

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

**Hill County Water District**

*June 30, 2014 and 2013*



# Hill County Water District

June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Hill County Water District  
Hingham, Montana

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of Hill County Water District, Hill County, Hingham, Montana, (the District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

The financial statements of the District as of June 30, 2013 were audited by Galusha, Higgins & Galusha, PC, whose practice was combined with Wipfli LLP as of December 31, 2014 whose report dated February 3, 2014 expressed an unmodified opinion on those statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The District's 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the District, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof 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 4 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 supplemental 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 06, 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 and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Havre, Montana  
January 06, 2015

## Hill County Water District

# MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

June 30, 2014

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### **Introduction**

The management of the Hill County Water District (the District) offers readers of these financial statements this overview and summary analysis of the financial activities of the District for the year July 1, 2013 through June 30, 2014. This section of the financial report is designed to assist the reader in focusing on significant financial activities and issues, as well as important changes in the District's financial position and results of operations, which may affect the District's ability to address subsequent years' challenges. This discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

The District accounts for its revenue and expenses on a flow of economic resources measurement focus. Revenue received from charges for services and investing activities are used to pay District liabilities.

### **Financial Highlights**

The District's financial condition is strong. The District operates well within the financial policies and guidelines set by the Board and management. The following are key financial highlights:

- The long term debt for the water system is related to the upgrade to the Marias River pumping facility which cost approximately \$1.5 million. A portion of the project was funded with revenue bonds held by Department of Natural Resources and Conservation, 20 years with an interest rate of 3.75% in the amount of \$723,998. The total outstanding debt for the bonds is \$0.
- Total assets of the District at year-end were \$4,906,242 and exceeded the liabilities by \$4,890,279 (i.e. net position). In comparison to the prior fiscal year, total assets and total net position decreased by \$621,415 and \$58,762 respectively.
- The District's long term debt of \$0 was a decrease from the prior year by \$559,000.
- The District's total liabilities, which consist of current liabilities in the amount of \$15,963 and long term liabilities in the amount of \$0 was a decrease from the prior year by \$562,653.
- Total operating revenue for the year was down \$21,847 (3.9%) from the previous year.
- Total operating expenses, excluding depreciation and amortization, for the year were up \$109,401 (29.8%) from the previous year.

**WATER SYSTEM REVENUE:** In fiscal year 2014, revenues were down 18.7% compared to the previous fiscal year. This is due primarily to the grant revenue the District received in the prior year.

**WATER SYSTEM EXPENSES:** Operating expenses for the water system were up 23.9% for the 2014 fiscal year from the previous period. Labor (wages, payroll taxes, benefits) accounted for 29% of the operating expenses for the period. System repairs (6%), utilities (13%), insurance (1%), professional services (3%), depreciation and amortization (20%) and other operating expenses (28%), make up the remainder of the water operations expenses. The other operating expenses are spread over a host of categories such as office expense, vehicle operating expense, postage, water sampling and training costs. All expense categories are reflected on the *Statement of Revenue, Expenses, and Changes in Net Position* in the accompanying financial statements.

continued

## Hill County Water District

# MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

June 30, 2014

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**NON-OPERATING REVENUES:** Non-operating revenues in fiscal year 2014 included \$13,817 in interest income, \$973 in patronage dividends and \$0 in grant income.

**NON-OPERATING EXPENSES:** Non-operating expenses in fiscal year 2014 totaled \$20,526. This expense is the interest payments on the revenue bonds held by Department of Natural Resources and Conservation.

### **Growth, Water System Capital Improvements, Water Rates**

➤ **Growth:**

The District has seen very little growth in the fiscal year which may be due to our rural location and economic conditions.

➤ **Water System Improvements:**

The District is bound by a consent decree and has complied with the terms of the consent decree through upgrade to the Marias River pumping facility, thus improving water quality for the system which was accomplished December 31, 2007. The District intends to connect to the Rocky Boy/North Central Regional Water System (ROBO System) upon completion. With the ROBO System providing treated water, the District will not have a need to install and maintain its own water treatment facility.

➤ **Water Rates:**

The District maintains that its current rates and fees are sufficient to operate the District in a sufficient manner.

### **Contacting the District's Management**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the funds and assets it receives. If you have any questions about this report, or should you need additional financial information, contact the District Secretary at 406-397-3387 or e-mail at: [tpikehcwd@live.com](mailto:tpikehcwd@live.com).

**Hill County Water District**

**BALANCE SHEETS**

*as of June 30,*

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	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash & cash equivalents	\$ 203,304	\$ 170,162
Accounts receivable	62,728	129,395
Inventories	12,414	24,427
Total current assets	<u>278,446</u>	<u>323,984</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation	2,889,592	2,986,542
<b>OTHER ASSETS</b>		
Investments in CDs, held to maturity	1,737,582	1,989,047
Deposits	434	3,439
Capital stock credits	188	188
Restricted investments for bond requirements	-	218,436
Loan fees	-	6,021
Total other assets	<u>1,738,204</u>	<u>2,217,131</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,906,242</u></u>	<u><u>\$ 5,527,657</u></u>

The accompanying notes are an integral part of these financial statements.

**Hill County Water District**

**BALANCE SHEETS**

*as of June 30,*

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LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 4,556	\$ 12,142
Payroll taxes payable	2,562	1,572
Accrued expenses	1,152	1,109
Compensated absences payable	7,693	4,793
Current portion of long-term debt	-	15,000
Total current liabilities	<u>15,963</u>	<u>34,616</u>
LONG TERM DEBT	-	<u>544,000</u>
TOTAL LIABILITIES	15,963	578,616
NET POSITION		
UNRESTRICTED		
Net investment in capital assets	2,889,592	2,427,542
Unrestricted	<u>2,000,687</u>	<u>2,303,063</u>
Total unrestricted net position	4,890,279	4,730,605
RESTRICTED		
Restricted for bond payments and future capital improvements	<u>-</u>	<u>218,436</u>
TOTAL NET POSITION	<u>4,890,279</u>	<u>4,949,041</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,906,242</u>	<u>\$ 5,527,657</u>

The accompanying notes are an integral part of these financial statements.

## Hill County Water District

### STATEMENTS OF REVENUES AND EXPENSES

*for the years ended June 30,*

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water systems revenues	\$ 542,436	\$ 566,170
Miscellaneous operating income	2,567	680
Total operating revenues	<u>545,003</u>	<u>566,850</u>
OPERATING EXPENSES		
Accounting and audit	11,348	10,532
Advertising	363	938
Bank charges	5	7
Depreciation	121,651	115,698
Director fees	7,845	8,089
Dues and subscriptions	500	800
Employee benefits	20,573	16,034
Fuel	16,458	12,792
Insurance and bonding	8,221	7,595
Maintenance and repairs	37,447	14,383
Miscellaneous	880	1,623
Office supplies	20,720	8,586
Other taxes, licenses and fees	3,694	3,768
Payroll taxes	18,159	17,055
Rent	1,689	939
Salaries	132,974	126,757
Secretary, attorney fees, and consulting	125	5,906
Supplies	91,285	36,750
Telemeter expense	-	4,750
Telephone	5,394	6,478
Training and education	880	555
Travel	1,835	1,763
Utilities	79,685	71,020
Vehicle	1,401	1,436
Water and water supplies	14,898	8,422
Total operating expenses	<u>598,030</u>	<u>482,676</u>
Net income (loss) from operations	\$ (53,027)	\$ 84,174

The accompanying notes are an integral part of these financial statements.

continued

**Hill County Water District**

**STATEMENTS OF REVENUES AND EXPENSES**

*for the years ended June 30,*

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	<u>2014</u>	<u>2013</u>
Net income (loss) from operations	\$ (53,027)	\$ 84,174
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	13,817	20,458
Patronage dividends	973	1,062
Grant income	-	100,100
Interest expense	<u>(20,526)</u>	<u>(22,237)</u>
Total non-operating revenues (expenses)	<u>(5,736)</u>	<u>99,383</u>
Change in net position	<u>\$ (58,763)</u>	<u>\$ 183,557</u>

The accompanying notes are an integral part of these financial statements.

concluded

**Hill County Water District**

**STATEMENTS OF CHANGES IN NET POSITION**

*for the years ended June 30,*

	<u>RESTRICTED</u>	<u>UNRESTRICTED</u>	<u>TOTAL</u>
Balance, June 30, 2012	\$ 205,756	\$ 4,559,728	\$ 4,765,484
Change in net position	-	183,557	183,557
Transfers	<u>12,680</u>	<u>(12,680)</u>	<u>-</u>
Balance, June 30, 2013	218,436	4,730,605	4,949,041
Change in net position	-	(58,763)	(58,763)
Transfers	<u>(218,436)</u>	<u>218,436</u>	<u>-</u>
Balance, June 30, 2014	<u>\$ -</u>	<u>\$ 4,890,278</u>	<u>\$ 4,890,278</u>

The accompanying notes are an integral part of these financial statements.

## Hill County Water District

### STATEMENTS OF CASH FLOWS

*for the years ended June 30,*

	<b>2014</b>	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ <b>609,103</b>	\$ 492,414
Miscellaneous income	<b>2,567</b>	680
Decrease in Inventory	<b>12,013</b>	-
Payments to suppliers	<b>(306,238)</b>	(205,634)
Payments to employees	<b>(167,773)</b>	(162,542)
Net cash provided by operating activities	<b>149,672</b>	124,918
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest and dividends received	<b>14,791</b>	21,442
(Increase) decrease in deposits	<b>3,005</b>	(3,257)
Purchase of investments	<b>(1,737,582)</b>	(2,207,483)
Proceeds from matured certificates of deposits	<b>2,207,483</b>	1,767,136
Net cash provided by investing activities	<b>487,697</b>	(422,162)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments	<b>(559,000)</b>	(30,000)
Interest payments	<b>(20,526)</b>	(22,237)
Purchase of capital assets	<b>(24,701)</b>	(312,549)
Capital grant income	<b>-</b>	100,100
Net cash used by capital and related financing activities	<b>(604,227)</b>	(264,686)
 Net increase in cash	 <b>33,142</b>	 (561,930)
 Cash, beginning of year	 <b>170,162</b>	 732,092
Cash, end of year	<b>\$ 203,304</b>	\$ 170,162
 <b>Reconciliation of net income from operating activities:</b>		
Net income from operations	\$ <b>(53,027)</b>	\$ 84,174
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	<b>127,672</b>	116,128
Changes in working capital components:		
Accounts receivable	<b>66,667</b>	(73,756)
Inventory	<b>12,013</b>	-
Accounts payable	<b>(7,586)</b>	990
Accrued expenses	<b>1,033</b>	(755)
Compensated absences	<b>2,900</b>	(1,941)
Net cash provided by operating activities	<b>\$ 149,672</b>	\$ 124,840

The accompanying notes are an integral part of these financial statements.

## Hill County Water District

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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#### NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hill County Water District, Hingham, Montana (the District) conform to accounting standards generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

1. Reporting entity. Hill County Water District is a local government unit whose purpose is to provide a source of water to rural consumers in Hill County. The District is managed by a board of directors elected by the consumers within the District.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities, which should be presented with the District.

2. Measurement focus and basis of accounting. The District's activities are similar to those found in the private sector where determination of net income is necessary or useful for sound financial administration and, therefore, the District is considered to be a proprietary governmental unit.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Operating income includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", the District follows GASB guidance as applicable to proprietary funds and the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins Issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

3. Inventory. Inventory is valued at lower of cost or market on a first-in, first-out (FIFO) method. Inventory consists of water system parts and supplies.
4. Capital assets. Capital Assets are recorded at cost. Major additions are capitalized while minor replacements, maintenance and repairs that do not increase the useful life of the property are expensed as incurred. Provisions for depreciation are determined using the straight-line method over the asset's estimated useful life.
5. Cash and cash equivalents. For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with maturity of three months or less to be cash equivalents. Cash and cash equivalents may include cash and cash items; demand, time, savings and fiscal agent deposits; and direct obligations of the United States Government and securities issued by agencies of the United States.
6. Net position classifications. Net position is classified into three components:

continued

## Hill County Water District

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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#### NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

6. Net position classifications, continued.
  - (a) Net investment in capital assets – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bond, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
  - (b) Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
  - (c) Unrestricted – All other net position that does not meet the definition of restricted or net investment in capital assets.
7. Accounts receivable. All of the District's accounts receivable relate to water utility service provided to rural consumers in Hill County.

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.
8. Operating revenues and expenses. Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities. When an expense is incurred for purposes of which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.
9. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
10. Reclassifications. Certain account balances for the year ended June 30, 2013 have been reclassified, with no effect on net position, to be consistent with classifications for the year ended June 30, 2014.

#### NOTE B CASH AND INVESTMENTS

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. As of June 30, 2014 and 2013, the book balance of cash was \$203,157 and \$170,087 respectively and the bank balance of the accounts was \$211,302 and \$173,164 respectively. The total bank balance of the checking and savings accounts as of June 30, 2014 was insured.

The District participates in the Certificate of Deposit Account Registry Service (CDARS) through a local bank. With this program funds deposited with the local bank that are in excess of the FDIC insured limit (\$250,000) are transferred to other members of the CDARS Network in increments less than \$250,000. The result is that 100% of the funds invested in CD's are FDIC insured. The interest rates on the CDS range from 0.59% to 0.60%.

The District's cash at June 30, 2014 consists of: Petty Cash - \$147; Checking account - \$85,846; Savings account - \$117,311, for a total of \$203,304.

The District's cash at June 30, 2013 consists of: Petty Cash - \$75; Checking account - \$53,011; Savings account

continued

## Hill County Water District

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

#### NOTE B CASH AND INVESTMENTS, continued

-\$117,076, for a total of \$170,162.

The District's investments at June 30, 2014 consist of certificates of deposit with maturities as follows: May 2015 - \$1,127,322; and August 2014 - \$610,260, for a total of \$1,737,582. Of that amount \$0 is restricted and \$1,737,582 is unrestricted.

The District's investments at June 30, 2013 consist of certificates of deposit with maturities as follows: February 2014 - \$480,915; May 2014 - \$1,120,071; and August 2013 - \$606,497, for a total of \$2,207,483. Of that amount \$218,436 is restricted and \$1,989,047 is unrestricted.

#### NOTE C CAPITAL ASSETS

A summary of the District's Capital Assets, at June 30, 2014 and 2013 follows:

	July 01, 2012	Additions	Deletions	June 30, 2013
Construction in Process	\$ -	\$ 291,174	\$ -	\$ 291,174
Land	5,477	-	-	5,477
Buildings	22,667	-	-	22,667
Water system and equipment	1,605,250	21,335	-	1,626,585
Storage reservoirs	153,885	-	15,946	137,939
Fresno stilling basin	156,807	-	-	156,807
Marias pump stations	1,555,926	1,902	-	1,557,828
Marias water project	1,322,542	-	-	1,322,542
	<u>4,822,554</u>	<u>314,411</u>	<u>15,946</u>	<u>5,121,019</u>
Less accumulated depreciation	<u>2,032,863</u>	<u>115,698</u>	<u>14,084</u>	<u>2,134,477</u>
Total	<u>\$ 2,789,691</u>	<u>\$ 198,713</u>	<u>\$ 1,862</u>	<u>\$ 2,986,542</u>
	<b>July 01, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2014</b>
Construction in Process	\$ 291,174	\$ 70,830	\$ 362,004	\$ -
Land	5,477	-	-	5,477
Buildings	22,667	313,844	-	336,511
Water system and equipment	1,626,585	-	-	1,626,585
Storage reservoirs	137,939	-	-	137,939
Fresno stilling basin	156,807	-	-	156,807
Marias pump stations	1,557,828	2,031	-	1,559,859
Marias water project	1,322,542	-	-	1,322,542
	<u>5,121,019</u>	<u>386,705</u>	<u>362,004</u>	<u>5,145,720</u>
Less accumulated depreciation	<u>2,134,477</u>	<u>121,651</u>	<u>-</u>	<u>2,256,128</u>
Total	<u>\$ 2,986,542</u>	<u>\$ 265,054</u>	<u>\$ 362,004</u>	<u>\$ 2,889,592</u>

#### NOTE D WATER SYSTEM COMMITMENT

The District has made commitments to connect to the Rocky Boy's/North Central Montana Regional Water System

continued

## Hill County Water District

### NOTES TO FINANCIAL STATEMENTS

*June 30, 2014*

#### **NOTE D WATER SYSTEM COMMITMENT, continued**

(ROBO System) as soon as that system is completed. That system will provide treated water to the users of the District negating the need for the District to have its own water treatment facility. Although the ROBO system has begun work on the intake at Tiber Reservoir, the ultimate completion date is unknown due to the uncertainty of funding.

#### **NOTE E LONG-TERM DEBT**

Long term debt at June 30, 2014 and 2013 consisted of the following:

	<u>July 01, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>
Revenue Bonds payable held by Department of Natural Resources and Conservation, 20 years with interest rate of 3.75%; secured by all revenue and property of the District.	\$ 589,000	\$ -	\$ 30,000	\$ 559,000
Total	\$ 589,000	\$ -	\$ 30,000	559,000
Less Current Portion of Bonds Payable				(15,000)
Total Non-Current Liabilities				\$ 544,000
	<u>July 01, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>
Revenue Bonds payable held by Department of Natural Resources and Conservation, 20 years with interest rate of 3.75%; secured by all revenue and property of the District.	\$ 559,000	\$ -	\$ 559,000	\$ -
Total	\$ 559,000	\$ -	\$ 559,000	-
Less Current Portion of Bonds Payable				-
Total Non-Current Liabilities				\$ -

continued

## Hill County Water District

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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#### **NOTE F RISK MANAGEMENT**

The District faces a considerable number of risks of loss, including: (a) damage to and loss of property and contents; (b) employee torts; (c) professional liability, (i.e. errors and omissions); (d) environmental damage; and (e) workers' compensation. Insurance is used to manage these risks. A commercial insurance policy transferring all risks of loss, except for relatively small deductible amounts, was purchased for property and content damage, employee torts and professional liabilities. Workers' Compensation Insurance is provided through the State of Montana. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **NOTE G RETIREMENT PLAN**

The District adopted a defined contribution (SIMPLE IRA) retirement plan covering employees who have earned at least \$5,000 in compensation during any prior year and who are expected to earn at least \$5,000 in the current year. The District has chosen to match employee contributions up to a maximum of 3% of the employee's compensation. The District's matching contributions totaled \$3,128 and \$3,175 for the years ended June 30, 2014 and 2013.

#### **NOTE H SUBSEQUENT EVENTS**

Management has performed an analysis of the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2014. Management has performed this analysis through January 06, 2015, the date the financial statements were available to be issued.

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  
Hill County Water District  
Hingham, Montana

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities of Hill County Water District, Hill County, Hingham, Montana, (the District) as of and for the year ended June 30, 2014, and have issued our report thereon dated January 06, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Havre, Montana  
January 06, 2015

**Hill County Water District**

**SCHEDULE OF FINDINGS**

*June 30, 2014*

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**Summary of Auditor's Results**

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*Financial Statements*

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weaknesses identified?                    \_\_\_\_\_ Yes              X   No
  
- Significant deficiencies identified that are not  
  considered to be material weaknesses?            \_\_\_\_\_ Yes              X   None Reported

Noncompliance material to financial statements noted?    \_\_\_\_\_ Yes              X   No

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**Financial Statement Findings**

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None

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**Summary Schedule of Prior Audit Findings**

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None