

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

GREAT FALLS, MONTANA

FINANCIAL STATEMENTS

AS OF

DECEMBER 31, 2012

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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, 2012

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

LETTER OF TRANSMITTAL

July 18, 2013

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, 2012. 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
Roland Martin	Member	4 Years	11/30/2013
Richard Matiska	Member	4 Years	11/30/2013

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
Michael A. Diekhans, CPA
Myra L. Bakke, CPA
Thomas A. Kopp, CPA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

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, 2012, 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, 2011 financial statements, and in our report dated August 16, 2012, we expressed an unqualified 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, 2012, 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

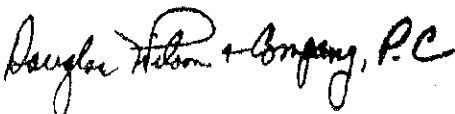
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 18, 2013, 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 18, 2013

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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 \$388,011 in calendar year 2012. This was an increase of 3.2% from the prior year.

Total operating expenses before depreciation and amortization were \$249,622 in calendar year 2012, a decrease of 2.2% from the prior year.

Total net position as of December 31, 2012 was \$2,190,727, an increase of \$260,252 from total net assets as December 31, 2011.

Total capital assets (net of depreciation) were \$1,702,442 as of December 31, 2012, an increase of \$247,876 or 17% more than December 31, 2011. 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, 2012 was \$2,190,727, an increase of \$260,252 or 13.5% from December 31, 2011 (See Table A-1). Total assets increased \$368,786 or 18.8% and total liabilities increased \$108,534 or 324.1%.

**TABLE A-1
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT
FUND NET POSITION
AS OF DECEMBER 31, 2012**

	2012	2011	% Change
Current and Other Assets	\$ 326,142	\$ 265,365	22.9%
Restricted Assets	304,161	244,028	24.6%
Capital Assets	1,702,442	1,454,566	17.0%
Total Assets	<u>\$ 2,332,745</u>	<u>\$ 1,963,959</u>	18.8%
Current Liabilities	\$ 142,018	\$ 17,049	733.0%
Long-Term Debt, Net of Current Portion	-	16,435	-100.0%
Total Liabilities	<u>\$ 142,018</u>	<u>\$ 33,484</u>	324.1%
Net Position:			
Net Investment in Capital Assets	\$ 1,686,007	\$ 1,422,625	18.5%
Restricted	304,161	244,028	24.6%
Unrestricted	200,559	263,822	-24.0%
Total Net Position	<u>\$ 2,190,727</u>	<u>\$ 1,930,475</u>	13.5%

By far the largest portion of the Sun Prairie Village County Water and Sewer District's net assets, \$1,702,442 of \$2,332,745 (73%), 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 \$16,435 at December 31, 2012.

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, 2012

	2012	2011	% Change
Operating Revenues			
User Fees	\$ 381,784	\$ 370,296	3.1%
Connection Fees	4,524	3,550	27.4%
Other Income	1,703	1,939	-12.2%
Total Operating Revenues	<u>388,011</u>	<u>375,785</u>	3.3%
Operating Expenses			
Total Operating Expenses Before			
Depreciation	249,622	255,235	-2.2%
Depreciation and Amortization	<u>110,701</u>	<u>109,073</u>	1.5%
Total Operating Expenses Including Depreciation and Amortization	<u>360,323</u>	<u>364,308</u>	-1.1%
Operating Gain (Loss)	27,688	11,477	141.2%
Non-operating Revenues and Expenses, Net	<u>232,564</u>	<u>2,213</u>	10408.9%
Changes in Net Position	260,252	13,690	
Total Net Position, Beginning	<u>1,930,475</u>	<u>1,916,785</u>	0.7%
Total Net Position, Ending	<u>\$ 2,190,727</u>	<u>\$ 1,930,475</u>	13.5%

Operating Revenues - Operating revenues are composed of user fees and connection fees. Operating revenues increased \$12,226, from last year. This increase is due a monthly service rate increase, which went into effect January 1, 2012.

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

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 \$3,257 or 2.6% over calendar year 2011.

Other Operating Costs - Other operating costs include repairs, maintenance, parts, materials and supplies, insurance, utilities, vehicle operations, and other expenses. Other operating costs decreased \$8,870 or 6.8% compared to the prior year.

Non-Operating Revenues and Expenses, Net - Non-operating revenues and expenses increased by \$230,351, due to reimbursement grants received for construction of the new water system project.

Capital Assets - As of December 31, 2012, Sun Prairie Village County Water and Sewer District had invested \$4,049,957 in capital assets. Net of accumulated depreciation, Sun Prairie Village County Water and Sewer District's net capital assets as of December 31, 2012 totaled \$1,702,442 (See Table A-3). This amount represents a net increase of \$247,876 or 17% from December 31, 2011.

**TABLE A-3
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT'S
CAPITAL ASSETS (NET OF DEPRECIATION)
AS OF DECEMBER 31, 2012**

	2012	2011	% Change
Building and Improvements	\$ 3,008,614	\$ 3,008,614	0.0%
Equipment	580,941	580,611	0.1%
Construction in Progress	460,402	103,703	343.9%
Accumulated Depreciation	<u>(2,347,515)</u>	<u>(2,238,362)</u>	4.9%
Total Net Capital Assets	<u><u>\$ 1,702,442</u></u>	<u><u>\$ 1,454,566</u></u>	17.0%

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 2012 and 2011, Sun Prairie Village County Water and Sewer District had revenue bonds outstanding for \$16,435 and \$31,941, 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 NET POSITION AS OF DECEMBER 31, 2012
(WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011)**

	Water Fund	Sewer Fund	Total	
			2012	2011
ASSETS				
Current:				
Cash and Cash Equivalents	\$ 127,680	\$ 92,312	\$ 219,992	\$ 196,447
Investments	46,579	22,999	69,578	30,077
Accounts Receivable	18,567	6,281	24,848	29,070
Allowance for Uncollectible Accounts Receivable	(10,800)	(7,200)	(18,000)	(18,000)
Prepaid Expenses	3,295	1,891	5,186	1,686
Total Current Assets	185,321	116,283	301,604	239,280
Restricted:				
Cash and Cash Equivalents	119,701	145,275	264,976	194,265
Investments	14,943	24,242	39,185	49,763
Total Restricted Assets	134,644	169,517	304,161	244,028
Capital Assets:				
Buildings and Improvements	1,325,674	1,682,940	3,008,614	3,008,614
Equipment	197,442	383,499	580,941	580,611
Construction in Progress	460,402	-	460,402	103,703
	1,983,518	2,066,439	4,049,957	3,692,928
Less: Accumulated Depreciation	(1,082,253)	(1,265,262)	(2,347,515)	(2,238,362)
Total Capital Assets	901,265	801,177	1,702,442	1,454,566
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	(5,563)	(43,283)	(48,846)	(47,299)
Total Other Assets	437	24,101	24,538	26,085
Total Assets	1,221,667	1,111,078	2,332,745	1,963,959
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	118,631	1,378	120,009	1,543
Customer Deposits	4,180	1,394	5,574	-
Current Portion of Bonds Payable	16,435	-	16,435	15,506
Total Current Liabilities	139,246	2,772	142,018	17,049
Long Term Liabilities:				
Bonds Payable, Net of Current Portion	-	-	-	16,435
Total Long Term Liabilities	-	-	-	16,435
Total Liabilities	139,246	2,772	142,018	33,484
Net Position:				
Net Investment in Capital Assets	884,830	801,177	1,686,007	1,422,625
Restricted	134,644	169,517	304,161	244,028
Unrestricted	62,947	137,612	200,559	263,822
Total Net Position	\$ 1,082,421	\$ 1,108,306	\$ 2,190,727	\$ 1,930,475

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, 2012
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	Water Fund	Sewer Fund	Total	
			2012	2011
Revenue:				
User Fees	\$ 230,372	\$ 151,412	\$ 381,784	\$ 370,296
Connection Fees	2,703	1,821	4,524	3,550
Other Income	976	727	1,703	1,939
Total Revenue	<u>234,051</u>	<u>153,960</u>	<u>388,011</u>	<u>375,785</u>
Expenses:				
Salaries	65,986	43,990	109,976	102,977
Payroll Taxes and Insurance	5,853	3,902	9,755	10,941
Retirement	2,338	1,559	3,897	3,738
Cafeteria Contribution Expense	2,691	1,794	4,485	7,200
Depreciation and Amortization	42,417	68,284	110,701	109,073
Chemical Supplies	11,089	2,453	13,542	16,879
Laboratory Testing and Supplies	768	4,943	5,711	6,609
Contract Labor	7,145	2,079	9,224	2,105
Professional Fees	5,220	2,416	7,636	8,215
Repairs and Maintenance	6,015	627	6,642	4,373
Easements	12,000	-	12,000	12,000
Vehicle Operations	4,757	4,237	8,994	9,857
Utilities	25,752	11,192	36,944	36,396
Office	5,016	4,057	9,073	10,052
Insurance	4,312	2,875	7,187	16,055
Miscellaneous	2,828	1,728	4,556	7,838
Total Operating Expenses	<u>204,187</u>	<u>156,136</u>	<u>360,323</u>	<u>364,308</u>
Operating Income (Loss)	<u>29,864</u>	<u>(2,176)</u>	<u>27,688</u>	<u>11,477</u>
Non-Operating Revenues and (Expenses):				
Interest Income	2,303	1,893	4,196	5,373
Interest Expense	(1,672)	(8)	(1,680)	(2,641)
Net Increase (Decrease) in the Fair Value of Investments	<u>(1,627)</u>	<u>(1,285)</u>	<u>(2,912)</u>	<u>(519)</u>
Total Non-Operating Revenue (Expenses), Net	<u>(996)</u>	<u>600</u>	<u>(396)</u>	<u>2,213</u>
Capital Contributions	232,960	-	232,960	-
Change in Net Position	<u>261,828</u>	<u>(1,576)</u>	<u>260,252</u>	<u>13,690</u>
Net Position, Beginning of Year	<u>820,593</u>	<u>1,109,882</u>	<u>1,930,475</u>	<u>1,916,785</u>
Net Position, End of Year	<u>\$ 1,082,421</u>	<u>\$ 1,108,306</u>	<u>\$ 2,190,727</u>	<u>\$ 1,930,475</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, 2012
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)**

	Water Fund	Sewer Fund	Total	
			2012	2011
Cash Flows from Operating Activities:				
Cash Receipts from Customers	\$ 238,024	\$ 158,080	\$ 396,104	\$ 385,704
Cash Receipts from Other Sources	976	727	1,703	1,939
Cash Paid for Goods and Services	(83,749)	(37,246)	(120,995)	(125,791)
Cash Paid for Employees	(76,868)	(51,245)	(128,113)	(124,856)
Net Cash Provided by Operating Activities	<u>78,383</u>	<u>70,316</u>	<u>148,699</u>	<u>136,996</u>
Cash Flows from Investing Activities:				
(Increase) Decrease in Investments	(19,290)	(12,545)	(31,835)	18,410
Investment Income	2,303	1,893	4,196	5,373
Net Cash Provided by Investing Activities	<u>(16,987)</u>	<u>(10,652)</u>	<u>(27,639)</u>	<u>23,783</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of Fixed Assets	(242,446)	(132)	(242,578)	(28,197)
Capital Contributions	232,960	-	232,960	-
Principal Paid on Long-Term Debt	(15,506)	-	(15,506)	(17,142)
Interest Paid	(1,672)	(8)	(1,680)	(2,641)
Net Cash Used by Capital and Related Financing Activities	<u>(26,664)</u>	<u>(140)</u>	<u>(26,804)</u>	<u>(47,980)</u>
Net Increase (Decrease) in Cash	34,732	59,524	94,256	112,799
Cash at Beginning of Year	212,649	178,063	390,712	277,913
Cash at End of Year	<u>\$ 247,381</u>	<u>\$ 237,587</u>	<u>\$ 484,968</u>	<u>\$ 390,712</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 29,864	\$ (2,176)	\$ 27,688	\$ 11,477
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:				
Depreciation	42,116	67,037	109,153	107,526
Amortization	300	1,247	1,547	1,547
(Increase) Decrease in Accounts Receivable	769	3,453	4,222	11,858
(Increase) Decrease in Prepaid Expenses	(2,100)	(1,400)	(3,500)	5,036
Increase (Decrease) in Accounts Payable	3,254	761	4,015	(448)
Increase (Decrease) in Customer Deposits	4,180	1,394	5,574	-
Net Cash Provided by Operating Activities	<u>\$ 78,383</u>	<u>\$ 70,316</u>	<u>\$ 148,699</u>	<u>\$ 136,996</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets:				
Cash and Cash Equivalents - Unrestricted	\$ 127,680	\$ 92,312	\$ 219,992	\$ 196,447
Cash and Cash Equivalents - Restricted	119,701	145,275	264,976	194,265
Cash and Cash Equivalents	<u>\$ 247,381</u>	<u>\$ 237,587</u>	<u>\$ 484,968</u>	<u>\$ 390,712</u>
Non-Cash Investing, Capital and Financing Activities:				
Net Increase (Decrease) in Fair Value of Investments	<u>\$ (1,627)</u>	<u>\$ (1,285)</u>	<u>\$ (2,912)</u>	<u>\$ (519)</u>
Construction in Progress acquired through Accounts Payable	<u>\$ 114,451</u>	<u>\$ -</u>	<u>\$ 114,451</u>	<u>\$ -</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, 2012

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 a new statement of financial accounting standards issued by the Governmental Accounting Standards Board (GASB) for 2012:

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 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 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, 2012.

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, 2012.

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	\$ 95,373	\$ 169,517
Revenue Bond Fund	18,739	-
Improvement Project Fund	11,276	-
Reserve	9,256	-
Total	<u>\$ 134,644</u>	<u>\$ 169,517</u>

Restrictions are detailed under the specific liability notes.

NOTE 3: BONDS PAYABLE:

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, 2011	\$ 31,941
Principal Payments	15,506
Balance at December 31, 2012	<u>\$ 16,435</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>
12/31/12				\$ 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 and 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, 2012 is \$18,739.

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, 2012 is \$9,256.

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>\$ 95,373</u>
Sewer	<u>\$ 169,517</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, 2012.

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, 2012, 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: 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 2012, the District contracted with several companies for various types of insurance coverage as follows:

<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	7/01/13
-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	7/01/13
<u>State of Montana</u>		
Workers' Compensation	\$100,000	7/01/13
<u>Redland Insurance Company</u>		
Flood insurance	\$160,700	5/09/13

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, 2012 and 2011 was \$3,897 and \$3,738, respectively.

NOTE 8: CAPITAL ASSETS:

Capital assets, as of December 31, 2012, 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	580,611	330	-	580,941
Total Capital Assets Being Depreciated	<u>3,589,225</u>	<u>330</u>	<u>-</u>	<u>3,589,555</u>
Less Accumulated Depreciation				
Buildings and Improvements	1,938,090	89,836	-	2,027,926
Furniture, Fixtures and Equipment	300,272	19,317	-	319,589
Total Accumulated Depreciation	<u>2,238,362</u>	<u>109,153</u>	<u>-</u>	<u>2,347,515</u>
Total Capital Assets Being Depreciated, Net	<u>1,350,863</u>	<u>(108,823)</u>	<u>-</u>	<u>1,242,040</u>
Construction in Progress	<u>103,703</u>	<u>356,699</u>	<u>-</u>	<u>460,402</u>
Total Net Capital Assets	<u><u>\$ 1,454,566</u></u>	<u><u>\$ 247,876</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,702,442</u></u>

NOTE 9: COMMITMENTS:

The District is committed under various contracts for the completion of the water system improvement project. Management estimates the costs to complete this project to be approximately \$3,576,000 at December 31, 2012.

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, 2011 from which the summarized information was derived.



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
Michael A. Diekhans, CPA
Myra L. Bakke, CPA
Thomas A. Kopp, CPA

**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**

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

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, 2012, 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 18, 2013.

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.

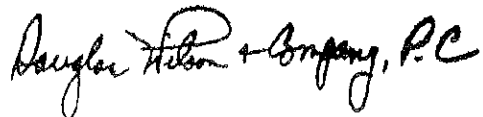
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during 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.

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
July 18, 2013