<u>1,200</u>
Total operating revenue	<u>224,847</u>
OPERATING EXPENSES	
Water and sewer operations	37,072
Engineering costs	23,774
Utilities	11,905
Insurance	3,824
Depreciation	349,810
General and administrative	<u>14,059</u>
Total operating expenses	<u>440,444</u>
Operating loss	<u>(215,597)</u>
NON-OPERATING EXPENSE	
Interest expense	<u>26,746</u>
Total non-operating expense	<u>26,746</u>
Change in net position	(242,343)
Net position, beginning of year	<u>3,471,922</u>
Net position, end of year	<u>\$ 3,229,579</u>

The Notes to Financial Statements are an integral part of this statement

FORT SMITH WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from:

User fees	\$ 134,409
User penalties and interest	2,767
Miscellaneous	582
Special assessments	46,724
Rent	<u>1,200</u>
Cash received from operating activities	<u>185,682</u>

Cash paid for:

Cash paid for water and sewer operations costs	(55,766)
Cash paid for engineering costs	(23,774)
Cash paid for personnel services costs	(7,371)
Cash paid for general and administrative costs	<u>(5,678)</u>
Cash paid for operating activities	<u>(92,589)</u>

Net cash flows from operating activities 93,093

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES

Payments on bond payable	(19,978)
Interest paid on bond	(26,746)
Purchase of capital assets	<u>(7,745)</u>
Net cash flows from capital and related financing activities	<u>(54,469)</u>

Net change in cash and cash equivalents 38,624

Cash and cash equivalents at beginning of year 217,060

Cash and cash equivalents at end of year \$ 255,684

FORT SMITH WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
(CONTINUED)
Year Ended June 30, 2014

AS PRESENTED IN THE ACCOMPANYING
BALANCE SHEET

Cash and cash equivalents - current	\$ 152,254
Bond reserves - restricted cash and equivalents	6,612
Special assessment bond payment - restricted cash and equivalents	23,624
Short-lived asset replacement - restricted cash and equivalents	<u>73,194</u>
	<u>\$ 255,684</u>

A reconciliation of operating income to net cash flows from operating activities:

Operating loss	\$ (215,597)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation	349,810
Increase in:	
Accounts receivable	(33,610)
Due from Big Horn County	(5,705)
Increase (decrease) in:	
Accounts payable	(2,965)
Accrued expenses	1,010
Unearned revenue	<u>150</u>
Net cash flows from operating activities	<u>\$ 93,093</u>

FORT SMITH WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Fort Smith Water and Sewer District (the District) is a municipal water and sewer district incorporated in the state of Montana. The District is governed by a Board of Directors. The day-to-day affairs of the District are conducted under the supervision of the Board.

All significant activities and organizations of the District have been included in the financial statements.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units and follow proprietary fund reporting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Change in Net Position, and a Statement of Cash Flows. The District's financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Change in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

The District's financial statements are prepared in accordance with Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" Statement No. 34 establishes standards for external financial reporting for all state and local governmental entities, which include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It requires the classification of net position into three components – invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

FORT SMITH WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

- Restricted – This component of net position consists of assets restricted by external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of others.
- Unrestricted – This component of net position consists of any remaining net position that does not meet the definition of “Restricted” or “Net investment in capital assets.”

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.

New Accounting Pronouncements – The District has adopted the provisions of the following GASB pronouncement for fiscal year 2014:

- Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities to deferred outflows or deferred inflows, respectively.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. FDIC coverage is limited to \$250,000 per account holder. From time to time, certain bank accounts that are subject to limited FDIC coverage exceed their insured limits. There were no accounts that exceeded this limit as of June 30, 2014. Restricted cash and cash equivalents consist of \$73,194 for reserves for replacement of assets, \$6,612 for reserves for debt, and \$23,624 for special assessment bond payments, which the District is required to hold in separate accounts.

Accounts Receivable

Management of the District is of the opinion that all receivables are collectible; therefore, no allowance is required.

Property and Equipment

Capital outlays for property, plant, and equipment greater than \$500 are recorded as capital assets when incurred. All fixed assets are valued at historical cost or estimated historical cost.

Depreciation of fixed assets is calculated using the straight-line method with estimated useful lives as follows:

Equipment	5 to 10 years
Buildings and wells	15 years

Maintenance and repair costs are expensed as incurred. Replacements, which improve or extend the lives of fixed assets, are capitalized.

FORT SMITH WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

Operating revenues are revenues that are either generated directly from the primary activity of the District or principle sources of financing for on-going operations. For the District, these revenues consist of charges for services for use and grant revenues. Operating expenses are necessary costs incurred to provide the goods or service that are the primary activity of the District.

Use of Estimates

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

Subsequent Events

The Board has evaluated subsequent events through February 23, 2015, the date which the financial statements were available for issue.

NOTE 2. PROPERTY AND EQUIPMENT

The following represents the changes in property and equipment during fiscal year 2014:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>June 30, 2014</u>
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Building and wells	4,194,977	6,079	-	4,201,056
Equipment	<u>520,285</u>	<u>1,666</u>	-	<u>521,951</u>
Total	4,775,262	7,745	-	4,783,007
Accumulated depreciation	<u>(335,939)</u>	<u>(349,810)</u>	-	<u>(685,749)</u>
Net book value	<u>\$ 4,439,323</u>	<u>\$ (342,065)</u>	<u>\$ -</u>	<u>\$ 4,097,258</u>

FORT SMITH WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 3. LONG-TERM LIABILITIES

In November 2011, the District issued \$1,218,000 in special assessment bond debt to finance the acquisition and construction of a water system improvements project. The bonds will be paid with user fee assessments for the services afforded by the system of which the project is a part.

Terms of the loan agreement, issued in conjunction with the bond issuance required an interest only payment to be paid on January 15, 2012, and semi-annual principal and interest payments to be paid on January 15 and July 15 of each year beginning July 15, 2012 through 2051.

The following represents activity on debt during fiscal year 2014:

	<u>Balance, July 1, 2013</u>	<u>Additions</u>	<u>Payment of Principal</u>	<u>Balance, June 30, 2014</u>	<u>Current Portion</u>
Bonds payable to United States Department of Agriculture, Rural Utilities Services; fixed interest rate of 2.25%; payable semi-annually every January and July through 2051.	\$ 1,198,570	\$ -	\$ 19,978	\$ 1,178,592	\$ 20,317
Total	<u>\$ 1,198,570</u>	<u>\$ -</u>	<u>\$ 19,978</u>	<u>\$ 1,178,592</u>	<u>\$ 20,317</u>

Bond reserve and bond repayment funds totaling \$6,612 and 23,624, respectively, consisting of cash restricted for future debt service, are reflected in the balance sheet as of June 30, 2014

Total interest incurred for the year ended June 30, 2014, was \$26,746.

Maturities of the special assessment bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 20,317	\$ 26,407	\$ 46,724
2016	20,776	25,948	46,724
2017	21,247	25,477	46,724
2018	21,727	24,997	46,724
2019	22,219	24,505	46,724
2020-2024	118,867	114,753	233,620
2025-2029	132,937	100,683	233,620
2030-2034	148,673	84,947	233,620
2035-2039	166,271	67,349	233,620
2040-2044	185,953	47,667	233,620
2045-2049	207,964	25,656	233,620
2050-2051	111,641	3,770	115,411
	<u>\$ 1,178,592</u>	<u>\$ 572,159</u>	<u>\$ 1,750,751</u>

FORT SMITH WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 4 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial policies transferring all risks of loss (except for relatively small deductible amounts) are purchased for property and content damage, employee torts, and professional liabilities. The District participates in a state-wide public risk pool operated by the Montana Association of Counties for tort liability coverage. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

The District has joined with other Montana counties to form a self-insurance pool offering liability and general insurance coverage. This pool, named the Montana Association of Counties Joint Powers Insurance Authority Trust, provides for property, liability, public officials' errors and omissions, and crime coverage. The county has a \$1,000 deductible per occurrence. Claims over \$1,000 are covered by the pool. The Trust also provides for additional coverage for the above areas through excess insurance lines for varying amounts. Premiums paid to the Trust for fiscal year 2014 amounted to \$1,494.

Audited financial statements for the fiscal year ended June 30, 2014, are available from the Montana Association of Counties Joint Powers Insurance Authority.

Members of the public risk pools may be subject to supplemental assessments in the event of deficiencies. They are also responsible for their own claim liability in the event the pool fails.

NOTE 5 OPERATING LEASE

The District has an operating lease for land held by the Crow Indian Reservation. This lease is administered through a year to year lease with a third-party agency.

The following is a schedule of future minimum lease payments due under the operating lease:

<u>Year Ending June 30,</u>	
2015	\$ 500
2016	500
2017	500
2018	500
2019	500
2020 - 2021	<u>1,000</u>
	<u>\$ 3,500</u>

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*

To the Board of Directors
Fort Smith Water and Sewer District
Fort Smith, 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 of the District, 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, and have issued our report thereon dated February 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent (or detect and correct) misstatements on a timely basis. *A material weakness* is a deficiency, or 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 the 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.

Anderson Zurmuehlen + Co, P.C.

Billings, Montana
February 23, 2015



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

www.azworld.com