

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

GREAT FALLS, MONTANA

FINANCIAL STATEMENTS

AS OF

DECEMBER 31, 2018

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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, 2018

TABLE OF CONTENTS

INTRODUCTORY SECTION:

LETTER OF TRANSMITTAL 1
BOARD OF DIRECTORS AND ADMINISTRATIVE OFFICIALS..... 2

FINANCIAL SECTION:

INDEPENDENT AUDITOR'S REPORT 3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS 5-9
STATEMENT OF NET POSITION 10
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION 11
STATEMENT OF CHANGES IN CASH FLOWS 12
NOTES TO THE FINANCIAL STATEMENTS 13-20
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* 21-22



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

LETTER OF TRANSMITTAL

July 22, 2019

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, 2018. 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 are required to file a nonpartisan petition for candidacy.

The Board appoints the Chair of the Board from the existing Board members to serve a one-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 AS OF DECEMBER 31, 2018

<u>Board of Directors</u>	<u>Position</u>	<u>Term</u>	<u>Term Expires</u>
Roland Martin	President	4 Years	5/31/2022
Floris Dyke	Vice-President	4 Years	5/31/2019
David Abbott	Member	4 Years	5/31/2022
Kevin Askeland	Member	4 Years	5/31/2019
Richard Matiska	Member	4 Years	5/31/2022

Administrative Officials

Janet Fulmer General Manager



Douglas **WILSON**
and Company, PC

INDEPENDENT AUDITOR'S REPORT

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
Melissa H. Soldano, CPA

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

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the District's December 31, 2017 financial statements, and in our report dated July 2, 2018, 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, 2018, 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 9 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2019, 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 22, 2019

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018. 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 \$542,479 for calendar year 2018. This was a decrease of 4.3% from the prior year.

Total operating expenses before depreciation and amortization were \$357,216 in calendar year 2018, a decrease of .8% from the prior year.

Total net position as of December 31, 2018 was \$4,716,899, a decrease of \$31,294 from total net assets as December 31, 2017.

Total capital assets (net of depreciation) were \$5,424,713 as of December 31, 2018, a decrease of \$109,037 or 2% less than December 31, 2017. The additions to capital assets in 2018 included equipment and security camera system.

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.

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

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 13 through 20, 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, 2018 was \$4,716,899, a decrease of \$31,294 or .7% from December 31, 2017 (See Table A-1). Total assets decreased \$82,850 or 1.3% and total liabilities decreased \$51,556 or 3.1%.

TABLE A-1
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT
NET POSITION
AS OF DECEMBER 31, 2018

	2018	2017	% Change
Current Assets	\$ 365,486	\$ 370,090	-1.2%
Restricted Assets	540,690	508,652	6.3%
Capital Assets	5,424,713	5,533,750	-2.0%
Other Assets	16,621	17,868	-7.0%
Total Assets	<u>\$ 6,347,510</u>	<u>\$ 6,430,360</u>	-1.3%
Total Liabilities	\$ 1,630,611	\$ 1,682,167	-3.1%
Net Position:			
Net Investment in Capital Assets	\$ 3,802,158	\$ 3,885,819	-2.2%
Restricted	540,690	508,652	6.3%
Unrestricted	374,051	353,722	5.7%
Total Net Position	<u>\$ 4,716,899</u>	<u>\$ 4,748,193</u>	-0.7%

The largest portion of the Sun Prairie Village County Water and Sewer District's total assets at December 31, 2018, \$5,424,713 of \$6,347,510 (85%), 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.

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

At December 31, 2018 and 2017, 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, 2018**

	2018	2017	% Change
Operating Revenues			
User Fees	\$ 538,568	\$ 561,006	-4.0%
Connection Fees	3,350	4,871	-31.2%
Other Income	561	1,519	-63.1%
Total Operating Revenues	<u>542,479</u>	<u>567,396</u>	-4.4%
Operating Expenses			
Total Operating Expenses Before			
Depreciation and Amortization	357,216	360,044	-0.8%
Depreciation and Amortization	174,615	174,061	3.1%
Total Operating Expenses Including			
Depreciation and Amortization	<u>531,831</u>	<u>534,105</u>	-0.4%
Operating Gain (Loss)	10,648	33,291	-68.0%
Non-operating Revenues and Capital			
Contributions net of Non-operating Expenses	<u>(41,942)</u>	<u>(13,778)</u>	-204.4%
Change in Net Position	<u>(31,294)</u>	19,513	-260.3%
Total Net Position, Beginning	<u>4,748,193</u>	<u>4,728,680</u>	-0.4%
Total Net Position, Ending	<u>\$ 4,716,899</u>	<u>\$ 4,748,193</u>	-0.7%

Operating Revenues - Operating revenues are composed of user fees and connection fees. Operating revenues decrease \$23,959 from last year.

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

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Employment Costs - Employment costs consist of full-time and part-time regular wages and related overtime costs, employment taxes, retirement contributions, and other fringe benefits. Employment costs decreased \$4,067 or 2.5% over 2017.

Other Operating Costs - Other operating costs include depreciation, repairs, maintenance, parts, materials and supplies, insurance, utilities, vehicle operations, and other expenses. Other operating costs increased \$1,793 or .5% compared to 2017.

Non-Operating Revenues and Expenses, Net - Non-operating revenues and expenses including capital contributions, decreased by \$55,720. No capital contributions were received in 2018.

Capital Assets - As of December 31, 2018, Sun Prairie Village County Water and Sewer District had invested \$8,500,645 in capital assets. Net of accumulated depreciation, Sun Prairie Village County Water and Sewer District's net capital assets as of December 31, 2018 totaled \$5,424,713 (See Table A-3). This amount represents a net decrease of \$109,037 from December 31, 2017, due to depreciation expense.

TABLE A-3
SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT'S
CAPITAL ASSETS (NET OF DEPRECIATION)
AS OF DECEMBER 31, 2018

	2018	2017	% Change
Building and Improvements	\$ 7,762,892	\$ 7,762,892	0.0%
Equipment	627,067	615,979	1.8%
Construction in Progress	110,686	64,422	71.8%
Accumulated Depreciation	(3,075,932)	(2,909,543)	5.7%
Total Net Capital Assets	<u>\$ 5,424,713</u>	<u>\$ 5,533,750</u>	-2.0%

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.

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Debt Administration - At December 31, 2018, Sun Village County Water and Sewer District had bonds outstanding to the USDA that totaled \$1,622,555. At December 31, 2017, Sun Village County Water and Sewer District had bonds outstanding to the USDA that totaled \$1,647,931.

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.

CONDITIONS AFFECTING CURRENT FINANCIAL POSITION

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present and future.

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, 2018
(WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2017)**

	Water Fund	Sewer Fund	Total	
			2018	2017
ASSETS				
Current:				
Cash and Cash Equivalents	\$ 115,139	\$ 85,766	\$ 200,905	\$ 200,007
Investments	51,738	73,079	124,817	126,683
Accounts Receivable	35,008	15,004	50,012	53,688
Allowance for Uncollectible Accounts Receivable	(10,800)	(7,200)	(18,000)	(18,000)
Prepaid Expenses	5,607	2,145	7,752	7,712
Total Current Assets	196,692	168,794	365,486	370,090
Restricted:				
Cash and Cash Equivalents	230,972	136,497	367,469	323,315
Investments	-	173,221	173,221	185,337
Total Restricted Assets	230,972	309,718	540,690	508,652
Capital Assets:				
Buildings and Improvements	6,078,488	1,684,404	7,762,892	7,762,892
Equipment	225,307	401,760	627,067	615,979
Construction in Progress	-	110,686	110,686	64,422
	6,303,795	2,196,850	8,500,645	8,443,293
Less: Accumulated Depreciation	(1,495,903)	(1,580,029)	(3,075,932)	(2,909,543)
Total Capital Assets	4,807,892	616,821	5,424,713	5,533,750
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)	(50,763)	(56,763)	(55,516)
Total Other Assets	-	16,621	16,621	17,868
Total Assets	5,235,556	1,111,954	6,347,510	6,430,360
LIABILITIES				
Current Liabilities:				
Accounts Payable	708	1,456	2,164	27,955
Customer Deposits	4,124	1,768	5,892	6,281
Current Portion of Bonds Payable	26,114	-	26,114	25,376
Total Current Liabilities	30,946	3,224	34,170	59,612
Long Term Liabilities:				
Bonds Payable, Net of Current Portion	1,596,441	-	1,596,441	1,622,555
Total Long Term Liabilities	1,596,441	-	1,596,441	1,622,555
Total Liabilities	1,627,387	3,224	1,630,611	1,682,167
NET POSITION				
Net Investment in Capital Assets	3,185,337	616,821	3,802,158	3,885,819
Restricted	230,972	309,718	540,690	508,652
Unrestricted	191,860	182,191	374,051	353,722
Total Net Position	\$ 3,608,169	\$ 1,108,730	\$ 4,716,899	\$ 4,748,193

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, 2018
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017)

	Water Fund	Sewer Fund	Total	
			2018	2017
Revenue:				
User Fees	\$ 376,039	\$ 162,529	\$ 538,568	\$ 561,006
Connection and Convenience Fees	2,345	1,005	3,350	4,871
Other Income	543	18	561	1,519
Total Revenue	<u>378,927</u>	<u>163,552</u>	<u>542,479</u>	<u>567,396</u>
Expenses:				
Salaries	90,205	38,659	128,864	133,766
Payroll Taxes and Insurance	14,591	7,324	21,915	16,399
Retirement	1,801	820	2,621	3,914
Cafeteria Contribution Expense	3,815	1,047	4,862	8,250
Depreciation and Amortization	131,433	43,182	174,615	174,061
Chemical Supplies	25,655	540	26,195	42,040
Laboratory Testing and Supplies	2,664	3,579	6,243	7,896
Contract Labor	24,768	6,343	31,111	13,859
Professional Fees	6,772	2,903	9,675	14,463
Repairs and Maintenance	18,156	8,429	26,585	11,152
Vehicle Operations	5,493	3,457	8,950	6,649
Utilities	44,443	14,002	58,445	65,981
Office	7,014	3,665	10,679	10,259
Insurance	8,897	5,168	14,065	15,240
Miscellaneous	5,017	1,989	7,006	10,176
Total Operating Expenses	<u>390,724</u>	<u>141,107</u>	<u>531,831</u>	<u>534,105</u>
Operating Income (Loss)	<u>(11,797)</u>	<u>22,445</u>	<u>10,648</u>	<u>33,291</u>
Non-Operating Revenues and (Expenses):				
Interest Income	4,079	3,571	7,650	6,385
Interest Expense	(47,044)	-	(47,044)	(47,763)
Net Increase (Decrease) in the Fair Value of Investments	<u>(1,688)</u>	<u>(860)</u>	<u>(2,548)</u>	<u>(2,400)</u>
Total Non-Operating Revenue (Expenses), Net	<u>(44,653)</u>	<u>2,711</u>	<u>(41,942)</u>	<u>(43,778)</u>
Capital Contributions	-	-	-	30,000
Transfers	<u>33,397</u>	<u>(33,397)</u>	<u>-</u>	<u>-</u>
Change in Net Position	(23,053)	(8,241)	(31,294)	19,513
Net Position, Beginning of Year	<u>3,631,222</u>	<u>1,116,971</u>	<u>4,748,193</u>	<u>4,728,680</u>
Net Position, End of Year	<u>\$ 3,608,169</u>	<u>\$ 1,108,730</u>	<u>\$ 4,716,899</u>	<u>\$ 4,748,193</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, 2018
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017)

	Water Fund	Sewer Fund	Total	
			2018	2017
Cash Flows from Operating Activities:				
Cash Receipts from Customers	\$ 378,340	\$ 164,520	\$ 542,860	\$ 556,280
Cash Receipts from Other Sources	543	18	561	1,519
Cash Paid for Goods and Services	(146,133)	(74,757)	(220,890)	(227,302)
Cash Paid for Employees	(111,497)	(48,315)	(159,812)	(156,024)
Net Cash Provided by Operating Activities	<u>121,253</u>	<u>41,466</u>	<u>162,719</u>	<u>174,473</u>
Cash Flows from Investing Activities:				
Purchase of Investments	(25,000)	(85,000)	(110,000)	(59,275)
Investments Sold and Matured	24,867	50,303	75,170	75,481
Investment Earnings	4,079	3,571	7,650	6,385
Net Cash Provided (Used) by Investing Activities	<u>3,946</u>	<u>(31,126)</u>	<u>(27,180)</u>	<u>22,591</u>
Cash Flows from Capital and Related Financing Activities:				
Financing Activities:				
Purchase of Capital Assets	(5,062)	(13,005)	(18,067)	(63,535)
Capital Contributions	-	-	-	57,772
Principal Paid on Bonds	(25,376)	-	(25,376)	(24,658)
Interest Paid	(47,044)	-	(47,044)	(47,763)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(77,482)</u>	<u>(13,005)</u>	<u>(90,487)</u>	<u>(78,184)</u>
Cash Flows from Noncapital Financing Activities:				
Transfers	33,397	(33,397)	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>33,397</u>	<u>(33,397)</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash	81,114	(36,062)	45,052	118,880
Cash at Beginning of Year	264,997	258,325	523,322	404,442
Cash at End of Year	<u>\$ 346,111</u>	<u>\$ 222,263</u>	<u>\$ 568,374</u>	<u>\$ 523,322</u>
Reconciliation of Operating Income (Loss) to net cash provided by Operating Activities:				
Operating Income (Loss)	\$ (11,797)	\$ 22,445	\$ 10,648	\$ 33,291
Adjustments to Reconcile Operating Income (Loss) to net cash flows from Operating Activities:				
Noncash items included in Operating Income:				
Depreciation	131,433	41,935	173,368	172,814
Amortization	-	1,247	1,247	1,247
Changes in Assets and Liabilities:				
Accounts Receivable	2,574	1,102	3,676	(10,818)
Prepaid Expenses	(28)	(12)	(40)	(1,847)
Trade Accounts Payable	(656)	(25,135)	(25,791)	(21,435)
Customer Deposits	(273)	(116)	(389)	1,221
Net Cash Provided by Operating Activities	<u>\$ 121,253</u>	<u>\$ 41,466</u>	<u>\$ 162,719</u>	<u>\$ 174,473</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets:				
Cash and Cash Equivalents - Unrestricted	\$ 115,139	\$ 85,766	\$ 200,905	\$ 200,007
Cash and Cash Equivalents - Restricted	230,972	136,497	367,469	323,315
Cash and Cash Equivalents	<u>\$ 346,111</u>	<u>\$ 222,263</u>	<u>\$ 568,374</u>	<u>\$ 523,322</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, 2018

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 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.

Construction in Process - The District is involved in various construction projects throughout the year. Once completed, those projects are capitalized and depreciated over the life of the asset.

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.

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

- **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, 2018.

Investments - Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

All investments of the District are invested in 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, 2018.

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.

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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.

Reclassification - The District has reclassified certain prior year information to conform to current year presentations. The previously reported change in net position and total net position were unaffected by the reclassification.

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	\$ 136,096	\$ 279,718
Improvement Project Fund account	37,099	30,000
USDA Revenue Bond and Reserve accounts	57,777	-
Total	<u>\$ 230,972</u>	<u>\$ 309,718</u>

NOTE 3: INVESTMENTS:

Investments authorized at December 31, 2018 by the District's investment policy:

<u>Type of Investments</u>	<u>Measurement Input</u>	<u>Fair Value</u>	<u>Maturity</u>			
			<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>Over 60 Months</u>
U.S. Treasury obligations	Level 2	\$ 75,649	\$ 17	\$ -	\$ 27,327	\$ 48,305
Non-negotiable certificates of deposit	Level 2	222,389	74,319	49,200	98,870	-
Total Investments		<u>\$ 298,038</u>	<u>\$ 74,336</u>	<u>\$ 49,200</u>	<u>\$ 126,197</u>	<u>\$ 48,305</u>

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Fair Value Measurement Input

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the table above.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a credit rating by a nationally recognized statistical rating organization.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer.

NOTE 4: CAPITAL ASSETS:

Capital assets, as of December 31, 2018, are summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Buildings and System Improvements	\$ 7,762,892	\$ -	\$ -	\$ 7,762,892
Furniture, Fixtures and Equipment	615,979	18,067	(6,979)	627,067
Total Capital Assets Being Depreciated	<u>8,378,871</u>	<u>18,067</u>	<u>(6,979)</u>	<u>8,389,959</u>
Accumulated Depreciation				
Buildings and System Improvements	(2,541,725)	(164,988)	-	(2,706,713)
Furniture, Fixtures and Equipment	(367,818)	(8,380)	6,979	(369,219)
Total Accumulated Depreciation	<u>(2,909,543)</u>	<u>(173,368)</u>	<u>6,979</u>	<u>(3,075,932)</u>
Total Capital Assets Being Depreciated, Net	<u>5,469,328</u>	<u>(155,301)</u>	<u>-</u>	<u>5,314,027</u>
Construction in Progress	<u>64,422</u>	<u>46,264</u>	<u>-</u>	<u>110,686</u>
Total Net Capital Assets	<u>\$ 5,533,750</u>	<u>\$ (109,037)</u>	<u>\$ -</u>	<u>\$ 5,424,713</u>

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5: 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 District obtained two bonds from the USDA.

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, 2018 was \$1,342,011. Final scheduled payment is January 2055.

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, 2018 was \$305,920. Final scheduled payment is January 2055.

Debt service requirements at December 31, 2018 are as follows:

Year Ending December 31,	USDA 2015A			
	Payments	Interest	Principal	Balance
2019	\$ 58,932	\$ 37,712	\$ 21,220	\$ 1,300,171
2020	58,932	37,093	21,839	1,278,332
2021	58,932	36,457	22,475	1,255,857
2022	58,932	35,803	23,129	1,232,728
2023	58,932	35,129	23,803	1,208,925
2024-2028	294,660	164,830	129,830	1,079,095
2029-2033	294,660	144,785	149,875	929,220
2034-2038	294,660	121,645	173,015	756,205
2039-2043	294,660	94,932	199,728	556,477
2044-2048	294,660	64,095	230,565	325,912
2049-2053	294,660	28,496	266,164	59,748
2054-2055	60,710	962	59,748	-
Total	<u>\$ 2,123,330</u>	<u>\$ 801,939</u>	<u>\$ 1,321,391</u>	

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

USDA 2015B

Year Ending December 31,	Payments	Interest	Principal	Balance
2019	\$ 13,488	\$ 8,594	\$ 4,894	\$ 296,270
2020	13,488	8,452	5,036	291,234
2021	13,488	8,305	5,183	286,051
2022	13,488	8,154	5,334	280,717
2023	13,488	7,999	5,489	275,228
2024-2028	67,440	37,499	29,941	245,287
2029-2033	67,440	32,877	34,563	210,724
2034-2038	67,440	27,540	39,900	170,824
2039-2043	67,440	21,380	46,060	124,764
2044-2048	67,440	14,268	53,172	71,592
2049-2053	67,440	6,059	61,381	10,211
2054-2055	10,336	125	10,211	-
Total	<u>\$ 482,416</u>	<u>\$ 181,252</u>	<u>\$ 301,164</u>	

NOTE 6: 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. The balance at December 31, 2018 is \$37,099.

Water Revenue Bond Account - The District must maintain and 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, 2018 is \$16,823.

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, 2018 is \$40,954.

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 accounts at year end is \$136,096.

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, 2018.

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. This account is considered to be unrestricted on the District's Statement of Net Position. The balance at December 31, 2018 is \$19,031.

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

NOTE 7: PREMISES CONNECTED TO SYSTEM:

On December 31, 2018, premises connected to the water and sewer system are:

Water and Sewer - Full Service	477
Water and Sewer - Connected But Turned Off	40

NOTE 8: 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 2018, the District contracted with several companies for various types of insurance coverage as follows:

<u>Insurer and 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	7/01/19
-Medical	\$5,000 per person/\$50,000 per accident	
-Uninsured Motorist	\$750,000 per claim / \$1,500,000 per occurrence	

SUN PRAIRIE VILLAGE COUNTY WATER AND SEWER DISTRICT

GREAT FALLS, MONTANA

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

<u>Insurer and Risk Covered</u>	<u>Amount of Insurance</u>	<u>Expiration Date</u>
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	7/01/19
<u>State of Montana</u> Workers' Compensation	\$100,000	7/01/19
<u>Redland Insurance Company</u> Flood insurance	\$160,700	5/09/19

NOTE 9: RETIREMENT PLAN:

The District has adopted a Simplified Employee Pension (SEP) plan that covers all of their employees with over one year of service. The plan provides for immediate vesting. The District currently makes contributions of 4% of employee wages. The amount of District contributions to the plan for the years ended December 31, 2018 and 2017 totaled \$2,621 and \$3,914, respectively.

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, 2017 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
Myra L. Bakke, CPA
Melissa H. Soldano, CPA

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

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, 2018, 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 22, 2019.

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.

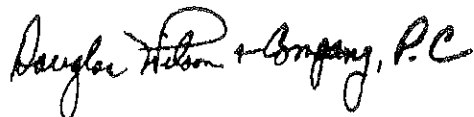
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during 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 Nelson + Company, P.C." The signature is written in a cursive, flowing style.

Great Falls, Montana
July 22, 2019