

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

**GREAT FALLS, MONTANA**

**FINANCIAL STATEMENTS**

**AS OF**

**DECEMBER 31, 2015**

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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, 2015

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

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**LETTER OF TRANSMITTAL**

July 14, 2016

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, 2015. 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,

*Roland Martin*

President of Sun Prairie Village County Water and Sewer District

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

BOARD OF DIRECTORS AND ADMINISTRATIVE OFFICIALS

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<u>Board of Directors</u>	<u>Position</u>	<u>Term</u>	<u>Term Expires</u>
Roland Martin	President	4 Years	11/30/2017
Kevin Askeland	Vice-President	4 Years	11/30/2019
Tracie DeBolt	Member	4 Years	11/30/2017
Floris Dyke	Member	4 Years	11/30/2019
Richard Matiska	Member	4 Years	11/30/2017

Administrative Officials

Bill Decker	General Manager
Janet Fulmer	Secretary/Treasurer



**Douglas WILSON**  
and Company, PC

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

Randal J. Boysun, CPA  
Gerard K. Schmitz, CPA  
Myra L. Bakke, CPA

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Douglas N. Wilson, CPA  
Bruce H. Gaare, CPA

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. 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, 2014 financial statements, and in our report dated July 20, 2015, we expressed an unmodified opinion on 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## 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, 2015, and the respective changes in financial position and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

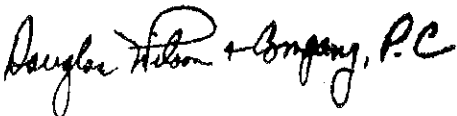
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

### *Other Information*

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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2016, 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* in considering Sun Prairie Village County Water and Sewer District's internal control over financial reporting and compliance.



Great Falls, Montana  
July 14, 2016

# SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

## GREAT FALLS, MONTANA

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015

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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, 2015. 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 \$431,152 for calendar year 2015. This was an increase of 12.4% from the prior year.

Total operating expenses before depreciation and amortization were \$268,988 in calendar year 2015, a decrease of .4% from the prior year.

Total net position as of December 31, 2015 was \$3,145,106, an increase of \$491,388 from total net assets as December 31, 2014.

Total capital assets (net of depreciation) were \$3,746,534 as of December 31, 2015, an increase of \$1,909,967 or 104% more than December 31, 2014. This increase in total capital assets is primarily the result of the water system improvement project.

#### 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 Net Position and depreciation of capital assets is recognized in the Statement of Revenues, Expenses and Changes in Net Position. 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 Position 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 position. Over time, increases or decreases in net position 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 Position** - Sun Prairie Village County Water and Sewer District's total net position at December 31, 2015 was \$3,145,106, an increase of \$491,338 or 18.5% from December 31, 2014 (See Table A-1). Total assets increased \$2,080,134 or 77.6% and total liabilities increased \$1,588,796 due to the water improvement project.

**TABLE A-1  
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT  
FUND NET POSITION  
AS OF DECEMBER 31, 2015**

	2015	2014	% Change
Current Assets	\$ 325,997	\$ 303,898	7.3%
Restricted Assets	667,817	518,503	28.8%
Capital Assets	3,746,534	1,836,567	104.0%
Other Assets	20,362	21,608	-5.8%
Total Assets	<u>\$ 4,760,710</u>	<u>\$ 2,680,576</u>	77.6%
 Total Liabilities	 \$ 1,615,604	 \$ 26,808	 5926.6%
 Net Position:			
Net Investment in Capital Assets	\$ 2,146,640	\$ 1,836,567	16.9%
Restricted	667,817	518,503	28.8%
Unrestricted	330,649	298,698	10.7%
Total Net Position	<u>\$ 3,145,106</u>	<u>\$ 2,653,768</u>	18.5%

The largest portion of the Sun Prairie Village County Water and Sewer District's total assets at December 31, 2015, \$3,746,534 of \$4,760,710 (79%), reflects the District's net investment in capital assets (land, buildings, machinery and equipment, and construction in progress). 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.

At December 31, 2015 and 2014, the District's liabilities consisted of accounts payable, customer deposits, and bonds payable.

The balance in restricted assets represents funds reserved for specific purposes. 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, 2015**

	2015	2014	% Change
<b>Operating Revenues</b>			
User Fees	\$ 430,215	\$ 379,838	13.3%
Connection Fees	750	3,374	-77.8%
Other Income	187	484	-61.4%
Total Operating Revenues	<u>431,152</u>	<u>383,696</u>	12.4%
<b>Operating Expenses</b>			
Total Operating Expenses Before Depreciation and Amortization	268,988	270,094	-0.4%
Depreciation and Amortization	<u>94,931</u>	<u>98,635</u>	-3.8%
Total Operating Expenses Including Depreciation and Amortization	<u>363,919</u>	<u>368,729</u>	-1.3%
Operating Gain (Loss)	67,233	14,967	349.2%
Non-operating Revenues net of Non-operating Expenses	<u>424,105</u>	<u>120,763</u>	251.2%
Change in Net Position	491,338	135,730	262.0%
Total Net Position, Beginning	<u>2,653,768</u>	<u>2,518,038</u>	5.4%
Total Net Position, Ending	<u><b>\$ 3,145,106</b></u>	<u><b>\$ 2,653,768</b></u>	18.5%

**Operating Revenues** - Operating revenues are composed of user fees and connection fees. Operating revenues increased \$47,456 from last year. This is due to an increase of the monthly service rates effective October 1<sup>st</sup> 2015.

**Operating Expenses** - Operating expenses are composed of employment costs and other operating costs detailed below. Operating expenses have remained consistent from 2014 to 2015.

**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 decreased \$5,695 or 3.9% over calendar year 2014.

**Other Operating Costs** - Other operating costs include repairs, maintenance, parts, materials and supplies, insurance, utilities, vehicle operations, and other expenses. Other operating costs increased \$4,589 or 3.7% compared to the prior year.

**Non-Operating Revenues and Expenses, Net** - Non-operating revenues and expenses including capital contributions, increased by \$303,342, due to additional reimbursement grants received for construction of the new water system project.

**Capital Assets** - As of December 31, 2015, Sun Prairie Village County Water and Sewer District had invested \$6,385,372 in capital assets. Net of accumulated depreciation, Sun Prairie Village County Water and Sewer District's net capital assets as of December 31, 2015 totaled \$3,746,534 (See Table A-3). This amount represents a net increase of \$1,909,967 or 104% from December 31, 2014.

**TABLE A-3  
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT'S  
CAPITAL ASSETS (NET OF DEPRECIATION)  
AS OF DECEMBER 31, 2015**

	2015	2014	% Change
Building and Improvements	\$ 3,008,614	\$ 3,008,614	0.0%
Equipment	591,894	591,486	0.1%
Construction in Progress	2,784,864	781,621	256.3%
Accumulated Depreciation	(2,638,838)	(2,545,154)	3.7%
Total Net Capital Assets	<u>\$ 3,746,534</u>	<u>\$ 1,836,567</u>	104.0%

The major capital activity is related to improving the infrastructure of the water and sewer systems and buildings 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 December 31, 2015, Sun Village County Water and Sewer District had bonds outstanding to the USDA that totaled \$223,669.

### 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 Sun Prairie Village County Water and Sewer District, 1047 Grant Drive, Great Falls, MT 59404.

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

**GREAT FALLS, MONTANA**

**STATEMENT OF NET POSITION AS OF DECEMBER 31, 2015  
(WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2014)**

	Water Fund	Sewer Fund	Total	
			2015	2014
<b>ASSETS</b>				
Current:				
Cash and Cash Equivalents	\$ 64,460	\$ 107,426	\$ 171,886	\$ 166,451
Investments	51,082	73,210	124,292	121,493
Accounts Receivable	30,991	11,314	42,305	28,577
Allowance for Uncollectible Accounts Receivable	(10,800)	(7,200)	(18,000)	(18,000)
Prepaid Expenses	3,492	2,022	5,514	5,377
<b>Total Current Assets</b>	<b>139,225</b>	<b>186,772</b>	<b>325,997</b>	<b>303,898</b>
Restricted:				
Cash and Cash Equivalents	266,508	74,898	341,406	201,272
Grants Receivable	101,366	-	101,366	9,513
Investments	-	225,045	225,045	307,718
<b>Total Restricted Assets</b>	<b>367,874</b>	<b>299,943</b>	<b>667,817</b>	<b>518,503</b>
Capital Assets:				
Buildings and Improvements	1,325,674	1,682,940	3,008,614	3,008,614
Equipment	206,588	385,306	591,894	591,486
Construction in Progress	2,784,864	-	2,784,864	781,621
	4,317,126	2,068,246	6,385,372	4,381,721
Less: Accumulated Depreciation	(1,194,036)	(1,444,802)	(2,638,838)	(2,545,154)
<b>Total Capital Assets</b>	<b>3,123,090</b>	<b>623,444</b>	<b>3,746,534</b>	<b>1,836,567</b>
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	(6,000)	(47,022)	(53,022)	(51,776)
<b>Total Other Assets</b>	<b>-</b>	<b>20,362</b>	<b>20,362</b>	<b>21,608</b>
<b>Total Assets</b>	<b>3,630,189</b>	<b>1,130,521</b>	<b>4,760,710</b>	<b>2,680,576</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Accounts Payable	1,384,939	1,134	1,386,073	20,488
Customer Deposits	4,279	1,583	5,862	6,320
Current Portion of Bonds Payable	66,351	-	66,351	-
<b>Total Current Liabilities</b>	<b>1,455,569</b>	<b>2,717</b>	<b>1,458,286</b>	<b>26,808</b>
Long Term Liabilities:				
Bonds Payable, Net of Current Portion	157,318	-	157,318	-
<b>Total Current Liabilities</b>	<b>157,318</b>	<b>-</b>	<b>157,318</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,612,887</b>	<b>2,717</b>	<b>1,615,604</b>	<b>26,808</b>
Net Position:				
Net Investment in Capital Assets	1,523,196	623,444	2,146,640	1,836,567
Restricted	367,874	299,943	667,817	518,503
Unrestricted	126,232	204,417	330,649	298,698
<b>Total Net Position</b>	<b>\$ 2,017,302</b>	<b>\$ 1,127,804</b>	<b>\$ 3,145,106</b>	<b>\$ 2,653,768</b>

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 NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014)**

	Water Fund	Sewer Fund	Total	
			2015	2014
Revenue:				
User Fees	\$ 268,567	\$ 161,648	\$ 430,215	\$ 379,838
Connection Fees	450	300	750	3,374
Other Income	179	8	187	484
Total Revenue	<u>269,196</u>	<u>161,956</u>	<u>431,152</u>	<u>383,696</u>
Expenses:				
Salaries	70,885	47,257	118,142	123,575
Payroll Taxes and Insurance	6,701	4,467	11,168	11,660
Retirement	2,446	1,630	4,076	4,177
Cafeteria Contribution Expense	4,519	3,012	7,531	7,200
Depreciation and Amortization	35,429	59,502	94,931	98,635
Chemical Supplies	16,421	3,744	20,165	15,305
Laboratory Testing and Supplies	2,492	3,562	6,054	3,861
Contract Labor	2,203	969	3,172	4,620
Professional Fees	4,849	3,233	8,082	7,583
Repairs and Maintenance	817	1,195	2,012	4,640
Easements	12,000	-	12,000	12,000
Vehicle Operations	2,923	4,219	7,142	9,705
Utilities	28,474	14,772	43,246	40,477
Office	5,198	4,135	9,333	8,761
Insurance	6,815	5,845	12,660	11,962
Miscellaneous	2,531	1,674	4,205	4,568
Total Operating Expenses	<u>204,703</u>	<u>159,216</u>	<u>363,919</u>	<u>368,729</u>
Operating Income (Loss)	<u>64,493</u>	<u>2,740</u>	<u>67,233</u>	<u>14,967</u>
Non-Operating Revenues and (Expenses):				
Interest Income	3,863	3,339	7,202	5,826
Interest Expense	(538)	-	(538)	-
Net Increase (Decrease) in the Fair Value of Investments	1,613	985	2,598	3,604
Total Non-Operating Revenue (Expenses), Net	<u>4,938</u>	<u>4,324</u>	<u>9,262</u>	<u>9,430</u>
Capital Contributions	<u>414,843</u>	<u>-</u>	<u>414,843</u>	<u>111,333</u>
Change in Net Position	484,274	7,064	491,338	135,730
Net Position, Beginning of Year	<u>1,533,028</u>	<u>1,120,740</u>	<u>2,653,768</u>	<u>2,518,038</u>
Net Position, End of Year	<u><b>\$ 2,017,302</b></u>	<u><b>\$ 1,127,804</b></u>	<u><b>\$ 3,145,106</b></u>	<u><b>\$ 2,653,768</b></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, 2015  
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014)

	Water Fund	Sewer Fund	Total	
			2015	2014
<b>Cash Flows from Operating Activities:</b>				
Cash Receipts from Customers	\$ 258,136	\$ 159,414	\$ 417,550	\$ 384,470
Cash Receipts from Other Sources	179	8	187	484
Cash Paid for Goods and Services	(94,708)	(44,912)	(139,620)	(133,381)
Cash Paid for Employees	(84,551)	(56,366)	(140,917)	(146,612)
Net Cash Provided by Operating Activities	<u>79,056</u>	<u>58,144</u>	<u>137,200</u>	<u>104,961</u>
<b>Cash Flows from Investing Activities:</b>				
Purchase of Investments	-	(91,695)	(91,695)	(252,616)
Investments Sold and Matured	173,951	-	173,951	152
Net Investment Income (Loss)	3,863	3,339	7,202	9,430
Net Cash Provided (Used) by Investing Activities	<u>177,814</u>	<u>(88,356)</u>	<u>89,458</u>	<u>(243,034)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Purchase of Fixed Assets	(627,318)	108	(627,210)	(119,218)
Capital Contributions	322,990	-	322,990	101,820
Proceeds from Bonds	241,236	-	241,236	-
Principal Paid on Bonds	(17,567)	-	(17,567)	-
Interest Paid on Bonds	(538)	-	(538)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(81,197)</u>	<u>108</u>	<u>(81,089)</u>	<u>(17,398)</u>
Net Increase (Decrease) in Cash	175,673	(30,104)	145,569	(155,471)
Cash at Beginning of Year	<u>155,295</u>	<u>212,428</u>	<u>367,723</u>	<u>523,194</u>
Cash at End of Year	<u>\$ 330,968</u>	<u>\$ 182,324</u>	<u>\$ 513,292</u>	<u>\$ 367,723</u>
<b>Reconciliation of Operating Income (Loss) to net cash provided by Operating Activities:</b>				
Operating Income (Loss)	\$ 64,493	\$ 2,740	\$ 67,233	\$ 14,967
Adjustments to Reconcile Operating Income (Loss) to net cash flows from Operating Activities:				
Noncash items included in Operating Income:				
Depreciation	35,429	58,255	93,684	97,251
Amortization	-	1,246	1,246	1,383
Changes in Assets and Liabilities:				
Accounts Receivable	(10,881)	(2,847)	(13,728)	(657)
Prepaid Expenses	(82)	(55)	(137)	(139)
Trade Accounts Payable	(9,758)	(882)	(10,640)	(9,759)
Customer Deposits	(145)	(313)	(458)	1,915
Net Cash Provided by Operating Activities	<u>\$ 79,056</u>	<u>\$ 58,144</u>	<u>\$ 137,200</u>	<u>\$ 104,961</u>
<b>Reconciliation of Cash and Cash Equivalents to Statement of Net Assets:</b>				
Cash and Cash Equivalents - Unrestricted	\$ 64,460	\$ 107,426	\$ 171,886	\$ 166,451
Cash and Cash Equivalents - Restricted	266,508	74,898	341,406	201,272
Cash and Cash Equivalents	<u>\$ 330,968</u>	<u>\$ 182,324</u>	<u>\$ 513,292</u>	<u>\$ 367,723</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, 2015**

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**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** - Beginning for the year ended December 31, 2012, the District adopted a new statement of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the District's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

**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 standards.

**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 Position** - The District classifies its net position into the following three categories:

- **Net Investment in Capital Assets** - This represents the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.
- **Restricted** - The restricted component of net position consist of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. This represents the resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Unrestricted** - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. This represents the resources 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, 2015.

**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, 2015.

**Prepaid Expenses** - Certain payments to vendors represent costs applicable to futures accounting periods and are recoded as prepaid expenses and expensed as the services are used.

**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 assets are applied first when an expense is incurred for which both restricted and unrestricted resources are available.

Restricted use accounts are summarized as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Replacement and Depreciation Fund account	\$ 40,051	\$ 299,943
Improvement Project Fund account	211,638	-
USDA Bond Reserve	14,819	-
Grants Receivable	101,366	-
Total	<u>\$ 367,874</u>	<u>\$ 299,943</u>

Restrictions are detailed under the specific liability notes.

**NOTE 3: BONDS PAYABLE:**

**USDA Water System Bond - Series 2015 A and B** - In connection with the District's acquisition and construction of improvements to the system, the USDA has agreed to lend the District up to \$1,719,000.

**Water System Bond Description:** USDA 2015A water system revenue bond due in monthly installments of \$4,911 at an interest rate of 2.875%; the balance of this bond at December 31, 2015 was \$210,933.

USDA 2015B water system revenue bond due in monthly installments of \$1,124 at an interest rate of 2.875%; the balance of this bond at December 31, 2015 was \$12,736.

Debt service requirements at December 31, 2015 are as follows:

**USDA 2015A**

<u>Year Ending December 31,</u>	<u>Payments</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2016	\$ 58,932	\$ 5,317	\$ 53,615	\$ 157,318
2017	58,932	3,805	55,127	102,191
2018	58,932	2,197	56,735	45,456
2019	46,057	601	45,456	-

**USDA 2015B**

<u>Year Ending December 31,</u>	<u>Payments</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2016	\$ 12,927	\$ 191	\$ 12,736	\$ -



**NOTE 4: BOND COVENANTS:**

**USDA Water System Revenue Bond - Series 2015 A and B** - 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 2015 Bonds, and net revenues in excess of current expenses before depreciation.

**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 USDA.

**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 the next installment of the principal and interest due on the Series 2015 Bonds. Disbursement of funds from the account is limited to monthly bond payments. The balance at December 31, 2015 is \$6,616.

**Water Reserve Account** - The District must maintain an account to establish a reserve for the payment of bond principal and interest. The District is required to credit the account \$605 per month. Any excess balance in the account is required to be credited to the Revenue Bond Account. The balance at December 31, 2015 is \$1,871.

**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. Balance in the account at year end is \$6,332.

**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, 2015.

**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, 2015, premises connected to the water and sewer system are:

Water and Sewer - Full Service	472
Water and Sewer - Connected But Turned Off	40

**NOTE 6: RISK MANAGEMENT:**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2015, the District contracted with several companies for various types of insurance coverage as follows:

<u>Insurer &amp; 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	7/01/16
-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	7/01/16
<u>State of Montana</u>		
Workers' Compensation	\$100,000	7/01/16
<u>Redland Insurance Company</u>		
Flood insurance	\$160,700	5/09/16

**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, 2015 and 2014 was \$4,076 and \$4,177, respectively.

**NOTE 8: CAPITAL ASSETS:**

Capital assets, as of December 31, 2015, 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	591,486	408	-	591,894
Total Capital Assets Being Depreciated	<u>3,600,100</u>	<u>408</u>	<u>-</u>	<u>3,600,508</u>
Less Accumulated Depreciation				
Buildings and Improvements	2,199,381	86,747	-	2,286,128
Furniture, Fixtures and Equipment	345,773	6,937	-	352,710
Total Accumulated Depreciation	<u>2,545,154</u>	<u>93,684</u>	<u>-</u>	<u>2,638,838</u>
Total Capital Assets Being Depreciated, Net	<u>1,054,946</u>	<u>(93,276)</u>	<u>-</u>	<u>961,670</u>
Construction in Progress	<u>781,621</u>	<u>2,003,243</u>	<u>-</u>	<u>2,784,864</u>
Total Net Capital Assets	<u><b>\$ 1,836,567</b></u>	<u><b>\$ 1,909,967</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 3,746,534</b></u>

**NOTE 9: COMMITMENTS:**

The District is committed under various contracts for the completion of the water system improvement project. Management estimates the total costs to complete this project to be approximately \$4,577,000.

**NOTE 10: 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, 2014 from which the summarized information was derived.



**Douglas WILSON**  
and Company, PC

Randal J. Boysun, CPA  
Gerard K. Schmitz, CPA  
Myra L. Bakke, CPA

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Douglas N. Wilson, CPA  
Bruce H. Gaare, CPA

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

**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type-activities and each major fund of Sun Prairie Village County Water and Sewer District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Sun Prairie Village County Water and Sewer District's basic financial statements, and have issued our report thereon dated July 14, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sun Prairie Village County Water and Sewer District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sun Prairie Village County Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Sun Prairie Village County Water and Sewer District's internal control.

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

Our consideration of internal control 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

### **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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Great Falls, Montana  
July 14, 2016