

**SUN PRAIRIE VILLAGE COUNTY WATER
AND SEWER DISTRICT.**

GREAT FALLS, MONTANA

FINANCIAL STATEMENTS

**AS OF
DECEMBER 31, 2011**

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Douglas Wilson & Company, P.C.

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Sun Prairie Village
County Water & Sewer District**
1047 Grant Drive
Great Falls, MT 59404
(406) 965-3944

LETTER OF TRANSMITTAL

August 16, 2012

Citizens of Sun Prairie Village County Water and Sewer District
Board of Directors Sun Prairie Village County Water and Sewer District
Great Falls, Montana

I am pleased to submit the Comprehensive Annual Financial Report of the Sun Prairie Village County Water and Sewer District, Great Falls, Montana for the year ended December 31, 2011. Management is responsible for both the accuracy and the presented data and the completeness and fairness of the presentation, including all disclosures. It is believed that the data presented is accurate in all material aspects, presented in a manner designed to fairly set forth the financial position and results of operations of the Sun Prairie Village County Water and Sewer District. All disclosures necessary for the readers to gain maximum understanding of the District's financial affairs have been included.

Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in combination with it. The MD&A can be found immediately following the report of the independent auditors.

GENERAL INFORMATION

Background - Sun Prairie Village County Water and Sewer District ("District") was created in 1989. The District is a subdivision of the State of Montana in general, Cascade County in particular. The purpose of the District is to construct and operate the water and sewer system for the subdivisions located within the District. All expenses and liabilities are paid with user fees collected from residents of the District.

ORGANIZATION OF DISTRICT

The District is governed by a Board that acts as the authoritative and legislative body. The Board currently is comprised of five members, all of whom are voting and elected by the residents of the District. Any registered elector in the district may file a petition for candidacy with the election administrator of the district. All candidates shall file a nonpartisan petition for candidacy containing the signatures of not less than five registered electors of the district.

The Board appoints the Chair of the Board from the existing Board members to serve a four year term as Chair. The Chair is charged with the responsibility of presiding at all Board meetings and acting as chief legislative officer of the District. A General Manager of the District, also appointed by the Board, is charged with the responsibility of serving as chief executive officer of the District as prescribed by the Board.

**SUN PRAIRIE VILLAGE COUNTY WATER AND
SEWER DISTRICT'S ECONOMIC OUTLOOK**

The District continues to operate with positive cash flows. Rates are monitored to determine if they are adequate to provide the funds needed to operate the district.

Respectfully Submitted,

General Manager

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

BOARD OF DIRECTORS AND ADMINISTRATIVE OFFICIALS

<u>Board of Directors</u>	<u>Position</u>	<u>Term</u>	<u>Term Expires</u>
Kevin Askeland	President	4 Years	11/30/2015
Floris Dyke	Vice-President	4 Years	11/30/2015
Tracie DeBolt	Member	4 Years	11/30/2013
Stephanie Foster	Member	4 Years	11/30/2013
Roland Martin	Member	4 Years	11/30/2013

Administrative Officials

Bill Decker	General Manager
Janet Fulmer	Secretary/Treasurer



Douglas **WILSON**
and Company, CPAs

Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
Michael A. Diekhans, CPA
Myra L. Bakke, CPA
Thomas A. Kopp, CPA

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA
Dixie L. Swanson, CPA

To the Board of Directors
Sun Prairie Village County Water and Sewer District
Great Falls, Montana

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities and each major fund of the Sun Prairie Village County Water and Sewer District as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sun Prairie Village County Water and Sewer District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the District's December 31, 2010 financial statements, and in our report dated July 7, 2011, we expressed an unqualified opinion on the financial statements.

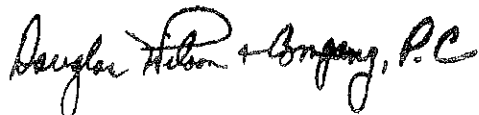
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Sun Prairie Village County Water and Sewer District as of December 31, 2011, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2012, on our consideration of the Sun Prairie Village 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sun Prairie Village County Water and Sewer District's basic financial statements. The letter of transmittal and list of board of directors and administrative officials are presented for purposes of additional analysis and are not a required part of the basic financial statements. The letter of transmittal and list of board of directors and administrative officials have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Douglas Wilson + Company, P.C." The signature is written in black ink and is positioned above the typed address and date.

Great Falls, Montana
August 16, 2012

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

As management of Sun Prairie Village County Water and Sewer District, we offer readers of Sun Prairie Village County Water and Sewer District's financial statements this narrative overview and analysis of the financial activities of the Sun Prairie Village County Water and Sewer District for the year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 1 of this report.

FINANCIAL HIGHLIGHTS

Total operating revenues for Sun Prairie Village County Water and Sewer District were \$375,785 in calendar year 2011. This was a decrease of 2.9% from the prior year.

Total operating expenses before depreciation and amortization were \$255,235 in calendar year 2011, an increase of 4.4% from the prior year.

Total net assets as of December 31, 2011 were \$1,930,475, an increase of \$13,690 from total net assets as December 31, 2010.

Total capital assets (net of depreciation) were \$1,454,566 as of December 31, 2011, a decrease of \$79,330 or 5.2% less than December 31, 2010. This decrease in total capital assets is primarily the result of the increase in accumulated depreciation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Sun Prairie Village County Water and Sewer District's basic financial statements and the notes thereto.

The Sun Prairie Village County Water and Sewer District's only activity is to operate a water and sewer system, which is principally supported by user fees. Sun Prairie Village County Water and Sewer District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The District's financial statements are prepared in accordance with Government Auditing Standards Board Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

In accordance with GAAP, Sun Prairie Village County Water and Sewer District's revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sun Prairie Village County Water and Sewer District are included in the Statement of Fund Net Assets and depreciation of capital assets is recognized in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The Statement of Net Assets presents information on all of the Sun Prairie Village County Water and Sewer District's assets and liabilities, with a difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Sun Prairie Village County Water and Sewer District is improving or deteriorating.

NOTES TO THE FINANCIAL STATEMENTS

The notes, presented on pages 12 through 17, provide additional narrative and tabular information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS

Net Assets - Sun Prairie Village County Water and Sewer District's total net assets at December 31, 2011 were \$1,930,475, an increase of \$13,690 or .7% from December 31, 2010 (See Table A-1). Total assets decreased \$12,916 or .7% and total liabilities decreased \$26,606 or 44.3%.

**TABLE A-1
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT
FUND NET ASSETS
AS OF DECEMBER 31, 2011**

	2011	2010	% Change
Current and Other Assets	\$ 265,365	\$ 246,447	7.7%
Restricted Assets	244,028	196,532	24.2%
Capital Assets	1,454,566	1,533,896	-5.2%
Total Assets	<u>\$ 1,963,959</u>	<u>\$ 1,976,875</u>	-0.7%
Current Liabilities	\$ 17,049	\$ 28,149	-39.4%
Long-Term Debt, Net of Current Portion	16,435	31,941	-48.5%
Total Liabilities	<u>\$ 33,484</u>	<u>\$ 60,090</u>	-44.3%
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 1,422,625	\$ 1,484,813	-4.2%
Restricted	244,028	196,532	24.2%
Unrestricted	263,822	235,440	12.1%
Total Net Assets	<u>\$ 1,930,475</u>	<u>\$ 1,916,785</u>	0.7%

By far the largest portion of the Sun Prairie Village County Water and Sewer District's net assets, \$1,454,566 of \$1,963,959 (74%), reflects its net investment in capital assets (land, buildings, machinery and equipment). The Sun Prairie Village County Water and Sewer District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The District has a water revenue bond outstanding in the amount of \$31,941 at December 31, 2011. The District's sewer revenue bond was repaid during 2010. The bond proceeds were used to acquire and construct the water and sewer systems.

The balance in restricted assets represents funds reserved for specific purposes as outlined in the bond covenants. The remaining balance of unrestricted net assets may be used to meet the district's ongoing obligations to citizens and creditors.

TABLE A-2
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT'S
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011

	2011	2010	% Change
Operating Revenues			
User Fees	\$ 370,296	\$ 383,895	-3.5%
Connection Fees	3,550	2,528	40.4%
Other Income	1,939	496	290.9%
Total Operating Revenues	<u>375,785</u>	<u>386,919</u>	-2.9%
Operating Expenses			
Total Operating Expenses Before			
Depreciation	255,235	244,488	4.4%
Depreciation and Amortization	<u>109,073</u>	<u>120,165</u>	-9.2%
Total Operating Expenses Including Depreciation and Amortization	<u>364,308</u>	<u>364,653</u>	-0.1%
Operating Gain (Loss)	11,477	22,266	-48.5%
Non-operating Revenues and Expenses, Net	<u>2,213</u>	<u>19,089</u>	-88.4%
Changes in Net Assets	13,690	41,355	
Total Net Assets, Beginning	<u>1,916,785</u>	<u>1,875,430</u>	2.2%
Total Net Assets, Ending	<u>\$ 1,930,475</u>	<u>\$ 1,916,785</u>	0.7%

Operating Revenues - Operating revenues are composed of user fees and connection fees. Operating revenues decreased \$13,599 from last year. This decrease is from a rate change; user fees were lowered after the sewer revenue bond was fully repaid in September 2010.

Operating Expenses - Operating expenses are composed of employment costs and other operating costs.

Employment Costs - Employment costs consist of full-time and part-time regular wages and related overtime costs, employment taxes, health insurance expenses, retirement costs, and other fringe benefits. Employment costs increased \$4,803 or 4% over calendar year 2010.

Other Operating Costs - Other operating costs include repairs, maintenance, parts, materials and supplies, insurance, utilities, vehicle operations, and other expenses. Other operating costs increased \$5,944 or 4.7% compared to the prior year.

Non-Operating Revenues and Expenses, Net - Non-operating revenues and expenses decreased by \$16,876.

Capital Assets - As of December 31, 2011, Sun Prairie Village County Water and Sewer District had invested \$3,692,928 in capital assets. Net of accumulated depreciation, Sun Prairie Village County Water and Sewer District's net capital assets as of December 31, 2011 totaled \$1,454,566 (See Table A-3). This amount represents a net decrease of \$79,330 or 5.2% from December 31, 2010.

**TABLE A-3
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT'S
CAPITAL ASSETS (NET OF DEPRECIATION)
AS OF DECEMBER 31, 2011**

	2011	2010	% Change
Building and Improvements	\$ 3,008,614	\$ 3,008,614	0.0%
Equipment	580,611	552,414	5.1%
Construction in Progress	103,703	103,703	0.0%
Accumulated Depreciation	<u>(2,238,362)</u>	<u>(2,130,835)</u>	5.0%
Total Net Capital Assets	<u>\$ 1,454,566</u>	<u>\$ 1,533,896</u>	-5.2%

The major capital activity is related to improving the infrastructure of the water and sewer systems and a pole barn which is used to store vehicles and equipment.

Budgetary Integrity, Accounting Systems and Internal Controls - Budgetary controls are exercised at the department level by major types of expenditures, and budget to actual performance is reported to the Board of Directors monthly. The financial statements are audited annually by an independent auditor who provides a report thereon to the Board of Directors.

In developing and maintaining Sun Prairie Village County Water and Sewer District's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognized that the cost of control should not exceed the benefits likely to be derived from its use and that the evaluation of the cost and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework.

Debt Administration - At the end of calendar years 2011 and 2010, Sun Prairie Village County Water and Sewer District had revenue bonds outstanding for \$31,941 and \$46,571, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

No significant changes are expected for the next year. The budget will be funded mainly through user fees.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Sun Prairie Village County Water and Sewer District's finances for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Bill Decker, general manager, P.O. Box 1127, Great Falls, MT 59403.

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**STATEMENT OF FUND NET ASSETS AS OF DECEMBER 31, 2011
(WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010)**

	Water Fund	Sewer Fund	Total	
			2011	2010
ASSETS				
Current:				
Cash and Cash Equivalents	\$ 133,743	\$ 62,704	\$ 196,447	\$ 152,346
Investments	25,920	4,157	30,077	36,819
Accounts Receivable	19,336	9,734	29,070	40,928
Allowance for Uncollectible Accounts Receivable	(10,800)	(7,200)	(18,000)	(18,000)
Prepaid Expenses	1,195	491	1,686	6,722
Total Current Assets	169,394	69,886	239,280	218,815
Restricted:				
Cash and Cash Equivalents	78,906	115,359	194,265	134,583
Investments	17,939	31,824	49,763	61,949
Total Restricted Assets	96,845	147,183	244,028	196,532
Property and Equipment:				
Buildings and Improvements	1,325,674	1,682,940	3,008,614	3,008,614
Equipment	197,244	383,367	580,611	552,414
Construction in Progress	103,703	-	103,703	103,703
	1,626,621	2,066,307	3,692,928	3,664,731
Less: Accumulated Depreciation	(1,040,137)	(1,198,225)	(2,238,362)	(2,130,835)
Total Property and Equipment	586,484	868,082	1,454,566	1,533,896
Other Assets:				
Loan Fees	6,000	17,520	23,520	23,520
Capitalized Interest	-	49,864	49,864	49,864
	6,000	67,384	73,384	73,384
Less: Accumulated Amortization	(5,263)	(42,036)	(47,299)	(45,752)
Total Other Assets	737	25,348	26,085	27,632
Total Assets	\$ 853,460	\$ 1,110,499	\$ 1,963,959	\$ 1,976,875
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	\$ 926	\$ 617	\$ 1,543	\$ 1,991
Cash Overdraft	-	-	-	9,016
Note Payable	-	-	-	2,512
Current Portion of Bonds Payable	15,506	-	15,506	14,630
Total Current Liabilities	16,432	617	17,049	28,149
Long Term Liabilities:				
Bonds Payable, Net of Current Portion	16,435	-	16,435	31,941
Total Long Term Liabilities	16,435	-	16,435	31,941
Total Liabilities	32,867	617	33,484	60,090
Net Assets:				
Invested in Capital Assets, Net of Related Debt	554,543	868,082	1,422,625	1,484,813
Restricted	96,845	147,183	244,028	196,532
Unrestricted	169,205	94,617	263,822	235,440
Total Net Assets	820,593	1,109,882	1,930,475	1,916,785
Total Liabilities and Net Assets	\$ 853,460	\$ 1,110,499	\$ 1,963,959	\$ 1,976,875

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

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	Water Fund	Sewer Fund	Total	
			2011	2010
Revenue:				
User Fees	\$ 223,423	\$ 146,873	\$ 370,296	\$ 383,895
Connection Fees	2,130	1,420	3,550	2,528
Other Income	1,484	455	1,939	496
Total Revenue	<u>227,037</u>	<u>148,748</u>	<u>375,785</u>	<u>386,919</u>
Expenses:				
Salaries	61,786	41,191	102,977	100,465
Payroll Taxes and Insurance	6,565	4,376	10,941	10,198
Retirement	2,243	1,495	3,738	3,417
Cafeteria Contribution Expense	4,320	2,880	7,200	5,973
Depreciation and Amortization	42,939	66,134	109,073	120,165
Chemical Supplies	15,919	960	16,879	9,565
Laboratory Testing and Supplies	845	5,764	6,609	6,072
Contract Labor	1,538	567	2,105	9,576
Professional Fees	5,249	2,966	8,215	9,499
Repairs and Maintenance	2,938	1,435	4,373	12,732
Easements	12,000	-	12,000	12,000
Vehicle Operations	5,991	3,866	9,857	6,510
Utilities	23,442	12,954	36,396	35,223
Office	5,756	4,296	10,052	8,881
Insurance	9,840	6,215	16,055	10,205
Miscellaneous	4,944	2,894	7,838	4,172
Total Operating Expenses	<u>206,315</u>	<u>157,993</u>	<u>364,308</u>	<u>364,653</u>
Operating Income (Loss)	<u>20,722</u>	<u>(9,245)</u>	<u>11,477</u>	<u>22,266</u>
Non-Operating Revenues and (Expenses):				
Test Well Reimbursement	-	-	-	16,326
Interest Income	2,889	2,484	5,373	6,726
Interest Expense	(2,599)	(42)	(2,641)	(4,470)
Net Increase (Decrease) in the Fair Value of Investments	(224)	(295)	(519)	507
Total Other Income and Expense	<u>66</u>	<u>2,147</u>	<u>2,213</u>	<u>19,089</u>
Change in Net Assets	<u>20,788</u>	<u>(7,098)</u>	<u>13,690</u>	<u>41,355</u>
Net Assets, Beginning of Year	<u>799,805</u>	<u>1,116,980</u>	<u>1,916,785</u>	<u>1,875,430</u>
Net Assets, End of Year	<u>\$ 820,593</u>	<u>\$ 1,109,882</u>	<u>\$ 1,930,475</u>	<u>\$ 1,916,785</u>

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

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**STATEMENT OF CHANGES IN CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)**

	Water Fund	Sewer Fund	Total	
			2011	2010
Cash Flows from Operating Activities:				
Cash Receipts from Customers	\$ 230,774	\$ 154,930	\$ 385,704	\$ 382,050
Cash Receipts from Other Sources	1,484	455	1,939	496
Cash Paid for Goods and Services	(85,502)	(40,289)	(125,791)	(124,956)
Cash Paid for Employees	(74,914)	(49,942)	(124,856)	(123,746)
Net Cash Provided by Operating Activities	<u>71,842</u>	<u>65,154</u>	<u>136,996</u>	<u>133,844</u>
Cash Flows from Investing Activities:				
(Increase) Decrease in Investments	8,780	9,630	18,410	25,493
Investment Income	2,889	2,484	5,373	7,233
Net Cash Provided by Investing Activities	<u>11,669</u>	<u>12,114</u>	<u>23,783</u>	<u>32,726</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of Fixed Assets	(3,104)	(25,093)	(28,197)	(106,690)
Proceeds from Test Well Reimbursement	-	-	-	16,326
Principal Paid on Long-Term Debt	(15,886)	(1,256)	(17,142)	(42,881)
Interest Paid on Long-Term Debt	(2,599)	(42)	(2,641)	(4,470)
Net Cash Used by Capital and Related Financing Activities	<u>(21,589)</u>	<u>(26,391)</u>	<u>(47,980)</u>	<u>(137,715)</u>
Net Increase (Decrease) in Cash	61,922	50,877	112,799	28,855
Cash at Beginning of Year	<u>150,727</u>	<u>127,186</u>	<u>277,913</u>	<u>249,058</u>
Cash at End of Year	<u>\$ 212,649</u>	<u>\$ 178,063</u>	<u>\$ 390,712</u>	<u>\$ 277,913</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 20,722	\$ (9,245)	\$ 11,477	\$ 22,266
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:				
Depreciation	42,639	64,887	107,526	117,916
Amortization	300	1,247	1,547	2,249
(Increase) Decrease in Accounts Receivable	5,221	6,637	11,858	(4,373)
(Increase) Decrease in Prepaid Expenses	3,229	1,807	5,036	(521)
Increase (Decrease) in Accounts Payable	(269)	(179)	(448)	(3,693)
Net Cash Provided by Operating Activities	<u>\$ 71,842</u>	<u>\$ 65,154</u>	<u>\$ 136,996</u>	<u>\$ 133,844</u>
Non-Cash Investing, Capital and Financing Activities:				
Net Increase (Decrease) in Fair Value of Investments	<u>\$ (224)</u>	<u>\$ (295)</u>	<u>\$ (519)</u>	<u>\$ 507</u>

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

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Background - Sun Prairie Village County Water and Sewer District ("District") was created in 1989. The District is a subdivision of the State of Montana in general, Cascade County in particular. The purpose of the District is to construct and operate the water and sewer system for the subdivisions located within the District. All expenses and liabilities are paid with user fees collected from residents of the District.

Accounting Standards - The District adopted two statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- *Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*
- *Statement No. 37 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus.

Accounting Method - The financial statements are prepared on the accrual basis of accounting, and accordingly, revenue and expenses are recorded when earned or incurred rather than when received or paid. Operations are accounted for using a proprietary fund, which is similar to a private business enterprise.

Revenue and Expense Classification - The District distinguishes operating revenues and expenses from non-operating items in preparation of these financial statements. Operating revenues and expenses generally result from providing water and sewer services in connection with the District's principal on-going operations. The principal operating revenues are generated from water and sewer user fees. The District's operating expenses include labor and benefits, materials, supplies, utilities, insurance, and other expenses related to the delivery of water and sewer services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses in accordance with GASB Statement No. #34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*.

Depreciation - The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line basis over 50 years for sewer lagoon or water mains, three to seven years for pumps, pipe and equipment and five years for office furniture and equipment. Items over \$200 with a useful life of more than one year are capitalized.

Deferred Bond Issue Costs/Capitalized Interest - The costs directly related to the bond issue are amortized on a straight-line basis over the life of the bond issue (20 years). Interest capitalized during construction is amortized on a straight-line basis over the life of the improvements (40 years).

Net Assets - Net assets represent the difference between assets and liabilities and are classified into three categories:

- Investment in Capital Assets, Net of Related Debt - This reflects the net assets of the District that are invested in capital assets, net of related debt. This indicates that these net assets are not accessible for other purposes.
- Restricted net assets - This represents the net assets that are not accessible for general use because its use is subject to restrictions enforceable by third parties.
- Unrestricted Net Assets - This represents the net assets that are available for general use.

Cash Equivalents - The District considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents". Cash is entirely insured as of December 31, 2011.

Accounts Receivable - These amounts are due from water and sewer customers of the District. The District uses the allowance method for bad debts using historical analysis to estimate this amount. Any receivables outstanding over 30 days are considered past due.

Investments - All investments of the District are invested in U.S. government bonds which are allowed by law. Investments are carried at fair market value. Management's intent is to hold all investments to maturity. Investments are entirely insured as of December 31, 2011.

Use of Estimates - The preparation of 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.

NOTE 2: RESTRICTED ASSETS:

The District has received federal grants and issued bonds to construct and improve the water and sewer system. Under terms of the grants and bonds, certain funds are restricted for specific purposes. Restricted net assets are applied first when an expense is incurred for which both restricted and unrestricted net assets are available.

Restricted use accounts are summarized as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Replacement and Depreciation Fund	\$ 71,419	\$ 147,183
Revenue Bond Fund	16,241	-
Reserve	9,185	-
Total	<u>\$ 96,845</u>	<u>\$ 147,183</u>

Restrictions are detailed under the specific liability notes.

NOTE 3: BONDS PAYABLE:

Sewer System Revenue Bond - Series 1990 - In connection with the District's acquisition and construction of improvements to the system, the District authorized the sale of a revenue bond to pay the District's share of the cost of the project. Funding for the project was as follows:

Revenue Bond Proceeds	\$ 584,014
Grant - U. S. Environmental Protection Agency	646,880
Total	<u>\$ 1,230,894</u>

Revenue Bond Description - October 15, 1990, \$584,014 sewer system revenue bonds due in semi-annual installments of \$23,069 at an interest rate of 4.9%. The interest rate was due to increase to 6.9% on July 1, 1996. Instead, the principal was increased \$37,079 and the interest rate remained at 4.9%. The semi-annual installment was \$24,951 with the final payment made July 1, 2010.

Water System Revenue Bond - Series 1994 - In connection with the District's acquisition and construction of improvements to the system, the District authorized the sale of a revenue bond to pay the District's share of the cost of the project. Funding for the project was as follows:

Community Development Block Grant	\$ 340,000
Revenue Bond Proceeds	200,000
District Funds	31,896
Total	<u>\$ 571,896</u>

Revenue Bond Description: January 25, 1994, \$200,000 water system revenue bonds due in semi-annual installments of \$8,583 at an interest rate of 5.9%; the final payment due November 1, 2013.

Balance at December 31, 2010	\$ 46,571
Principal Payments	14,630
Balance at December 31, 2011	<u>\$ 31,941</u>

Debt service requirements to maturity are as follows:

<u>Due Date</u>	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
12/31/11				\$ 31,941
05/01/12	8,582	941	7,641	24,300
11/01/12	8,582	717	7,865	16,435
05/01/13	8,582	484	8,098	8,337
11/01/13	8,582	245	8,337	-

NOTE 4: BOND COVENANTS:

Water System Revenue Bond - Series 1994 - The bond agreement specifically requires that the District comply with certain bond covenants. A summary of those covenants is as follows.

The District must set user rates sufficient to provide income adequate to pay current expenses, the maintenance of required reserves established for the Series 1994 Bond, and net revenues in excess of current expenses before depreciation equal to 125% of the principal and interest payable from the Revenue Bond Account in the fiscal year. Should the net revenue be insufficient, the District may request and the county may levy a "water bond tax" in an amount sufficient to provide for any deficiency.

Construction Account - The District must establish and maintain a construction account for the deposit of the proceeds of the bond issue. Disbursements from the account are limited to capital assets of the project, subject to the approval of the DRNC. All funds are fully disbursed from this account.

Operating Account - The District must maintain an operating account for the purpose of depositing revenues collected from users and to pay current operating expenses only. Net revenues at the end of each month in the operating account are to be distributed to other accounts in accordance with additional covenants.

Water Revenue Bond Account - The District must maintain an account for the monthly deposit on one-sixth (1/6) of the principal and interest next due on the Series 1994 Bonds. Disbursement of funds from the account is limited to semi-annual bond payments. Current monthly minimum deposit requirements are \$1,430. The balance at December 31, 2011 is \$16,241.

Water Reserve Account - The District must maintain an account to establish a reserve for the payment of bond principal and interest. An initial deposit of \$8,583 is to be made to the account from the bond proceeds. Any excess balance in the account is required to be credited to the Revenue Bond Account. The balance at December 31, 2011 is \$9,185.

Water and Sewer Replacement and Depreciation Accounts - The District board shall deposit to these accounts reasonable amounts to accumulate for repair, replacement or renewal of the systems. Funds deposited to these accounts are made only after the Operating, Revenue Bond and Reserve Accounts are funded. Balances in the accounts at year end are:

Water	<u>\$ 71,419</u>
Sewer	<u>\$ 147,183</u>

Water and Sewer Surplus Accounts - Any funds available after the required accounts are funded may be deposited to these accounts for future operating or funding of shortages in other accounts. These accounts have a zero balance at December 31, 2011.

Insurance - The District is required to carry property and liability insurance. Minimum requirements are established for liability coverage.

NOTE 5: PREMISES CONNECTED TO SYSTEM:

On December 31, 2011, premises connected to the water and sewer system are:

Water and Sewer - Full Service	470
Water and Sewer - Connected But Turned Off	42

NOTE 6: INSURANCE COVERAGE:

<u>Insurer & Risk Covered</u>	<u>Amount of Insurance</u>	<u>Expiration Date</u>
<u>MACO</u>		
Commercial Auto-Liability	\$750,000 per claim/ \$1,500,000 per occurrence	7/01/12
-Medical	\$5,000 per person/\$50,000 per accident	
-Uninsured Motorist	\$750,000 per claim/ \$1,500,000 per occurrence	
General Liability-Generate Aggregate	\$1,500,000	
-Products\Operations	\$1,500,000	
-Personal Injury	\$750,000	
-Each Occurrence	\$750,000	
-Fire Damage	\$750,000	
-Medical Expense	\$5,000 per person/\$50,000 per accident	
Commercial Property-Buildings	\$413,260	
-Personal Property	\$193,000	
Public Officials Bond	\$500,000	7/01/12
<u>State of Montana</u>		
Workers' Compensation	\$100,000	7/01/12
<u>Redland Insurance Company</u>		
Flood insurance	\$160,700	5/09/12

NOTE 7: PENSION PLANS:

The District has adopted a S.I.M.P.L.E. Employee Pension Plan that covers all of their employees with over one year of service. The plan provides for full vesting after five years of service, and benefits are principally based on employees' earnings and/or length of service. The amount of pension cost recognized during the 12 months ended December 31, 2011 and 2010 was \$3,738 and \$3,417, respectively.

NOTE 8: COMPARATIVE INFORMATION:

The financial statements include prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2010 from which the summarized information was derived.

NOTE 9: CAPITAL ASSETS:

Capital assets, as of December 31, 2011, are summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 3,008,614	\$ -	\$ -	\$ 3,008,614
Furniture, Fixtures and Equipment	552,414	28,197	-	580,611
Total Capital Assets Being Depreciated	<u>3,561,028</u>	<u>28,197</u>	<u>-</u>	<u>3,589,225</u>
Less Accumulated Depreciation				
Buildings and Improvements	1,850,668	87,422	-	1,938,090
Furniture, Fixtures and Equipment	280,167	20,105	-	300,272
Total Accumulated Depreciation	<u>2,130,835</u>	<u>107,527</u>	<u>-</u>	<u>2,238,362</u>
Total Capital Assets Being Depreciated, Net	<u>1,430,193</u>	<u>(79,330)</u>	<u>-</u>	<u>1,350,863</u>
Construction in Progress	<u>103,703</u>	<u>-</u>	<u>-</u>	<u>103,703</u>
Total Net Capital Assets	<u><u>\$ 1,533,896</u></u>	<u><u>\$ (79,330)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,454,566</u></u>

NOTE 10: NOTE PAYABLE:

The District incurred a note payable to facilitate the purchase of a backhoe tractor. The note is payable to the Kansas State Bank of Manhattan, due in semi-annual installments of \$2,617 with interest at 8.432%. The total amount of the note was \$21,000. The final payment on this note was made in 2011.



Douglas **WILSON**
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To the Board of Directors
Sun Prairie Village County Water and Sewer District
Great Falls, Montana

**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**

We have audited the financial statements of the business-type-activities and each major fund of Sun Prairie Village County Water and Sewer District, as of and for the year ended December 31, 2011, which collectively comprise the Sun Prairie Village County Water and Sewer District's basic financial statements and have issued our report thereon dated August 16, 2012. 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.

Internal Control Over Financial Reporting

Management of Sun Prairie Village County Water and Sewer District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sun Prairie Village County Water and Sewer District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sun Prairie Village County Water and Sewer District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sun Prairie Village County Water and Sewer District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

* * * * *

This report is intended solely for the information and use of the audit committee, management, others within the organization, the State of Montana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Douglas Wilson + Company, P.C." The signature is written in a cursive, flowing style.

Great Falls, Montana
August 16, 2012