

RIVER ROCK COUNTY WATER AND SEWER DISTRICT

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2013

RIVER ROCK COUNTY WATER AND SEWER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
River Rock County Water and Sewer District
Belgrade, Montana

We have audited the accompanying financial statements of the major funds of River Rock County Water and Sewer District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

October 16, 2014
Board of Directors
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major funds of River Rock County Water and Sewer District, as of December 31, 2013, 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

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2014, on our consideration of the River Rock County Water and Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering River Rock County Water and Sewer District's internal control over financial reporting and compliance.

October 16, 2014

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2013**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 471,765	\$ 117,561	\$ 589,326
Prepaid expenses	3,229	3,786	7,015
Inventory	480	-	480
Accounts receivable	74,188	56,091	130,279
Taxes receivable	<u>-</u>	<u>132,488</u>	<u>132,488</u>
Total current assets	<u>549,662</u>	<u>309,926</u>	<u>859,588</u>
Noncurrent assets:			
Restricted cash and cash equivalents	87,298	244,357	331,655
Restricted investments	58,092	315,903	373,995
Capital assets, net	<u>1,721,758</u>	<u>7,322,747</u>	<u>9,044,505</u>
Total noncurrent assets	<u>1,867,148</u>	<u>7,883,007</u>	<u>9,750,155</u>
Total assets	<u>\$ 2,416,810</u>	<u>\$ 8,192,933</u>	<u>\$ 10,609,743</u>
LIABILITIES			
Current liabilities:			
Deferred revenue	\$ 3,079	\$ -	\$ 3,079
Bonds payable due within 1 year	<u>125,000</u>	<u>404,000</u>	<u>529,000</u>
Total current liabilities	<u>128,079</u>	<u>404,000</u>	<u>532,079</u>
Noncurrent liabilities			
Bonds payable	<u>880,000</u>	<u>5,674,405</u>	<u>6,554,405</u>
Total liabilities	<u>1,008,079</u>	<u>6,078,405</u>	<u>7,086,484</u>
NET POSITION			
Net investment in capital assets	716,758	1,244,342	1,961,100
Restricted for debt service	145,390	560,260	705,650
Unrestricted	<u>546,583</u>	<u>309,926</u>	<u>856,509</u>
Total net position	<u>\$ 1,408,731</u>	<u>\$ 2,114,528</u>	<u>\$ 3,523,259</u>

See accompanying notes to the financial statements.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Sewer services	\$ -	\$ 496,631	\$ 496,631
Water services	550,836	-	550,836
Water meter sales	<u>460</u>	<u>-</u>	<u>460</u>
Total operating revenue	<u>551,296</u>	<u>496,631</u>	<u>1,047,927</u>
Operating expenses:			
Advertising	15	15	30
Bank charges	1,134	1,440	2,574
Chemicals	19,469	-	19,469
Computer supplies	723	723	1,446
Contractual services	62,018	114,495	176,513
Depreciation	54,664	82,765	137,429
Insurance	7,278	9,393	16,671
Landscape and building maintenance	340	494	834
Material and supplies	5,290	11,313	16,603
Miscellaneous	125	125	250
Office supplies	815	815	1,630
Postage and shipping	2,187	2,207	4,394
Purchased power	49,284	59,946	109,230
Regulatory expense	2,327	2,327	4,654
Regulatory fees	318	888	1,206
Telephone	<u>1,692</u>	<u>1,839</u>	<u>3,531</u>
Total operating expenses	<u>207,679</u>	<u>288,785</u>	<u>496,464</u>
Operating income	<u>343,617</u>	<u>207,846</u>	<u>551,463</u>
Nonoperating revenues (expenses):			
Property tax revenue	-	259,531	259,531
Interest income	742	800	1,542
Interest expense	<u>(29,883)</u>	<u>(69,664)</u>	<u>(99,547)</u>
Total nonoperating revenues (expenses)	<u>(29,141)</u>	<u>190,667</u>	<u>161,526</u>
Increase in net position	<u>314,476</u>	<u>398,513</u>	<u>712,989</u>
Net position, beginning of year	1,094,255	1,606,227	2,700,482
Prior period adjustment	<u>-</u>	<u>109,788</u>	<u>109,788</u>
Net position, beginning of year as restated	<u>1,094,255</u>	<u>1,716,015</u>	<u>2,810,270</u>
Net position, end of year	<u>\$ 1,408,731</u>	<u>\$ 2,114,528</u>	<u>\$ 3,523,259</u>

See accompanying notes to the financial statements.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 516,865	\$ 491,826	\$ 1,008,691
Cash paid to suppliers	<u>(156,244)</u>	<u>(199,352)</u>	<u>(355,596)</u>
Net cash provided by operating activities	<u>360,621</u>	<u>292,474</u>	<u>653,095</u>
Cash flows from capital and related financing activities:			
Principal paid on capital debt	(153,000)	(372,000)	(525,000)
Proceeds from issuance of capital debt	-	4,251,037	4,251,037
Property tax receipts	-	251,831	251,831
Interest paid on capital debt	(29,883)	(69,664)	(99,547)
Acquisition of capital assets	<u>(9,700)</u>	<u>(4,318,904)</u>	<u>(4,328,604)</u>
Net cash used by capital and related financing activities	<u>(192,583)</u>	<u>(257,700)</u>	<u>(450,283)</u>
Cash flows from investing activities:			
Proceeds from maturity of investments	123,274	-	123,274
Interest on investments	<u>742</u>	<u>800</u>	<u>1,542</u>
Net cash provided by investing activities	<u>124,016</u>	<u>800</u>	<u>124,816</u>
Net change in cash	292,054	35,574	327,628
Cash and cash equivalents, beginning	<u>267,009</u>	<u>326,344</u>	<u>593,353</u>
Cash and cash equivalents, ending	<u>\$ 559,063</u>	<u>\$ 361,918</u>	<u>\$ 920,981</u>
Cash and cash equivalents , as presented on the statement of net position:			
Cash and cash equivalents	\$ 471,765	\$ 117,561	\$ 589,326
Restricted cash and cash equivalents	<u>87,298</u>	<u>244,357</u>	<u>331,655</u>
Total cash and cash equivalents	<u>\$ 559,063</u>	<u>\$ 361,918</u>	<u>\$ 920,981</u>

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 343,617	\$ 207,846	\$ 551,463
Adjustments:			
Depreciation	54,664	82,765	137,429
(Increase) decrease in current assets:			
Accounts receivable	(33,927)	(4,805)	(38,732)
Prepaid expenses	(3,229)	6,668	3,439
Increase (decrease) in current liabilities:			
Deferred revenue	(504)	-	(504)
Total adjustments	<u>17,004</u>	<u>84,628</u>	<u>101,632</u>
Net cash provided by operating activities	<u>\$ 360,621</u>	<u>\$ 292,474</u>	<u>\$ 653,095</u>

Supplemental Schedule of Non-cash Investing and Financing Activities:

None.

See accompanying notes to the financial statements.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the River Rock County Water and Sewer District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The River Rock County Water and Sewer District was formed by a mail ballot election on April 11, 2001, voted by the residents and landowners within the designated boundaries of the water and sewer district in the unincorporated area known as the River Rock Subdivision located within the boundaries of Gallatin County, Montana pursuant to Title 7, Chapter 13, Parts 22 and 23 of the Montana Code Annotated. The purpose of the District is to provide a public water supply and distribution system and a wastewater collection and treatment facility within its boundaries, and to do all things necessary and proper to maintain and operate these facilities as required by law and the bylaws of the District.

B. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the District's operating statements. The District is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported and equity is reported as net assets.

The term basis of accounting is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

C. Cash and Investments

The District is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchased agreements, and the State Short-Term Investment Pool (STIP).

As of December 31, 2013, the District had certificates of deposit, which are classified as either investments or restricted investments on the balance sheet. These certificates of deposit had an original maturity of at least three months and therefore, for the purpose of the cash flow statement, are not considered cash and cash equivalents.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments (Continued)

As of December 31, 2013, the District did not have investments as defined by GASB Statement 40.

D. Accounts Receivable

No allowance has been made for uncollectible accounts because the District either discontinues services until payment is made or submits any delinquent accounts to the County Treasurer for collection.

E. Taxes Receivable

Property tax levies are set by the Counties, in connection with the budget process, and are based on taxable values listed as of January 1 for all real property located in the Department. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable one half by November 30 and one half by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month from the time of delinquency until paid plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is seized and sold after the taxes become delinquent.

F. Capital Assets

The District's capital assets are capitalized at historical cost or estimated historical cost. Contributions of capital assets are recorded at fair market value when received. Depreciation of capital assets is calculated using the straight-line method with estimated useful lives as follows:

Water and sewer system	50 years
Equipment	5 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Replacements, which improve or extend the life of an asset, are capitalized.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Budget

The District is not legally required to adopt a budget; therefore management has decided not to present the budget in the financial statements.

H. Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are water and wastewater user charges. Revenue from user charges and sales of services is recognized as the related service is provided. Refunds to customers are charged to income in the period in which those refunds are paid. Operating expenses include the costs associated with the conveyance of water and wastewater, treatment of wastewater, administrative expenses, and depreciation of capital assets.

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

I. Capital Contributions

Contributions are recognized in the statement of revenues, expenses and changes in net assets when received. Contributions include developer contributed utility systems.

J. Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Inventory

Inventory is recorded at lower of cost or market and consists of water meters on hand not yet purchased by customers.

L. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District's policy is to apply restricted resources first.

M. Property Taxes

Property tax levies are set by the County, in connection with the budget process, and are based on taxable values listed as of January 1 for all real property located in the District. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Property Taxes (Continued)

Real property taxes and special assessments are generally billed in October and are payable one half by November 30 and one half by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month from the time of delinquency until paid plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is seized and sold after the taxes become delinquent.

2. DEPOSITS

Custodial credit risk. To minimize credit risk in relation to the District's deposits, it is the District's policy to have uninsured deposits covered by collateral held by the pledging bank's agent in the District's name. As of December 31, 2013, the carrying amount of the District's deposits (cash and certificates of deposits) at local banks was \$1,294,977 and the bank balance was \$1,297,943. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was covered by collateral held by the pledging bank's agent in the District's name.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2013 was as follows:

	Beginning Balance <u>As Restated</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance
Capital assets not being depreciated				
Sewer construction in progress	<u>\$ 657,985</u>	<u>\$ 4,271,034</u>	<u>\$(4,929,019)</u>	<u>\$ -</u>
Capital assets being depreciated:				
Sewer infrastructure	3,122,563	4,976,889	-	8,099,452
Water infrastructure	2,222,350	7,750	-	2,230,100
Equipment	<u>34,326</u>	<u>1,950</u>	-	<u>36,276</u>
Totals at historical cost	<u>5,379,239</u>	<u>4,986,589</u>	-	<u>10,365,828</u>
Less accumulated depreciation for:				
Sewer infrastructure	(693,940)	(82,765)	-	(776,705)
Water infrastructure	(480,088)	(49,408)	-	(529,496)
Equipment	<u>(9,866)</u>	<u>(5,256)</u>	-	<u>(15,122)</u>
Total depreciation	<u>(1,183,894)</u>	<u>(137,429)</u>	-	<u>(1,321,323)</u>
Net depreciable capital assets	<u>4,195,345</u>	<u>4,849,160</u>	-	<u>9,044,505</u>
Capital assets, net	<u>\$ 4,853,330</u>	<u>\$ 9,120,194</u>	<u>\$(4,929,019)</u>	<u>\$ 9,044,505</u>

During 2013, \$50,625 of interest cost was capitalized. As of December 31, 2013, \$55,754 of interest costs has been capitalized and is included in the capital assets total.

4. LONG-TERM DEBT

The following is a summary of long-term debt at December 31, 2013:

Revenue bonds

On May 4, 2001, pursuant to the Montana Water Pollution Control State Revolving Fund Act and using funds from the revolving loan program, the Department of Natural Resources and Conservation of the State of Montana (DNRC) purchased a \$2,100,000 revenue bond from the District. The District used these funds to purchase the water system. This loan was refinanced as of May 1, 2013 in the amount of \$1,158,000. This loan has an interest rate of 2% and is payable over ninety eight (98) months, which is the same as the remaining term of the original bond. Principal and interest payments are approximately \$72,000 and are due semi-annually until July 1, 2021. The balance of this loan as of December 31, 2013 was \$1,005,000.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

4. LONG-TERM DEBT (Continued)

On May 4, 2001, pursuant to the Montana Water Pollution Control State Revolving Fund Act and using funds from the revolving loan program, the Department of Natural Resources and Conservation of the State of Montana (DNRC) purchased a \$3,100,000 revenue bond from the District. The District used these funds to purchase the sewer system. This loan was refinanced as of May 1, 2013 in the amount of \$1,742,000. This loan has an interest rate of 2% and is payable over ninety eight (98) months, which is the same as the remaining term of the original bond. Principal and interest payments are approximately \$111,000 and are due semi-annually until July 1, 2021. The balance of this loan as of December 31, 2013 was \$1,539,000.

On July 19, 2012, pursuant to the Montana Water Pollution Control State Revolving Fund Act and using funds from the revolving loan program, the Department of Natural Resources and Conservation of the State of Montana (DNRC) purchased a \$300,000 revenue bond from the District. The District used these funds to construct a wastewater treatment plant. This loan is scheduled to be forgiven at the completion of stated requirements. Until that time, the loan carries a 0% interest rate. If not forgiven, the loan is payable in 20 semi-annual installments, which vary from approximately \$4,000 to \$16,000 until July 1, 2032. The balance of this loan as of December 31, 2013 was \$300,000.

On July 19, 2012, pursuant to the Montana Water Pollution Control State Revolving Fund Act and using funds from the revolving loan program, the Department of Natural Resources and Conservation of the State of Montana (DNRC) purchased an \$85,220 general obligation bond from the District. The District used these funds to construct a wastewater treatment plant. This loan has an interest rate of 3% and is payable in 40 semi-annual installments, which are approximately \$3,000, until July 1, 2032. The balance of this loan as of December 31, 2013 was \$79,000.

On July 19, 2012, pursuant to the Montana Water Pollution Control State Revolving Fund Act and using funds from the revolving loan program, the Department of Natural Resources and Conservation of the State of Montana (DNRC) purchased a \$3,834,780 general obligation bond from the District. The District used these funds to construct a wastewater treatment plant. This loan has an interest rate of 3% and is payable in 40 semi-annual installments, which are approximately \$128,000, until July 1, 2032. The balance of this loan as of December 31, 2013, was \$3,616,509.

On September 26, 2013, pursuant to the Montana Water Pollution Control State Revolving Fund Act and using funds from the revolving loan program, the Department of Natural Resources and Conservation of the State of Montana (DNRC) purchased a \$1,100,000 revenue bond from the District. The District used these funds to construct a wastewater treatment plant. This loan has an interest rate of 3% and is payable in 40 semi-annual installments, which will be approximately \$37,000 (when the full \$1,100,000 has been drawn) until July 1, 2033. As of December 31, 2013, the District had only requested \$563,896 of the available funds. The balance of this loan as of December 31, 2013 was \$543,896 however, during 2014 the District received the remaining loan from DNRC. The following schedule of annual debt service requirements to maturity and the reserve and revenue requirements were calculated using the payments for this loan, which were calculated by DNRC using the full amount of the loan.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

4. LONG-TERM DEBT (Continued)

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2013, are as follows:

Fiscal year ended December 31	Principal	Interest
2014	\$ 529,000	\$ 191,185
2015	541,000	178,905
2016	552,000	166,340
2017	565,000	153,485
2018	577,000	140,310
2019-2021	<u>4,319,405</u>	<u>820,501</u>
Total	<u>\$ 7,083,405</u>	<u>\$ 1,650,726</u>

Changes in Long-term Debt

The following is a summary of changes in bonds payable for the year ended December 31, 2013:

	Balance 12/31/2012	Reductions	Additions	Balance 12/31/2013	Amount Due Within One Year
Water	<u>\$ 1,158,000</u>	<u>\$ (153,000)</u>	<u>\$ -</u>	<u>\$ 1,005,000</u>	<u>\$ 125,000</u>
Sewer	<u>\$ 2,199,638</u>	<u>\$ (372,000)</u>	<u>\$ 4,250,767</u>	<u>\$ 6,078,405</u>	<u>\$ 404,000</u>

Pledged assets

All gross revenues and receipts from fees and charges and all income received from the investment of such gross revenues are pledged for the availability, benefit and use of the water and sewer systems.

Restrictive covenants

- a. Adjusted net revenues during each fiscal year must not be less than 120% of the maximum annual principal and interest payable on any outstanding bonds in the current or any future year, which results in a minimum adjusted net revenues of \$174,468 and \$672,312, respectively, for the water and sewer funds. For the year ended December 31, 2013, the water and sewer funds adjusted net revenues met this requirement.
- b. A reserve account of at least \$145,390 and \$560,260, respectively, must be maintained for the water and sewer funds. These reserve balances equal the highest future debt payments of principle and interest.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

5. NET ASSETS – RESTRICTED

Net assets are restricted as follows:

Restricted for debt service – Water Fund	<u>\$ 145,390</u>
Restricted for debt service – Sewer Fund	<u>\$ 560,260</u>

6. RISK MANAGEMENT

The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) professional liability (i.e. errors and omissions), and c) environmental damage. The District has purchased commercial insurance to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

7. PRIOR PERIOD ADJUSTMENTS

In calendar year 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement 65 “Items Previously Reported as Assets and Liabilities”. The objective of Statement 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources.

Another aspect of implementing Statement 65 resulted in the reclassification of the beginning net position of the sewer fund. The deferred charges for issuance costs of \$15,000 were reclassified as expense of prior periods and resulted in the adjustment below.

Beginning in 2012, the District received tax revenue. As of December 31, 2012, taxes receivable were not recorded in the financial statements. As of December 31, 2013, a prior period adjustment of \$124,788 was posted to beginning net position to reflect the amount of taxes receivable as of December 31, 2012.

A summary of these adjustments is a follows:

Net position at December 31, 2012	\$ 1,606,227
Change in reporting for deferred charges for debt issuance costs	(15,000)
Taxes receivable not reported as of December 31, 2012	<u>124,788</u>
Net position at December 31, 2012, restated	<u>\$ 1,716,015</u>

**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***

To the Board of Directors
River Rock County Water and Sewer District
Belgrade, 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 major funds of River Rock County Water and Sewer District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise River Rock County Water and Sewer District's basic financial statements, and have issued our report thereon dated October 16, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered River Rock County Water and Sewer 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 River Rock County Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of River Rock County Water and Sewer 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, 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 in the accompanying schedule of findings and responses that we consider to be significant deficiencies 13-01 and 13-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether River Rock County Water and Sewer 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*.

River Rock County Water and Sewer District's Response to Findings

River Rock County Water and Sewer District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. River Rock County Water and Sewer District's response was not subjected 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 result 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.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

INTERNAL CONTROL

13-01 Segregation of duties

The District has one person, an independent contractor, who handles all of the accounting functions and who has sole access to the accounting software. It would be inefficient, considering the size of the District, for the District to hire personnel or another independent contractor to achieve optimal internal controls. The District has taken steps to involve Board members and to obtain the most efficient and effective internal controls possible.

Management's response

We feel that internal controls are very important and we have established procedures that result in efficient and effective internal controls over the District's daily operations and financial reporting. These procedures include: Board members writing and signing all of the checks, Board review of financial statements each month, and Board member review of the bank statement each month.

13-02 Budget Preparation and Monitoring

The District constructed a new sewer plant which required the acquisition of new debt and increased expenditures. With the addition of increased debt payments and expenditures, as well as covenants that require certain annual minimum net operating results, we suggest that an annual budget be developed. Once developed, the District would be able to monitor the increased expenditures and results of operations throughout the year to ensure compliance with loan covenants and debt requirements.

Management's response

Management concurs and plans to develop a budget in future years.

**RIVER ROCK COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Resolution</u>
12-01 Segregation of duties	See 13-01
12-02 Budget preparation and monitoring	See 13-02

October 16, 2014

To the Board of Directors
River Rock County Water and Sewer District
Belgrade, Montana

In planning and performing our audit of the financial statements of River Rock County Water and Sewer District for the year ended December 31, 2013, we considered its internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we noticed an opportunity to strengthen your internal controls and operating efficiency. We have enclosed a recommended item for your review. This letter does not affect our report, dated October 16, 2014, on River Rock County Water and Sewer District's financial statements.

We will review the status of this comment during our next audit engagement. Please feel free to contact us at your convenience if we may assist you in implementing this recommendation.

Sincerely,

HOLMES & TURNER

Enclosure:
As stated

October 16, 2014
Board of Directors
Page two

Management Letter Recommendations

Accounts receivable reconciliation

As we reviewed accounts receivable and compared the amount reported per Black Mountain with the amount reported in QuickBooks, we noted that the two amounts did not match. We also found that these amounts are not reconciled, although the difference is not a material amount. As a result, the financial reports that are generated from QuickBooks and reviewed by the Board of Directors each month do not reflect the most accurate information. We recommend that a journal entry be posted each month in QuickBooks to adjust accounts receivable to equal the amount outstanding per Black Mountain.

Management's response

We will implement the above recommendation.

October 16, 2014

To the Board of Directors
River Rock County Water and Sewer District
Belgrade, Montana

We have audited the financial statements of the major funds of River Rock County Water and Sewer District for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter dated January 9, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by River Rock County Water and Sewer District are described in Note one to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the River Rock County Water and Sewer District's financial statements were:

Management's estimate of the depreciable lives of long-lived assets is based on management's knowledge of the asset and its expected useful life.

Management's estimate of the collectability of accounts receivable is based on management's knowledge of, and history with, existing customers, as well as the ability to place liens on properties.

October 16, 2014
Board of Directors
Page two

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes corrected and uncorrected misstatements of the financial statements. Management has determined that the effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 16, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

October 16, 2014
Board of Directors
Page three

Restriction on Use

This information is intended solely for the use of the Board and management of River Rock County Water and Sewer District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

HOLMES & TURNER

Prepared by _____

**River Rock Water & Sewer District
Adjusting Journal Entries**

RIVER
Page 1

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
AJE01	Adjusting	12/31/13				
		2-1550	Sewer System	4,075.00		
		2-5170	Contractual Svcs - Repairs		4,075.00	
		2-1550	Sewer System	8,150.00		
		1-5130	Materials & Supplies		8,150.00	
		2-1550	Sewer System	6,039.60		
		2-6220	Materials & Supplies		6,039.60	
		1-1500	Water system	7,750.00		
		1-5130	Materials & Supplies		7,750.00	
		1-1555	Water Equipment	1,950.00		
		1-5160	Contractual Svcs-Other		1,950.00	
			Reclass fixed assets from expense accounts			
AJE02	Adjusting	12/31/13				
		2-6230	Contractual Svcs-Other (Rpr...)		44,605.00	
		2-1550	Sewer System	44,605.00		
			Reclass fixed assets			
AJE03	Adjusting	12/31/13				
		1-4000	Metered Revenues-Water	409.25		
		2-4100	Metered Revenues-Sewer	409.25		
		1-1200	Accounts receivable - Water		409.25	
		2-1200	Accounts receivable - Sewer		409.25	
			Write-off uncollectible A/R			
AJE04	Adjusting	12/31/13				
		0-1200	Accounts Receivable	30,046.38		
		1-1200	Accounts receivable - Water		27,523.27	
		2-1200	Accounts receivable - Sewer	5,214.85		
		1-4000	Metered Revenues-Water		2,878.52	
		2-4100	Metered Revenues-Sewer		4,859.44	
			Adjust A/R to actual			
AJE05	Adjusting	12/31/13				
		1-7070	Contractual Svcs-Maintenance	513.00		
		1-1560	WWTP Project Expenses		513.00	
			Reclass water repair from WWTP expense			
AJE06	Adjusting	12/31/13				
		2-3900	Retained Earnings- Prior years	15,000.00		
		2-1560	WWTP Project expenses		15,000.00	

Prepared by _____

**River Rock Water & Sewer District
Adjusting Journal Entries**

RIVER
Page 2

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
			Reclass bond issuance cost from prior year			
AJE07	Adjusting	12/31/13				
		0-1070	Prepaid expenses	10,453.96		
		2-1070	Prepaid expenses		10,453.96	
		0-3900	Retained Earnings-Prior Years		0.01	
		0-4050	Reconciliation Discrepancies	0.06		
		1-7150	Telephones		0.05	
			Adjust account to correct class			
AJE08	Adjusting	12/31/13				
		1-1000	Checking - BSWB-Water	110.44		
		2-7010	Contractual Svcs - Director Fee		80.00	
		1-7010	Contractual Svcs-Director Fees		80.00	
		1-7175	Overpayment Refund		30.44	
		2-1000	Checking - BSWB - Sewer	80.00		
			Remove long outstanding checks			
AJE09	Adjusting	12/31/13				
		1-1070	Prepaid expenses	3,229.19		
		2-1070	Prepaid expenses	3,785.86		
		1-7080	Insurance		3,229.19	
		2-7080	Insurance		3,785.86	
			Adjust for prepaid insurance			
AJE10	Adjusting	12/31/13				
		0-8010	Water Meter Sales	95.26		
		1-5130	Materials & Supplies		95.26	
			Reclass meter sales			
AJE11	Adjusting	12/31/13				
		2-1000	Checking - BSWB - Sewer	41,494.00		
		2-1066	CD - BSWB- Debt Svc Acct		41,494.00	
			Reclass checks being held to deposit in CD. Amount still actually in checking.			

Prepared by _____

**River Rock Water & Sewer District
Adjusting Journal Entries**

RIVER
Page 3

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
AJE12	Adjusting	12/31/13				
		2-1560	WWTP Project expenses	50,625.26		
		2-9018	Interest Expense - Loan D		143.11	
		2-9016	Interest Expense - Loan C		47,333.55	
		2-9010	Interest Expense-Sewer Bonds		3,148.60	
			Capitalize interest on sewer plant project			
AJE13	Adjusting	12/31/13				
		1-5399	Depreciation	54,664.05		
		1-1699	Accumulated depreciation		54,664.05	
		2-6399	Depreciation	82,765.08		
		2-1699	Accumulated depreciation		82,765.08	
			Record 2013 depreciation			
AJE14	Adjusting	12/31/13				
		1-8000	Interest Income		742.03	
		2-8000	Interest income		742.02	
		0-8000	Interest Income	1,484.05		
			Re-class interest income			
AJE15	Adjusting	12/31/13				
		1-6000	Sewer Operation & Maintenan	662.33		
		1-4500	Maintenance Svcs Reimburserr		662.33	
			Reclass operation/maintenance deposit			
AJE16	Adjusting	12/31/13				
		2-1000	Checking - BSWB - Sewer	4,684.60		
		1-1000	Checking - BSWB-Water	54,459.30		
		1-1040	Money Market-Water	50,804.25		
		1-1050	MM-Cap Imp-Water	519.80		
		0-1000	Checking-Big Sky Western		59,143.90	
		0-1040	Money Market Account		50,804.25	
		0-1050	Money Market (Cap Imp)		519.80	
		1-1000	Checking - BSWB-Water	61,608.00		
		2-1000	Checking - BSWB - Sewer		61,608.00	
			To re-class cash to correct fund			
AJE17	Adjusting	12/31/13				
		1-2200	Deferred revenue	503.63		
		1-4000	Metered Revenues-Water		503.63	

Prepared by _____

**River Rock Water & Sewer District
Adjusting Journal Entries**

RIVER
Page 4

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
Adjust deferred revenue to actual						
AJE18	Adjusting	12/13/13				
		2-1061	CD-BSWB-140-Sewer	61,665.64		
		1-1061	CD-BSWB-140-Water		61,608.13	
		2-8000	Interest income		57.51	
Reclass CD#140.						
AJE19	Adjusting	12/31/13				
		2-1250	Taxes receivable	132,487.95		
		2-8040	Tax Revenue account		132,487.95	
		2-3905	Prior period adjustment		124,788.10	
		2-8040	Tax Revenue account	124,788.10		
Post taxes receivable.						
PJE01	Potential	12/31/13				
		1-5110	Purchased Power	2,858.47		
		2-6210	Purchased Power	6,234.85		
		1-2000	Accounts Payable - Water		2,858.47	
		2-2000	Accounts payable - sewer		6,234.85	
Record accounts payable						
PJE02	Potential	12/31/13				
		1-3900	Retained earnings - Prior Years	2,800.50		
		1-5110	Purchased Power		2,800.50	
		2-3900	Retained Earnings- Prior years	4,740.25		
		2-6210	Purchased Power		4,740.25	
Adjust for prior year payable not recorded						
PJE03	Potential	12/31/13				
		1-1200	Accounts receivable - Water	2,714.21		
		2-1200	Accounts receivable - Sewer	2,714.21		
		1-4100	Accrued Metered Revenue		2,714.21	
		2-4200	Accrued Metered Revenue		2,714.21	
Record accrual of unbilled receivable						
PJE04	Potential	12/31/13				
		1-1200	Accounts receivable - Water	4,248.00		
		1-4200	Landmark Water Usage		4,248.00	
To record revenue in correct period						

Prepared by _____

Reviewed by _____

**River Rock Water & Sewer District
Adjusting Journal Entries**

<u>Reference</u>	<u>Type</u>	<u>Date Account Number</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>	<u>Misstatement</u>
PJE05	Potential	12/31/13				
		1-3900	Retained earnings - Prior Years	3,670.60		
		1-1200	Accounts receivable - Water		3,670.60	
			Adjust AR for Landmark.			
		TOTAL		<u>895,114.23</u>	<u>895,114.23</u>	