

GORE HILL COUNTY WATER DISTRICT
GREAT FALLS, MONTANA

FINANCIAL STATEMENTS
AS OF
JUNE 30, 2021 AND 2020

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Douglas Wilson & Company, P.C.

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GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**OFFICIALS
JUNE 30, 2021**

OFFICERS

President
First Vice President
Second Vice President
Third Vice President
Treasurer
Secretary (Employee)

Dave Schuler
Jerry Ulmen
Dennis Peppenger
Kristie Blackford
Mercy Padgett
Christy Walter

DIRECTORS

Dave Schuler
Jerry Ulmen
Dennie Peppenger
Kristie Blackford
Mercy Padgett

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

This section of the Gore Hill County Water District's (the District) annual financial report presents management's analysis of the District's financial performance as of and for the year ended June 30, 2021. Readers should review this section in conjunction with the financial statements and notes to financial statements to enhance their understanding of the District's financial performance.

FINANCIAL STATEMENT HIGHLIGHTS AND OVERVIEW

- a) Total assets decreased by \$22,043 from 2020 to 2021, and decreased by \$20,098 from 2019 to 2020.
- b) Total liabilities increased by \$553 from 2020 to 2021, and decreased by \$3,313 from 2019 to 2020.
- c) Total net position decreased by \$22,596 from 2020 to 2021 and decreased by \$16,785 from 2019 to 2020.
- d) Operating income increased by \$24,717 from 2020 to 2021 and increased by \$25,336 from 2019 to 2020.
- e) Change in net position decreased by \$5,811 from 2020 to 2021 and increased by \$64,619 from 2019 to 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two parts – management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and notes to the financial statements. The District is categorized as a special-purpose entity engaged in business-type activities. As the District utilizes the accrual basis of accounting, no difference in presentation exists between government-wide and fund financial reporting, as described in GASB Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Therefore, the statement of revenues and expenditures and changes in net position is presented in a single format appropriate for government-wide financial statements. See Note 1 of the notes to financial statements for further discussion of the District's basis of accounting.

FINANCIAL ANALYSIS

The statement of net position reflects all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the District is improving or deteriorating.

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

	6/30/21	6/30/20	6/30/19
Assets			
Current	\$ 57,856	\$ 58,624	\$ 67,267
Capital	629,914	652,317	664,892
Other	108,185	107,057	105,937
Total Assets	\$ 795,955	\$ 817,998	\$ 838,096
	6/30/21	6/30/20	6/30/19
Liabilities			
Current	\$ 9,952	\$ 9,399	\$ 12,712
Total Liabilities	9,952	9,399	12,712
Net Position			
Net Investment in Capital Assets	629,914	652,317	664,892
Unrestricted	156,089	156,282	160,492
Total Net Position	786,003	808,599	825,384
Total Liabilities and Net Position	\$ 795,955	\$ 817,998	\$ 838,096

Significant differences in the statement of net position are as follows:

- Current assets decreased by \$768 from 2020 to 2021 and decreased by \$8,643 from 2019 to 2020, due to changes in cash and accounts receivable.
- Capital assets decreased by \$22,403 from 2020 to 2021 and decreased by \$12,575 from 2019 to 2020, due to additions to fixed assets net of depreciation expense.
- Other assets increased by \$1,128 from 2020 to 2021 and increased by \$1,120 from 2019 to 2020, due to changes in the certificates of deposit held by Gore Hill.
- Current liabilities increased by \$553 from 2020 to 2021 and decreased by \$3,313 from 2019 to 2020, due to changes in accounts payable and customer deposits.

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

The following information summarizes the statements of revenue, expenditures, and changes in net position during the fiscal year.

	<u>6/30/21</u>	<u>6/30/20</u>	<u>6/30/19</u>
Operating Revenues	\$ 163,372	\$ 146,104	\$ 143,047
Operating Expenses	<u>188,936</u>	<u>196,385</u>	<u>218,664</u>
Operating Income (Loss)	(25,564)	(50,281)	(75,617)
Non-Operating Revenue (Expense)	<u>2,968</u>	<u>33,496</u>	<u>(5,787)</u>
Change in Net Position	(22,596)	(16,785)	(81,404)
Net Position, Beginning of Year	<u>808,599</u>	<u>825,384</u>	<u>906,788</u>
Net Position, End of Year	<u>\$ 786,003</u>	<u>\$ 808,599</u>	<u>\$ 825,384</u>

Significant changes in the statement of revenue, expenditures, and changes in net position are as follows:

- Operating revenues, consisting of charges for services, increased by \$17,268 from 2020 to 2021 and increased by \$3,057 from 2019 to 2020, due to changes in water fees and changes in water usage by customers.
- Operating expenses decreased by \$7,449 from 2020 to 2021 and decreased by \$22,279 from 2019 to 2020, with the decrease in 2021 being mostly due to a decrease in repairs and maintenance and water testing expenses.
- Non-operating revenue (expense) decreased by \$30,528 from 2020 to 2021 and increased by \$39,283 from 2019 to 2020, with the large decrease in 2021 being due to two \$15,000 grants being awarded to Gore Hill during 2019-20.

CAPITAL ASSETS

Capital assets, consisting of the original water system, improvements, and construction work-in-progress, decreased by \$22,403 during 2020-21. In arriving at the net figure, additions of \$44,243 were reduced by \$66,646 of depreciation expense. See Note 3 of the notes to financial statements for specific information regarding these changes.

CURRENTLY KNOWN FACTS AND/OR CONDITIONS/EXPECTATIONS

At the beginning of fiscal year 2020, Resolution #GHCWD 2020-001 increased the flat rate by \$1.45 therefore increasing the Operations and Maintenance to \$9.45. This made the total flat rate charged \$30.45 and the fee for gallons used remained unchanged at \$3.75 per 1000 gallons used. Resolution #GHCWD 2020-002 proposed and approved the yearly District

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

budget. Resolution #GHCWD 2020-003 proposed and approved charging customers with leaking water lines, where the loss is not metered, to correct said leaks.

Fiscal year 2020 saw cost savings with the realization of a previous project concerning installation of the variable frequency drives and soft starts on the pumps within the district. The cost savings had not been realized in the 2 previous years due to the unmetered water loss from numerous leaks. The cost of electricity and chlorine use reflects this cost savings fully realized in this fiscal year.

Great West Engineering, Inc. successfully completed a Preliminary Engineering Report previously contracted. The report concerns updating the district water system by drilling new wells, installing new chlorine room delivery lines and storage rooms, lining the existing cistern storage units and installing a telemetry notification system. The District is progressing with this project by pursuing a loan with the State Revolving Fund. The Preliminary Engineering Report included \$15,000 grant funding from MT Department of Natural Resources Conservation and \$15,000 grant funding from the Treasure State Endowment Program. One half of each of these grants was paid to the District in fiscal year 2020 with the balance to be paid to the district in fiscal year 2021.

CONTACTING THE GORE HILL COUNTY WATER DISTRICT'S MANAGEMENT

The financial report is designed to provide a general overview of the District's finances for all those with an interest. If you have any questions concerning any of the information provided in the report or would like to request additional information, contact Mercy Padgett, Gore Hill County Water District Treasurer, 4503 62nd Ave SW, Great Falls, MT 59404.

To the Board of Directors
Gore Hill County Water District
Great Falls, Montana

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Gore Hill County Water District as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 of 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 Gore Hill County Water District, as of June 30, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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 **DRAFT DATE, 2021**, on our consideration of the Gore Hill County Water 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 solely 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 effectiveness of the Gore Hill County Water District's 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 Gore Hill County Water District's internal control over financial reporting and compliance.



Great Falls, Montana
DRAFT DATE, 2021

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2021 AND 2020**

	6/30/21	6/30/20
ASSETS		
Current Assets:		
Cash	\$ 38,559	\$ 28,133
Accounts Receivable	16,731	14,637
Grants Receivable	-	14,544
Other Receivable	2,458	-
Prepaid Expenses	108	1,310
Total Current Assets	57,856	58,624
Property, Plant, and Equipment:		
Construction in Progress	74,324	31,589
Land	21,156	21,156
Capital Assets, Net of Accumulated Depreciation	534,434	599,572
Net Property, Plant, and Equipment	629,914	652,317
Other Assets:		
Investments	108,185	107,057
Total Other Assets	108,185	107,057
Total Assets	\$ 795,955	\$ 817,998
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ -	\$ -
Payroll Liabilities	-	20
Customer Deposits	7,200	6,150
Customer Prepaid Balances	2,752	3,229
Total Current Liabilities	9,952	9,399
Total Liabilities	9,952	9,399
Net Position:		
Net Investment in Capital Assets	629,914	652,317
Unrestricted	156,089	156,282
Total Net Position	786,003	808,599
Total Liabilities and Net Position	\$ 795,955	\$ 817,998

See accompanying notes to the financial statements.

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	6/30/21	6/30/20
Operating Revenues:		
Water Fees	\$ 71,671	\$ 60,898
Operating and Maintenance Fees	83,403	83,250
Tap Fees	456	456
New Tap Fees	7,842	1,500
Total Operating Revenues	163,372	146,104
Less Operating Expenses:		
Bank Charges	26	6
Bookkeeping	10,036	8,513
Depreciation	66,646	65,694
Directors' Fees	9,000	8,700
Engineering Expense	18,656	20,080
Insurance	6,038	4,325
Material and Supplies	16,082	18,638
Miscellaneous	659	416
Office Supplies and Printing	5,972	4,247
Professional Fees	5,277	4,758
Repairs and Maintenance	9,490	18,897
Secretarial Expense	4,824	4,743
Taxes and Licenses	5,126	4,451
Training	1,660	-
Utilities	28,818	29,662
Water Testing	626	3,255
Total Operating Expenses	188,936	196,385
Income (Loss) from Operations	(25,564)	(50,281)
Non-Operating Revenues (Expenses):		
Interest Income	1,142	1,156
Interest Expense	(6)	(3)
Grant Income	456	29,544
Other Income	1,376	2,799
Total Non-Operating Revenue (Expense)	2,968	33,496
Change in Net Position	(22,596)	(16,785)
Net Position, Beginning of Year	808,599	825,384
Net Position, End of Year	\$ 786,003	\$ 808,599

See accompanying notes to the financial statements.

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	6/30/21	6/30/20
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 159,393	\$ 147,043
Payments to Employees	(42,516)	(42,036)
Payments to Suppliers	(78,592)	(94,308)
Net Cash Provided (Used) by Operating Activities	38,285	10,699
Cash Flows from Investing Activities:		
Change in Investments	(1,128)	(1,120)
Interest Income	1,142	1,156
Other Income	1,376	2,799
Net Cash Provided by Investing Activities	1,390	2,835
Cash Flows from Capital and Related Financing Activities:		
Grant Income	15,000	15,000
Interest Expense	(6)	(3)
Costs Incurred for Acquisition of Capital Assets	(44,243)	(53,119)
Net Cash (Used) by Capital and Related Financing Activities	(29,249)	(38,122)
Net (Decrease) in Cash	10,426	(24,588)
Cash at Beginning of the Year	28,133	52,721
Cash at End of the Year	\$ 38,559	\$ 28,133
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Income (Loss) from Operations	\$ (25,564)	\$ (50,281)
Adjustment to Reconcile Operating (Loss)		
Depreciation Expense	66,646	65,694
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(2,094)	(91)
(Increase) Decrease in Other Receivable	(2,458)	-
(Increase) Decrease in Prepaid Expenses	1,202	(1,310)
Increase (Decrease) in Accounts Payable	-	(4,363)
Increase (Decrease) in Payroll Liabilities	(20)	20
Increase (Decrease) in Customer Deposits	1,050	600
Increase (Decrease) in Customer Prepaid Balances	(477)	430
Total Adjustments	63,849	60,980
Net Cash Provided (Used) by Operating Activities	\$ 38,285	\$ 10,699

See accompanying notes to the financial statements

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations - Gore Hill County Water District (the District) was created in 1974. The District operates a water system for subdivisions located within the District, primarily Cascade County.

Reporting Entity - The District is a primary government, meeting the criteria embodied in GASB Statement 14, *The Financial Reporting Entity*, of a separately elected governing body, having a separate legal standing and being fiscally independent. There are no component units for which the District's board is financially accountable.

Basis of Presentation - The District follows generally accepted accounting principles (GAAP), as embodied in GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis –for State and Local Governments*, as a special-purpose entity engaged only in business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties. As such, only those financial statements required for enterprise funds under GASB Statement 34 are included in the financial statements. Those financial statements – the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows – are presented in a format defined under GASB 34 as fund financial statements

Fund Accounting - The activity of the District is accounted for within a single fund, treated for financial reporting purposes as an enterprise fund. An enterprise fund accounts for operations that are financed and operated in a manner similar to private business enterprises, or for operations where periodic determination of revenues, expenses, and net income is considered desirable. An enterprise fund accounts for services rendered to the general public on a user charge basis.

Measurement Focus/Basis of Accounting - The basic financial statements of the District are reported using the economic resources measurement focus under the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Operating revenues and expenses generally arise from operations of the water system. All other revenues and expenses are classified as non-operating. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchanges, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Cash and Equivalents - For the purpose of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments - Authorized investments allowed by Section 7-6-201, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in the U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

The District determined the fair value of its investments through the application of GASBS Statement 72, *Fair Value Measurement and Application*. The District carries investments at their fair values in the statement of financial position.

As required by GASB Statement 72, which provides a framework for measuring fair value under GAAP, investments are classified within the level of lowest significant input considered in determining fair value. GASB Statement 72 also establishes a fair value hierarchy, which prioritizes the valuation of inputs into three broad levels as described below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for an asset or liability

Substantially all of the investments held by the District are in certificates of deposit. The certificates are exempt from the fair value hierarchy and are carried at cost, which approximates fair value. The District's investments are summarized in Note 2.

Accounts Receivable - Accounts receivable at June 30, 2021 and 2020, represent amounts due from water customers of the District's water system. The district uses the allowance method for bad debts. All accounts are considered to be collectible as of June 30, 2021 and 2020, and, accordingly, no allowance was recorded.

Capital Assets - Property, plant, and equipment of the water system are recorded at historical cost. Depreciation is computed using the straight-line method with an estimate life of three to twenty years for pumps, pipe, equipment, and meter systems, and five years for furniture and equipment.

Compensated Absences - The District does not pay its employees any form of compensation for absences, therefore, no liability for any such amount exists at June 30, 2021 and 2020.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax - The District is a tax-exempt organization per IRC regulation 115(a) and is not required to file Form 990.

Net Position - Net position represents the difference between assets and liabilities and is classified into three categories:

- Net Investment in Capital Assets - This reflects the net position of the District that are invested in capital assets, net of related debt. This indicates that the net position is not accessible for other purposes.
- Restricted Net Position - this represents the net position that is not accessible for general use because its use is subject to restrictions enforceable by third parties. The District had no restricted net position as of June 30, 2021 and 2020.
- Unrestricted Net Position - This represents the net position that is available for general use.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Subsequent Events - In accordance with ASC No. 855, the District evaluated subsequent events through **DRAFT DATE, 2021**, the date these financial statements were available to be issued.

NOTE 2: CASH AND INVESTMENTS:

Cash and investments accounts consisted of the following:

	<u>6/30/21</u>	<u>6/30/20</u>
Cash - Checking and Savings	\$ 38,559	\$ 28,133
Investments - Certificates of Deposit	<u>108,185</u>	<u>107,057</u>
	<u>\$ 146,744</u>	<u>\$ 135,190</u>

Cash and investments were held for the following purposes:

Construction Fund - The board has designated these funds for water system construction purposes. Effective December 2020, \$12 of the \$30.45 monthly operating and maintenance assessment collected from each user is transferred to this fund. Funds held for this purpose were as follows:

	<u>6/30/21</u>	<u>6/30/20</u>
Cash - Checking and Savings	\$ 9,183	\$ 9,063
Investments - Certificates of Deposit	<u>108,185</u>	<u>107,057</u>
	<u>\$ 117,368</u>	<u>\$ 116,120</u>

Operating and Maintenance - These funds are designated for maintaining the existing water system. In addition, effective December 2020, \$9.45 of the \$30.45 monthly operating and maintenance assessment collected from each user is transferred to this fund. Funds held for this purpose were as follows:

	<u>6/30/21</u>	<u>6/30/20</u>
Cash - Checking and Savings	<u>\$ 13,352</u>	<u>\$ 5,106</u>

Admin Savings - These funds are designated to cover insurance and audit expenses. In addition, effective December 2020, \$9 of the \$30.45 monthly operating and maintenance assessment collected from each user is transferred to this fund. Funds held for this purpose were as follows:

	<u>6/30/21</u>	<u>6/30/20</u>
Cash - Checking and Savings	<u>\$ 8,807</u>	<u>\$ 7,793</u>

Customer Deposits - These funds are deposits from customers who are receiving water service in the District. Funds held for this purpose were as follows:

	<u>6/30/21</u>	<u>6/30/20</u>
Cash - Checking and Savings	<u>\$ 7,217</u>	<u>\$ 6,171</u>

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

Credit Risk - Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of or guaranteed by the U.S. government do not require disclosure of credit quality. The certificates of deposit are all fully insured by the NCUA and FDIC.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a formal investment policy limiting the amount the District may invest in any one issuer.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the local government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

The carrying value of demand deposits and certificates of deposit at June 30, 2021 and 2020 was \$146,744, and \$135,190, respectively. The combined bank balances were \$152,149 and \$137,142, respectively. All cash and investments were fully insured by the NCUA and FDIC

NOTE 3: CAPITAL ASSETS:

A summary of the changes in property and equipment during the year ended June 30, 2021, is as follows:

	<u>6/30/20</u>	<u>Additions</u>	<u>Decreases</u>	<u>Transfers</u>	<u>6/30/21</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 21,156	\$ -	\$ -	\$ -	\$ 21,156
Construction in Progress	31,589	42,735	-	-	74,324
Total Capital Assets, Not Being Depreciated:	<u>52,745</u>	<u>42,735</u>	<u>-</u>	<u>-</u>	<u>95,480</u>
Capital Assets, Being Depreciated:					
Water System	890,037	1,508	-	-	891,545
Filtration System	826,370	-	-	-	826,370
Meters	60,773	-	-	-	60,773
Furniture and Fixtures	789	-	-	-	789
Total Capital Assets, Being Depreciated:	<u>1,777,969</u>	<u>1,508</u>	<u>-</u>	<u>-</u>	<u>1,779,477</u>
Less: Accumulated Depreciation for:					
Water System	746,513	24,458	-	-	770,971
Filtration System	371,866	41,319	-	-	413,185
Meters	59,229	869	-	-	60,098
Furniture and Fixtures	789	-	-	-	789
Total Accumulated Depreciation	<u>1,178,397</u>	<u>66,646</u>	<u>-</u>	<u>-</u>	<u>1,245,043</u>
Total Capital Assets, Being Depreciated, Net	<u>599,572</u>	<u>(65,138)</u>	<u>-</u>	<u>-</u>	<u>534,434</u>
Total Capital Assets (Net)	<u>\$ 652,317</u>	<u>\$ (22,403)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 629,914</u>

A summary of the changes in property and equipment during the year ended June 30, 2020, is as follows:

	<u>6/30/19</u>	<u>Additions</u>	<u>Decreases</u>	<u>Transfers</u>	<u>6/30/20</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 21,156	\$ -	\$ -	\$ -	\$ 21,156
Construction in Progress	-	31,589	-	-	31,589
Total Capital Assets, Not Being Depreciated:	<u>21,156</u>	<u>31,589</u>	<u>-</u>	<u>-</u>	<u>52,745</u>
Capital Assets, Being Depreciated:					
Water System	868,507	21,530	-	-	890,037
Filtration System	826,370	-	-	-	826,370
Meters	60,773	-	-	-	60,773
Furniture and Fixtures	789	-	-	-	789
Total Capital Assets, Being Depreciated:	<u>1,756,439</u>	<u>21,530</u>	<u>-</u>	<u>-</u>	<u>1,777,969</u>

<i>(Continued)</i>	<u>6/30/19</u>	<u>Additions</u>	<u>Decreases</u>	<u>Transfers</u>	<u>6/30/20</u>
Less: Accumulated Depreciation for:					
Water System	723,373	23,140	-	-	746,513
Filtration System	330,548	41,318	-	-	371,866
Meters	58,070	1,159	-	-	59,229
Furniture and Fixtures	712	77	-	-	789
Total Accumulated Depreciation	<u>1,112,703</u>	<u>65,694</u>	<u>-</u>	<u>-</u>	<u>1,178,397</u>
 Total Capital Assets, Being Depreciated, Net	<u>643,736</u>	<u>(44,164)</u>	<u>-</u>	<u>-</u>	<u>599,572</u>
 Total Capital Assets (Net)	<u>\$ 664,892</u>	<u>\$ (12,575)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 652,317</u>

NOTE 4: RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. A variety of methods are used to provide insurance for these risks. Commercial insurance policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. The District participates in the Montana State Fund for workers' compensation coverage.

Coverage limits and the deductibles on the commercial policies and the workers' compensation have stayed relatively constant for the last several years. Settled claims resulting from these risks have not exceeded insurance coverage.

In the normal course of business, the District is subject to various claims and other pending and possible legal actions. As of June 30, 2021, the District is disputing a bill that is believed to be incorrect, and this bill has not been recorded as a liability in the audited financial statements. While an estimate of the likelihood of a favorable or unfavorable outcome and an estimated range of loss is not currently available, management believes that the results of these claims and possible legal actions will not have a material adverse effect on the District's financial position.

To the Board of Directors
Gore Hill County Water District
Great Falls, Montana

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gore Hill County Water District as of and for the years then ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Gore Hill County Water District's basic financial statements, and have issued our report thereon dated **DRAFT DATE**, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gore Hill County Water 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Gore Hill County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Gore Hill County Water 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gore Hill County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Gore Hill County Water District's Response to Findings

Gore Hill County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Gore Hill County Water District's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Great Falls, Montana
DRAFT DATE, 2021

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021**

The following is a schedule of findings and other matters which arose during the audit for the year ended June 30, 2021:

CURRENT YEAR

2021-001: RECORDING OF REVENUES

CRITERIA: GASBS Statement No. 33 requires that reimbursement-based grants be recognized as revenue once all applicable eligibility requirements are met, such as once funds are incurred for allowable costs under the applicable program.

CONDITION: Gore Hill received a \$15,000 reimbursement-based grant from TSEP and DNRC to fund a preliminary engineering report for two new wells for the water district. As of June 30, 2020, Gore Hill had a total of \$29,544 of qualifying expenses under the two grants and had only been reimbursed \$15,000 to that date, creating \$14,544 in grants revenue and receivable. During the 2020-21 fiscal year, when Gore Hill received the \$14,544 in grant funds, the receivable was not reduced, and instead revenue was recorded.

CAUSE: The district recorded grant revenue upon the receipt of the funds rather than reducing grants receivable.

EFFECT: Grants receivable and grants revenue were overstated by \$14,544 as of and for the year ended June 30, 2021. Management has corrected this misstatement and the correction is reflected in the audited financial statements.

RECOMMENDATION: When accounting for reimbursement-based grants, revenues and the related receivable should be recorded once all applicable eligibility requirements are met, such as once funds are incurred for allowable costs under the applicable program. Upon the receipt of the funds of the reimbursement-based grant, the grant receivable should be reduced by the amount of funds received. We recommend that all grant contracts be reviewed at year-end to determine that all assets and liabilities associated with each contract are recognized in the financial statements.

DISTRICT RESPONSE:

GORE HILL COUNTY WATER DISTRICT

GREAT FALLS, MONTANA

**STATUS OF PRIOR YEAR'S FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021**

2020-001: RECORDING OF REVENUES

Gore Hill received a \$15,000 reimbursement-based grants from TSEP and DNRC to fund a preliminary engineering report for two new wells for the water district. As of June 30, 2020, Gore Hill had a total of \$29,544 of qualifying expenses under the two grants and had only been reimbursed \$15,000 to that date, creating \$14,544 in grants revenue and receivable. Gore Hill should have recorded grants receivable and grants revenue as of June 30, 2020 for \$14,544 for grant expenses that had not been reimbursed.

When accounting for reimbursement-based grants, revenues should be recorded once all applicable eligibility requirements are met, such as once funds are incurred for allowable costs under the applicable program. We recommend that all grant contracts be reviewed at year-end to determine that all assets and liabilities associated with each contract are recognized in the financial statements.

STATUS: Not Implemented – see finding 2021-001