

**COUNTY WATER DISTRICT OF  
BILLINGS HEIGHTS**

**AUDITED FINANCIAL STATEMENTS**

**June 30, 2014 and 2013**

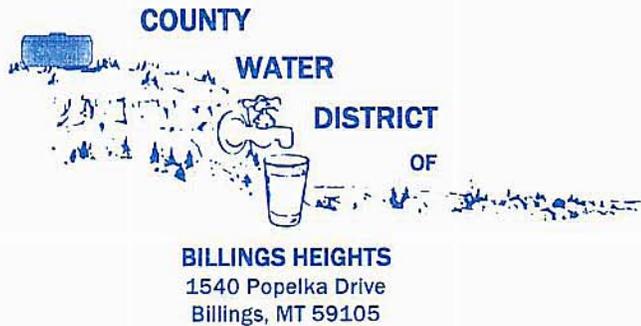
**COUNTY WATER DISTRICT OF  
BILLINGS HEIGHTS**

**AUDITED FINANCIAL STATEMENTS**

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DIRECTORS  
WYNN PIPPIN, President  
CLIFF JONES, Vice-President  
DONNA DINSMORE  
JAMES E. MILLER  
JON MUESSIG  
BUDGE G. PARKER  
ROBERT "BUD" DUNHAM



DUKE NIESKENS  
General Manager

Phone: 252-0539  
Fax: 252-0518

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## MANAGEMENT DISCUSSION AND ANALYSIS

My discussion and analysis of the County Water District of Billings Heights' (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the District's financial statements that begin on page 9.

### HIGHLIGHTS

#### **Financial Highlights**

- The District's net position decreased by approximately \$23,000 or .19% as a result of this year's operations as compared to an increase of approximately \$1,018,000 (9.31%) for the year ended June 30, 2013. The State of Montana DNRC forgave a \$500,000 loan due from the District during the year ended June 30, 2013 which increased net position by this amount.
- Operating revenues decreased by approximately \$746,000 or 19.14%. Water usage revenue decreased approximately \$326,000, service line fees decreased by \$141,000, hydrant rent decreased by \$237,000 and system buy-in fees decreased approximately \$37,000. The decrease in water usage revenue was mainly due to the wet fall and spring in the area. Due to the wetter conditions, less lawn watering was required through June 2014. The decrease in system buy-in fees and service line fees was due to decreased construction in the area compared to the prior year.
- Operating expenses for the year decreased by approximately \$244,000 or 7.01%. Most expenses remained relatively stable over the prior year and within budget. Inflationary costs affected most expense categories. A substantial decrease was noted with respect to water purchased due to less water usage revenues. Increases were noted with respect to depreciation, repairs, office expenses, and taxes.
- The District invested approximately \$1,576,800 in capital assets during the year ended June 30, 2014. The increase was primarily attributable to building a new water booster station, and purchases of vehicles and other equipment.
- Due to a decrease in revenues and use of the funds, the board designated capital improvement funds decreased by approximately \$936,000 or 17.93%.
- The District received a loan for \$1,038,000 from the State of Montana, through its Drinking Water State Revolving Fund Program. \$500,000 of the loan was forgiven since covenants were met by the District. The balance of \$538,000 will bear interest at 3.00% and be payable in semi-annual installments over 20 years.

### **Authority Highlights**

- The District continued to proceed on several initiatives relating to updating the water distribution system and planning for future growth in terms of District boundaries, local development, and number of consumers.
- The District's service area continues to experience development which is putting additional strain on the existing infrastructure.
- Rate increases were implemented by the District in July 2013, 2012, and 2011 in response to a substantial increase in rates by the District's supplier of water. Management had determined that they would pass on the rate increases imposed by its supplier of water over a three-year period. Rates also increased in August 2014.

### **USING THIS ANNUAL REPORT**

This annual report consists of two parts; Management's Discussion and Analysis, and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

### **Required Financial Statements**

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities and provides answers to such questions as "from where did cash come?", "for what was cash used?", and "what was the change in cash balance during the reporting period?".

### **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?". The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

report information about the District’s activities in a way that will help answer this question. These two statements report the net position of the District and changes to them. You can think of the District’s net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the District’s net position are one indicator of whether its financial health is improving or deteriorating. However, you will also need to consider non-financial factors such as changes in economic conditions, population growth, new or changed legislation, and the District’s relation to the City of Billings, the District’s provider of water.

The District’s net position decreased from June 30, 2013 to June 30, 2014 by approximately \$23,000. The decrease mainly related to lower overall revenues for the year due to wetter weather conditions and no longer receiving the hydrant rent income from the City of Billings. The increase in the prior year, from June 30, 2012 to June 30, 2013 was approximately \$1,018,000. Our analysis focuses on the District’s net position (Table 1) and changes in net position (Table 2) during the years.

**Table 1**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 1,006,986	\$ 1,289,076	\$ 1,163,580
Capital Assets	7,534,547	6,410,805	6,421,413
Investments and Other Assets	<u>4,282,600</u>	<u>5,218,994</u>	<u>4,854,297</u>
Total Assets	<u>\$ 12,824,133</u>	<u>\$ 12,918,875</u>	<u>\$ 12,439,290</u>
Current Liabilities	\$ 239,530	\$ 303,861	\$ 377,347
Customer Deposits	200,855	195,615	192,185
Long-Term Liabilities	<u>459,000</u>	<u>472,000</u>	<u>940,338</u>
Total Liabilities	<u>\$ 899,385</u>	<u>\$ 971,476</u>	<u>\$ 1,509,870</u>
Net Position:			
Net Investment in Capital Assets	\$ 7,534,547	\$ 6,410,805	\$ 6,421,413
Investment Funds, Board			
Designated and Restricted	4,282,600	5,218,994	4,854,297
Unrestricted	68,482	278,481	(385,409)
Restricted: Loan Reserve Account	<u>39,119</u>	<u>39,119</u>	<u>39,119</u>
Total Net Position	<u>\$ 11,924,748</u>	<u>\$ 11,947,399</u>	<u>\$ 10,929,420</u>

During the fiscal year ended June 30, 2003, the District paid off the remaining long-term debt obligation related to construction of its original infrastructure. The District has been able to pay for water distribution system improvements and other capital asset acquisitions with net operating income and thereby minimizing the need to draw down on the capital improvement investment funds. However, this also has left the District a low level of unrestricted funds. During the year ended June 30, 2011, the District received a \$1,038,000 loan from the State of Montana and the Drinking Water State Revolving Fund Program to pay for improvements of the water distribution system and other capital assets.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the years.

**Table 2**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Water Sales	\$ 2,955,081	\$ 3,281,333	\$ 3,027,306
Other Operating Revenues	195,058	614,994	351,555
Non-Operating Revenues	<u>63,548</u>	<u>102,165</u>	<u>140,312</u>
Total Revenues	\$ 3,213,687	\$ 3,998,492	\$ 3,519,173
Operating Expenses	<u>3,236,338</u>	<u>3,480,513</u>	<u>3,348,541</u>
Change in Net Position	\$ (22,651)	\$ 517,979	\$ 170,632
Increase in Net Position			
Due to Debt Forgiveness	0	500,000	0
Net Position, Beginning of Year	<u>11,947,399</u>	<u>10,929,420</u>	<u>10,758,788</u>
Net Position, End of Year	<u>\$ 11,924,748</u>	<u>\$ 11,947,399</u>	<u>\$ 10,929,420</u>

Total revenues reflect a decrease of 19.63% from 2013 to 2014 as a result of a decrease in water sales due to a wetter fall and early spring. Also, there was a large decrease in other operating revenues due to the hydrant rent no longer being received and system buy in fees and service line fees were lower. The revenues reflected an increase of 13.62% from 2012 to 2013 also as a result of an increase in water sales due to an extremely dry spring and early summer as well as the July 2012 rate increase.

Operating expenses decreased by approximately 7.02% from 2013 to 2014. Water purchased decreased due to less water sales while most other operating expenses were reasonable to prior years. Operating expenses increased by approximately 3.94% from 2012 to 2013. That was primarily due to increases in water purchased, depreciation, employee benefits and interest expense.

## **THE DISTRICT'S FUNDS**

The County Water District of Billings Heights was established on August 29, 1958 and revenue bonds were issued in 1963 to fund construction of the District's original water distribution system. The "1-1-63 Bond Resolution", as it was called, required the District to maintain six separate funds. The final bonds were paid off on January 2, 2003 and use of the six separate funds was discontinued at the end of that fiscal year. Currently the District maintains a single proprietary fund which reports all revenues and expenses of the District.

## **CAPITAL ASSETS**

As of June 30, 2014, the District had \$13,726,555 invested in a broad range of capital assets including its water distribution system, pump stations, meters and related equipment, maintenance equipment, vehicles, and office equipment. This amount represents an increase of approximately \$1,576,800, or 12.97% over the prior year. The increase was primarily attributable to capital improvements for a water booster station, meters, etc. (\$1,565,800) and vehicles and maintenance equipment (\$24,700). During the year ended June 30, 2013, capital assets increased by approximately \$356,000. The increase was primarily attributable to \$356,000 in capital improvements for a generator, meters, pump stations, and maintenance equipment, etc.

## **ECONOMIC FACTORS AND FUTURE RATES**

The number of services billed for the June 2014 billing cycle (5,297) was up by 86 meters over the prior year and water usage by the District decreased by approximately 123 million gallons; bills for 795 million gallons of water were issued for the latest fiscal year. That is down from 918 million gallons in the prior year. Continuing commercial and residential development within and surrounding the District will continue to put strains on the water distribution system and additional capital assets will be necessary to satisfactorily service the District's customers.

Effective with the July 2013, 2012, and 2011 billing cycles, rate increases were adopted by the District's Board of Directors. The District's sole provider of water, the City of Billings, Montana, adopted new rates that substantially increased the District's cost of water purchased in 2004 and 2011. It was the District's intention to pass the increased costs on to its consumers over a three-year phase-in period. The District also recently increased rates that went into effect in August 2014.

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

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's general manager at County Water District of Billings Heights, 1540 Popelka Drive, Billings, Montana 59105.

## INDEPENDENT AUDITORS' REPORT

Summers McNea, P.C.  
80 25th Street West  
Billings, Montana 59102  
406.652.2320  
Toll-Free: 1.800.468.5333  
Fax: 406.652.2043  
[www.summers-mcnea.com](http://www.summers-mcnea.com)

Board of Directors  
County Water District of Billings Heights  
Billings, Montana

### ***Report on the Financial Statements***

We have audited the accompanying statements of net position of County Water District of Billings Heights (a county water district as defined in Title 7, Chapter 13, Parts 22 & 23, Montana Code Annotated) as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### ***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 audits 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.

(CONTINUED ON NEXT PAGE)

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of County Water District of Billings Heights as of June 30, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014, on our consideration of County Water District of Billings Heights' 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 County Water District of Billings Heights internal control over financial reporting and compliance and should be read in conjunction with this report in considering the results of our audit. This report is included in its entirety on pages 26 through 28 of this financial report.

*Summers, McNea & Company, P.C.*

Summers, McNea & Company, P.C.  
Certified Public Accountants

October 15, 2014

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS**  
**STATEMENTS OF NET POSITION**  
**June 30, 2014 and 2013**

**ASSETS**

<u>Current Assets</u>	<u>2014</u>	<u>2013</u>
Cash and Equivalents-Unrestricted	\$ 506,375	\$ 718,306
Cash and Equivalents-Restricted	39,119	39,119
Accounts Receivable-Customers	282,297	353,797
Materials and Supplies	136,427	136,840
Prepaid Expenses	42,768	41,014
Total Current Assets	<u>\$ 1,006,986</u>	<u>\$ 1,289,076</u>
 <u>Capital Assets</u>		
Land	\$ 245,961	\$ 245,961
Water Distribution System	12,157,529	10,591,759
Maintenance Equipment and Vehicles	669,273	660,837
Structures and Improvements	560,845	560,845
Office Furniture and Equipment	92,947	90,382
Total Capital Assets	<u>\$ 13,726,555</u>	<u>\$ 12,149,784</u>
Less Accumulated Depreciation	<u>(6,192,008)</u>	<u>(5,738,979)</u>
Net Capital Assets	<u>\$ 7,534,547</u>	<u>\$ 6,410,805</u>
 <u>Non-Current Assets</u>		
Restricted Assets:		
Investments	<u>\$ 4,282,600</u>	<u>\$ 5,218,994</u>
 TOTAL ASSETS	<u><u>\$ 12,824,133</u></u>	<u><u>\$ 12,918,875</u></u>

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

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
STATEMENTS OF NET POSITION  
June 30, 2014 and 2013**

**LIABILITIES AND NET ASSETS**

<u>Current Liabilities</u>	<u>2014</u>	<u>2013</u>
Current Portion of Long-Term Liabilities	\$ 22,000	\$ 20,000
Accounts Payable	168,529	241,276
Payroll Tax and Withholding Liabilities	839	1,051
Accrued Liability for Compensated Absences	48,162	41,534
Total Current Liabilities	<u>\$ 239,530</u>	<u>\$ 303,861</u>
 <u>Deferred Credits</u>		
Customer Deposits	200,855	195,615
 <u>Long-Term Liabilities</u>		
Long-Term Debt, net of Current Maturities	459,000	472,000
 <u>Commitments and Contingencies</u>	<u>-</u>	<u>-</u>
 Total Liabilities and Deferred Credits	 \$ 899,385	 \$ 971,476
 <u>Net Position</u>		
Unrestricted Net Position:		
Unrestricted	\$ 68,482	\$ 278,481
Net Investment in Capital Assets	7,534,547	6,410,805
Board Designated:		
Capital Improvement Funds	4,282,600	5,218,994
Restricted Net Position:		
Loan Reserve Account	39,119	39,119
Total Net Position	<u>\$ 11,924,748</u>	<u>\$ 11,947,399</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 12,824,133</u></u>	 <u><u>\$ 12,918,875</u></u>

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

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Years Ended June 30, 2014 and 2013**

<u>Operating Revenues</u>	<u>2014</u>	<u>2013</u>
Water Usage	\$ 2,955,081	\$ 3,281,333
Hydrant Rent	-	236,632
System Buy-In Fees	35,800	72,992
Service Line Fees	107,512	248,257
Other Operating Revenue	51,746	57,113
Total Operating Revenues	<u>\$ 3,150,139</u>	<u>\$ 3,896,327</u>
 <u>Operating Expenses</u>		
Water Purchased	\$ 1,907,058	\$ 2,273,345
Depreciation	469,278	412,474
Salaries and Wages	376,595	345,621
Employee Benefits	114,732	110,253
Payroll Taxes	30,834	29,264
Bad Debts	1,068	1,297
Director Fees	14,250	14,250
Gas, Fuel and Oil	17,695	19,133
Insurance	55,086	59,036
Interest Expense	25,403	29,726
Miscellaneous Expenses	2,947	1,617
Office Expenses	35,403	25,819
Postage	20,912	19,049
Professional Fees	21,126	20,719
Repairs and Maintenance-Distribution System	67,133	55,693
Repairs and Maintenance-Other	3,799	6,951
Subscriptions and Legal Notices	1,062	548
Supplies-Operations	10,227	5,358
Taxes	16,799	4,008
Telephone and Communications	5,588	6,485
Travel and Training	792	1,649
Utilities	38,551	38,218
Total Operating Expenses	<u>\$ 3,236,338</u>	<u>\$ 3,480,513</u>
Operating Income (Loss)	<u>\$ (86,199)</u>	<u>\$ 415,814</u>
 <u>Non-Operating Revenues (Expenses)</u>		
Investment Income	\$ 59,048	\$ 84,665
Gain (Loss) on Disposal of Assets	4,500	17,500
Total Non-Operating Revenues (Expenses)	<u>\$ 63,548</u>	<u>\$ 102,165</u>
 <u>Special Items</u>		
Increase in Net Position Due to Debt Forgiveness	<u>-</u>	<u>500,000</u>
 CHANGE IN NET POSITION	 \$ (22,651)	 \$ 517,979
 Net Position - Beginning	 <u>11,947,399</u>	 <u>10,929,420</u>
 Net Position - Ending	 <u>\$ 11,924,748</u>	 <u>\$ 11,947,399</u>

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

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities</u>		
Receipts From Customers	\$ 3,226,879	\$ 3,947,855
Payments to Suppliers	(2,464,765)	(2,847,239)
Payments to Employees	(369,967)	(341,516)
Net Cash Provided by Operating Activities	\$ 392,147	\$ 759,100
 <u>Cash Flows From Capital and Related Financing Activities</u>		
Proceeds from Long-Term Debt	\$ -	\$ 53,862
Principal Payments on Long-Term Debt	(11,000)	(19,000)
Purchases of Capital Assets	(1,593,021)	(401,867)
Proceeds from Sales of Assets	4,500	17,500
Net Cash (Used) by Capital and Related Financing Activities	\$ (1,599,521)	\$ (349,505)
 <u>Cash Flows From Investing Activities</u>		
Proceeds From Sales and Maturities of Investments	\$ 1,608,557	\$ 1,647,000
Purchase of Investments	(672,162)	(2,011,696)
Investment Income	59,048	84,665
Net Cash Provided (Used) by Investing Activities	\$ 995,443	\$ (280,031)
 Net Increase (Decrease) in Cash and Equivalents	\$ (211,931)	\$ 129,564
 Cash and Equivalents - Beginning of Year	757,425	627,861
 Cash and Equivalents - End of Year	\$ 545,494	\$ 757,425
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>		
Operating Income (Loss)	\$ (86,199)	\$ 415,814
Depreciation	469,278	412,474
Changes in Assets and Liabilities:		
Accounts Receivable	71,500	48,098
Materials and Supplies	413	(19,438)
Prepaid Expenses	(1,754)	(24,592)
Accounts Payable	(72,747)	(80,854)
Payroll Tax and Withholding Liabilities	(212)	63
Accrued Liability for Compensated Absences	6,628	4,105
Customer Deposits	5,240	3,430
Net Cash Provided by Operating Activities	\$ 392,147	\$ 759,100
 <u>Supplemental Information:</u>		
Interest Paid	\$ 13,694	\$ 18,287
 <u>Non-Cash Transactions:</u>		
Debt Forgiveness by the Montana DNRC	\$ -	\$ 500,000

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

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

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

Organization and Operations

County Water District of Billings Heights (the District) was organized on August 29, 1958 as a quasi-governmental organization under Title 7, Chapter 13, Parts 22 and 23, Montana Code Annotated. At the time of its organization, the District was formed to provide an adequate water supply and distribution system for an unincorporated area northeast of Billings, Montana, commonly referred to as “Billings Heights”. Subsequent to the District’s organization and completion of the water supply and distribution system, a large part of the District’s service area has been annexed into the City of Billings, Montana, but the District continues to serve those annexed areas.

The County Water District of Billings Heights is governed by a Board of Directors. The Board of Directors is granted broad powers under Montana laws and the District’s governing documents. The Board of Directors consists of seven (7) individuals. Five (5) Board members are elected for four-year terms in elections held every two years. The terms are staggered so that no more than three terms expire in a single election year. Two (2) Board members are appointed; one (1) each by the City of Billings, Montana and the County of Yellowstone Montana.

Day-to-day operations of the District are managed by a general manager hired by the Board of Directors.

Basis of Accounting

County Water District of Billings Heights maintains its accounting records and prepares its financial statements on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Operating revenues are defined as revenues derived from water usage, hydrant rents, system buy-in and tap fees, and miscellaneous revenues related to the sale and distribution of water. Non-operating revenues include interest income and proceeds from the sale of capital assets.

The original construction of the District’s water supply and distribution system was financed through the issuance of revenue bonds under a resolution known as “1-1-63 Bond Resolution”. In accordance with that resolution, the District was required to utilize six (6) specific funds in accounting for the District’s operations; gross income fund; operations and maintenance fund; acquisition fund; bond retirement fund; capital improvement and replacement fund; and reserve fund. In all years prior to the year ending June 30, 2004, the District prepared its financial statements on a fund basis in accordance with the “1-1-63 Bond Resolution”.

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

Basis of Accounting – Continued

On January 2, 2003, the final installment on the revenue bonds was paid. Accordingly, the accounting requirements under the “1-1-63 Bond Resolution” are no longer applicable as all outstanding bonds were retired on that date. Consequently, management of the District adopted the financial reporting model prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments* for fiscal years subsequent to June 30, 2003.

Cash and Cash Equivalents

The District considers all highly liquid investments with original maturities of less than three (3) months when purchased to be cash equivalents for purposes of the statements of cash flows. However, board designated capital improvement funds are generally restricted as to use and, accordingly, such investments and cash balances are excluded from cash and cash equivalents even when specific investments and cash balances meet the “three month” definition.

Bad Debts

The District has consistently utilized the direct write-off method of accounting for bad debts which is not an accounting principle generally accepted in the United States of America. However, because the District can effectively control and limit bad debts through their policy of requiring advance customer deposits and of discontinuing service to delinquent customers, the District’s bad debts are inconsequential and therefore its policy is not considered to be a material departure from accounting principles generally accepted in the United States of America.

Materials and Supplies

Materials and supplies consist primarily of items used for the maintenance of the water supply and distribution system and is stated at the lower of cost (determined on the first-in, first-out basis) or market.

Capital Assets

Cost of capital assets acquired from third parties is recorded at actual cost less proceeds from certain grants and other reimbursements. Prior to December 13, 2006, the District had not adopted a formal capitalization policy and, accordingly, substantially all long-lived assets had been capitalized when acquired. On December 13, 2006, a capitalization policy of \$1,000 was approved by the Board.

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

Capital Assets (Continued)

The annual costs of replacing and adding service meters are capitalized and depreciated utilizing the useful lives disclosed below. When the meters become fully depreciated, the cost and related accumulated depreciation are removed from the capital asset accounts as it is impracticable to account for individual meters.

Real estate developers and other property owners construct water distribution system infrastructure to District specifications. If such specifications cost in excess of the amount that would have been incurred in meeting the requirements under local building codes, the District reimburses the third party for the excess cost. Whereas all such infrastructure added by real estate developers and other property owners becomes a part of the District's infrastructure, only the excess cost paid by the District is capitalized on the District's books.

Depreciation of capital assets is provided utilizing the straight-line method over the following estimated lives:

	Estimated Life <u>In Years</u>
Main Lines, Reservoirs, and Service Lines	25 - 50
Meters	5 - 15
Maintenance Equipment and Vehicles	5 - 10
Buildings and Improvements	5 - 39
Office Furniture and Equipment	5 - 10

Investments

Investments are stated at market value and, in accordance with the District's investment policy, consist primarily of United States Government obligations or certificates of deposit which are fully insured by the United States Government. As of June 30, 2014 and 2013, the cost of investments approximated their market value.

Customer Deposits

The District requires all customers to pay an advance deposit prior to their obtaining service. Interest at the rate of 6% per annum is paid on the customer deposits and is credited to each customer's monthly billing on the annual anniversary month of the deposit payment.

Use of Resources

It is the District's policy to utilize restricted resources only if and when unrestricted resources are depleted.

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

Income Taxes

As a quasi-governmental organization, the District is exempt from federal and state income taxes. Accordingly, there is no provision for income taxes in the accompanying financial statements.

Budgeting

Although the District prepares an operating budget for purposes of financial management of operations and accountability to the Board of Directors, the District is not legally required to do so.

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.

**2. CASH AND CASH EQUIVALENTS:**

As of June 30, 2014 and 2013, cash and equivalents consisted of the following:

<u>Unrestricted</u>	<u>2014</u>	<u>2013</u>
Petty Cash	\$ 250	\$ 250
Checking Accounts	3,048	3,483
Interest Bearing Accounts	<u>503,077</u>	<u>714,573</u>
Total Unrestricted Cash and Equivalents	<u>\$ 506,375</u>	<u>\$ 718,306</u>
<u>Restricted</u>		
SRF Loan-Reserve Account (a)	<u>\$ 39,119</u>	<u>\$ 39,119</u>
Total Restricted Cash and Equivalents	<u>\$ 39,119</u>	<u>\$ 39,119</u>

- (a) In accordance with the loan from the State of Montana Drinking Water State Revolving Fund Program, a minimum reserve of \$39,119 must be maintained.

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**3. CAPITAL ASSETS:**

Capital assets activity for the years ended June 30, 2014 and 2013 was as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Land	\$ 245,961	\$ -	\$ -	\$ 245,961
Water Distribution System	10,591,759	1,565,770	-	12,157,529
Maintenance Equipment and Vehicles	660,837	24,685	16,249	669,273
Structures and Improvements	560,845	-	-	560,845
Office Furniture and Equipment	<u>90,382</u>	<u>2,565</u>	<u>-</u>	<u>92,947</u>
	\$ 12,149,784	\$ 1,593,020	\$ 16,249	\$ 13,726,555
Accumulated Depreciation	<u>(5,738,979)</u>	<u>(469,278)</u>	<u>(16,249)</u>	<u>(6,192,008)</u>
Net Capital Assets	<u>\$ 6,410,805</u>	<u>\$ 1,123,742</u>	<u>\$ -</u>	<u>\$ 7,534,547</u>

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
Land	\$ 245,961	\$ -	\$ -	\$ 245,961
Water Distribution System	10,439,838	151,921	-	10,591,759
Maintenance Equipment and Vehicles	456,471	249,946	45,580	660,837
Structures and Improvements	560,845	-	-	560,845
Office Furniture and Equipment	<u>90,382</u>	<u>-</u>	<u>-</u>	<u>90,382</u>
	\$ 11,793,497	\$ 401,867	\$ 45,580	\$ 12,149,784
Accumulated Depreciation	<u>(5,372,084)</u>	<u>(412,474)</u>	<u>(45,580)</u>	<u>(5,738,979)</u>
Net Capital Assets	<u>\$ 6,421,413</u>	<u>\$ (10,607)</u>	<u>\$ -</u>	<u>\$ 6,410,805</u>

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**4. INVESTMENTS:**

As disclosed previously, the District's basis of accounting was prescribed by the "1-1-63 Bond Resolution" prior to the fiscal year ended June 30, 2004. Such resolution required certain minimum investments to be maintained so long as any revenue bonds remained outstanding. In addition, during the year ended June 30, 2006, the District contracted preparation of a capital improvement plan that identified \$15,000,000 of improvements to the District's infrastructure of which \$7,864,000 were identified as first priority projects. The original water supply and distribution system components are now approximately fifty-one (51) years of age, and the Board has anticipated that future system repair and replacement costs could eventually exceed funds generated from annual operations. Accordingly, prior to the termination of the "1-1-63 Bond Resolution" the Board of Directors elected to fund the Capital Improvement and Replacement Fund under that resolution in excess of the amounts required. Except as noted below, subsequent to the expiration of the "1-1-63 Bond Resolution" on January 2, 2003, the Board of Directors has not taken any action to un-designate capital improvement funds.

Accordingly, the accompanying financial statements have been prepared in accordance with previous Board designations. As a result of the designation of investments as capital improvement funds and the practice of periodically transferring all excess operating funds to the investment accounts, the unrestricted net position of the District ended the June 30, 2006 fiscal year with a deficit balance of \$5,277. Accordingly, on December 13, 2006 the Board designated \$100,000 of the investment funds as an operating reserve. The unrestricted net position of the District also ended the June 30, 2012 and 2011 fiscal years with deficit balances of \$(385,409) and \$(317,798), respectively. On November 14, 2012 the Board designated \$245,000 of the investment funds as an operating reserve. Also, during the year ended June 30, 2013, a \$500,000 note payable to the Department of Natural Resources and Conservation (Loan A) was forgiven since the District satisfied the requirements set forth in the 2011 resolution and this amount was reclassified to unrestricted net position. Additional investment funds could be designated as operating reserves at its discretion subject to a Board resolution to cure any deficit.

(CONTINUED ON NEXT PAGE)

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**4. INVESTMENTS (CONTINUED):**

The balance of investments restricted for capital asset additions and improvements as of June 30, 2014 and 2013 consisted of the following:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Federally Insured Certificates of Deposit - Various certificates of deposit with yields ranging from .50% to 4.75% and varying maturities as of June 30, 2014 ranging from August 18, 2014 to October 25, 2017: Face Value	\$ 4,258,622	\$ 4,863,950
Cash Fund(s) with yields between .01% and .30% as of June 30, 2014	11,100	331,690
Accrued Interest Receivable	6,858	12,854
Unamortized Premiums (Discounts)	<u>6,020</u>	<u>10,500</u>
	<u>\$ 4,282,600</u>	<u>\$ 5,218,994</u>

**5. PLEDGED ASSETS AND LONG-TERM DEBT:**

Long-term debt at June 30, 2014 and 2013 is as follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
3.00% Note payable to Department of Natural Resources and Conservation (Loan B) due in semi-annual installments ranging from \$14,648 to \$18,645, including interest, through January, 2031, secured by a revenue bond (A) Less Current Maturities	\$ 481,000 <u>(22,000)</u> <u>\$ 459,000</u>	\$ 492,000 <u>(20,000)</u> <u>\$ 472,000</u>

(CONTINUED ON NEXT PAGE)

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**5. PLEDGED ASSETS AND LONG-TERM DEBT (CONTINUED):**

(A) In September 2010, the State of Montana, through its Drinking Water State Revolving Fund Program approved a loan to the District in the amount of \$1,038,000 which was represented and secured by a Revenue Bond in the amount of \$1,038,000. Loan A was for \$500,000 and was forgiven upon successful completion of the program requirements. Loan B is for \$538,000 for a term of 20 years at an interest rate of 3.00% per annum. Loan B was refinanced to obtain a lower interest rate (from 3.75%) during the year ended June 30, 2014. The use of the bond proceeds was solely for the 2011 Project which consists of designing, engineering, constructing, and installing certain improvements of the District's water system, including water main replacement; acquisition and installation of pumps; acquisition and installation of water meters; and related improvements. \$500,000 of Loan A and \$297,060 of Loan B was received during the year ended June 30, 2011. An additional \$187,078 from Loan B was received during the year ended June 30, 2012 and the remaining \$53,862 from Loan B was received during the year ended June 30, 2013.

The current aggregate maturities of Loan B for the years ending June 30, 2014 are as follows:

2015	\$ 22,000
2016	22,000
2017	24,000
2018	24,000
2019	25,000
Thereafter	<u>364,000</u>
Total	<u>\$ 481,000</u>

**6. COMMITMENTS AND CONTINGENCIES:**

On June 18, 1963, the District entered into an exclusive water supply contract with the City of Billings, Montana. Under the agreement, which has no expiration date, the District and the City of Billings, Montana each agree to furnish, operate and maintain, at their own expense, all water supply and distribution lines and equipment from/to the point of delivery of such water supply. The agreement requires the City of Billings to provide a minimum water supply, but reserves the right to restrict the use of water by the District in the event that a shortage of water makes it necessary to impose restrictions.

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**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**6. COMMITMENTS AND CONTINGENCIES (CONTINUED):**

However, any such restrictions shall be no different than those imposed within the City of Billings own water delivery system. The agreement further sets an initial water rate charge to be paid by the District to the City of Billings and limits future increases to that which it simultaneously applies to all other users of the City's water. If for any reason, the City of Billings should fail to provide the contracted water supply to the District, there is no alternative source of water supply for the District's customers. Total water purchased by the District for the years ended June 30, 2014 and 2013 was \$1,907,058 and \$2,273,345, respectively. The amount payable for purchased water reflected in accounts payable in the accompanying statements of net position is \$156,214 and \$230,449 as of June 30, 2014 and 2013, respectively.

As noted in Note 4 to the financial statements, the District has identified \$15,000,000 in capital improvement projects of which \$7,864,000 have been identified as first priority projects. The original water supply and distribution system is now approximately 51 years old and the District must provide for new infrastructure as a result of growth within and surrounding the District's boundaries. Although management is pursuing federal monies to partially fund these costs, it is anticipated that revenue bonds or similar municipal-type bonds could be issued to finance a portion of these anticipated costs.

**7. RETIREMENT PLAN:**

The District maintains a 401(k) defined contribution profit sharing plan covering substantially all employees meeting minimal eligibility requirements. Under the plan, the District matches employee contributions up to 10% of 50% of eligible compensation (effective rate of 5% of eligible compensation). The District may also make discretionary profit sharing contributions to the plan in an amount determined by the Board of Directors. Employee contributions to the plan are fully vested immediately; employer contributions are vested 20% per year such that after five (5) years of service they are fully vested with the employee. All funding of the profit sharing plan is made on a monthly basis such that there were no unfunded contributions to the plan as of June 30, 2014 and 2013. Total retirement plan contributions for the years ended June 30, 2014 and 2013 amounted to \$34,588 and \$28,938, respectively. The adoption of the profit sharing plan was made under a prototype document which has been qualified by the Internal Revenue Service under Internal Revenue Code §401(a).

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**8. COMPENSATED ABSENCES:**

On January 8, 1997, the District Board of Directors adopted a compensated absences policy that states unused sick leave accumulates at the rate of one (1) day per month per employee, of which twenty-five percent (25%) is paid to employees at termination of employment at the employees pay rate then in effect. Effective August 10, 2011, the District Board of Directors adopted a policy that states vacation leave may be accumulated to a total not to exceed (2) two times the maximum number of days earned annually as of the end of the first pay period of the next calendar year. Excess vacation time is not forfeited if taken within 90 calendar days from the last day of the calendar year in which the excess was accrued. Vacation is earned based on how many years of employment the employee has with the District. Upon termination of employment, unused earned vacation will be paid at the current rate of pay after completion of the qualifying period.

**9. CONCENTRATION OF CREDIT RISK:**

The District maintains its checking accounts in one financial institution and maintains certificates of deposit with various financial institutions whose balances are insured by the Federal Deposit Insurance Corporation (FDIC). All cash accounts are fully insured by the FDIC up to \$250,000. At June 30, 2014 and 2013, the District's uninsured balances totaled \$45,614 and \$257,729, respectively. In addition, as of June 30, 2014, the District held approximately \$257,682 in money market funds waiting to be invested.

The District is engaged primarily in the delivery of water service to its customers. Assets that potentially subject the District to concentrations of credit risk consist primarily of trade accounts receivable. The District performs ongoing credit evaluations of its customers but generally requires no collateral except for minimal customer deposits. The customer base consists of water consumers within the District's geographical boundaries. As described above the District's sole available source of supply for water is the City of Billings, Montana.

**10. WATER RATES:**

The minimum water rate charged per month varies from \$15.85 per gallon to \$251.10 per gallon for the first 3,300 gallons of water used depending upon the consumer's meter size which range from 5/8 inches to 12 inches. All gallons over 3,300 per month are charged at the rate of \$0.29966 per 100 gallons.

The number of meters billed for the month of June 2014 was 5,297.

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**11. RISK MANAGEMENT:**

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees and natural disaster. During the fiscal year ended June 30, 2014, the District was insured with private insurance carriers for errors and omissions, liability, property, and crime damage. Coverage under those insurance policies was as follows:

Non-Profit Organization Liability Policy for	
Directors and Officers Including Employment Practices	\$ 1,000,000
Commercial General Liability	3,000,000
Commercial Excess Liability	1,000,000
Commercial Automobile Liability	1,000,000
Commercial Automobile Physical Damage	Insured Values
Building and Contents	1,420,919
Equipment	Insured Values
Inland Marine	152,280
Crime Insurance:	
Employee Dishonesty, Forgery, Alteration, Theft	50,000
Computer Fraud	25,000

The District has had no significant reduction in insurance coverage from prior years. The District has had no settlements exceed insurance coverage for the past nine years, with the exception of the voluntary self-insurance of a damaged vehicle in April 2005 at a cost to the District of \$4,218.

During the year ended June 30, 2011, a suit against the District was filed claiming that a leak(s) in the water distribution system caused substantial damage to a residence. The case went to trial and was completed on April 4, 2013. The District's insurance company accepted responsibility for paying all associated claims and the costs of defending the lawsuit.

The District's former primary insurance carrier cancelled its coverage in June 2010. A new insurance company was located and continuing coverage was obtained.

(CONTINUED ON NEXT PAGE)

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**11. RISK MANAGEMENT (CONTINUED):**

The District maintains a premium based health care insurance plan through Blue Cross Blue Shield called Blue Dimensions for substantially all full-time employees. Effective January 1, 2013, the District switched to this health insurance plan due to cost savings associated with the new plan.

Workers' compensation insurance coverage is maintained by paying premiums to the Montana State Fund, the default workers' compensation insurance provider for all employers in the State of Montana. The premium is calculated based upon accident history and administrative costs.

**12. FAIR VALUE MEASUREMENTS:**

The County Water District of Billings Heights is required to disclose the fair value for financial instruments, whether or not recognized in the statements of net position. A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both impose a contractual obligation on one entity to deliver cash or another financial instrument to a second entity. The following methods and assumptions were used by the County Water District of Billings Heights in estimating the fair value of its financial instruments:

**Financial Assets:** Due to the liquid nature of the instruments, the carrying value of cash and cash equivalents approximates fair value. The fair value of receivables approximates book value as the District expects contractual receipt in the near-term. Prepaid expenses represent payments made for next fiscal year's expenses and are recorded at fair value. Investments are valued as disclosed in Notes 1 and 4 based on quoted market prices and as of June 30, 2014 and 2013 cost approximates fair value.

**Financial Liabilities:** The fair value of accounts payable and accrued expenses approximates book value due to contractual payment in the near-term.

**Long-Term Debt:** The fair value of the District's long-term debt is estimated based on the borrowing rates currently available for loans with similar terms and average maturities. The fair value of the long-term debt and carrying value is estimated to be the same.

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**13. NET POSITION:**

In September 2010, the State of Montana, through its Drinking Water State Revolving Fund Program approved loans to the District in the amount of \$1,038,000; Loan A was for \$500,000 and Loan B was for \$538,000. On March 19, 2013, the District had complied with all of the requirements and Loan A was forgiven. The amount of \$500,000 was included in Special Items in the statement of revenues, expenses and changes in net position.

**14. SUBSEQUENT EVENTS:**

Management has evaluated and is unaware of any subsequent events requiring disclosure through October 15, 2014, the date on which the financial statements were available to be issued.

**INDEPENDENT AUDITORS' 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  
County Water District of Billings Heights  
Billings, 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 financial statements of County Water District of Billings Heights, which comprise the statement of net position for the year ended June 30, 2014 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered County Water District of Billings Heights's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Water District of Billings Heights's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Water District of Billings Heights'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. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

1. Segregation of Duties and Financial Statement Preparation –

The administrative staff of the District is very small, in terms of the number of personnel, with a general manager who fulfills management-level administrative responsibilities, and two full time office staff that perform substantially all of the bookkeeping and accounting functions including billing, cash receipts, disbursements, posting of transactions, reconciliations, etc. A good internal control structure contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. Under the circumstances, it is simply impossible to provide all of the desirable internal control procedures due to the inability to adequately segregate personnel functions without incurring the costs of hiring additional personnel. While we recognize that the organization is not large enough to permit adequate segregation of duties in all respects, it is important that management be aware of this condition and for the Board to remain proactive in authorizing and reviewing transactions and accounting data and records. (Repeat Comment)

In addition, the organization does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements. This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

1. Management's Response to Finding – Segregation of Duties and Financial Statement Preparation –

Management indicated they were cognizant of the issues surrounding the lack of segregation of duties and preparation of financial statements. However, they believe the cost of hiring additional personnel for the purpose of further segregating duties and

preparing financial statements in accordance with generally accepted accounting principles would exceed any benefit derived from additional controls that could be put in place. Therefore, they will continue emphasizing management and Board oversight and involvement and are they are willing to accept the degree of risk associated with the preparation of financial statements. Further, management indicated they are willing to accept responsibility for the financial statements.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether County Water District of Billings Height's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **County Water District of Billings Heights Response to Findings**

County Water District of Billings Heights' response to the finding identified in our audit is described above. We did not audit County Water District of Billings Heights' response 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 of 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.

*Summers, McNea & Company, P.C.*

Summers, McNea & Company, P.C.  
Certified Public Accountants

October 15, 2014

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH BOND RESOLUTION

Summers McNea, P.C.  
80 25th Street West  
Billings, Montana 59102  
406.652.2320  
Toll-Free: 1.800.468.5333  
Fax: 406.652.2043  
[www.summers-mcnea.com](http://www.summers-mcnea.com)

To the Board of Directors  
County Water District of Billings Heights  
Billings, Montana

We have audited the financial statements of County Water District of Billings Heights (the District), as of and for the year ended June 30, 2014, and have issued our report thereon dated October 15, 2014.

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.

Compliance with the provisions of the County Water District of Billings Heights' bond resolution relating to \$1,038,000 Water Revenue Bonds (DNRC Drinking Water State Revolving Loan Program) consisting of \$500,000 subordinate lien taxable Series 2011A Bond and \$538,000 Series 2011B Bond (the bond resolution) and related regulations is the responsibility of County Water District of Billings Heights' management. As a part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of County Water District of Billings Heights compliance with the bond resolution and related regulations. However, our objective was not to provide an opinion on overall compliance with the bond resolution and related regulations.

The results of our audit procedures did not disclose any material instances of noncompliance with the requirements referred to above.

This report is intended solely for the information and use of the Board of Directors, management, the Department of Natural Resources and Conservation of the State of Montana, and the Department of Environmental Quality of the State of Montana and is not intended to be and should not be used by anyone other than these specified parties.



Summers, McNea & Company, P.C.  
Certified Public Accountants

October 15, 2014