

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**



**AMATICS**  
CPA GROUP

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT  
CONTENTS**

<b>FINANCIAL STATEMENTS</b>	<b><u>Page</u></b>
Independent auditors' report	3 - 4
Statements of net position	5
Statements of revenues, expenses and change in net position	6
Statements of cash flows	7 - 8
Notes to the financial statements	9 - 18
 <b>ADDITIONAL REPORTS</b>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20
Schedule of findings	21
Status of prior year findings	22



## INDEPENDENT AUDITORS' REPORT

**To the Board of Directors  
Four Corners County Water and Sewer District  
Bozeman, Montana**

We have audited the accompanying financial statements of Four Corners County Water and Sewer District ("the District") as of and for the years ended June 30, 2019 and 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.

### **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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Four Corners County Water and Sewer District, as of June 30, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matter**

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with the *Government Auditing Standards*, we have also issued our report dated November 19, 2019 on our consideration of the 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 internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

### ***Amatics CPA Group***

Bozeman, Montana

November 19, 2019

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**June 30, 2019 and 2018**

**ASSETS**

	<b>2019</b>	<b>2018</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents, unrestricted	\$ 109,078	\$ 197,090
Board designated cash and cash equivalents	320,625	2,275,975
Board designated investments	2,479,660	-
Accounts receivable, net	312,041	183,093
Taxes receivable	18,868	17,071
Unbilled service revenue	103,059	81,678
Due from other governments	36,625	9,336
Total current assets	3,379,956	2,764,243
<b>NONCURRENT ASSETS</b>		
Restricted cash and cash equivalents	260,165	564,808
Restricted investments	592,816	-
Total noncurrent assets	852,981	564,808
<b>PROPERTY AND EQUIPMENT</b> , net of depreciation	22,248,592	21,917,395
Total assets	\$ 26,481,529	\$ 25,246,446

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 229,059	\$ 57,971
Payroll liabilities	25,459	17,623
Capital lease payable, current	1,415	1,415
Note payable, current	24,404	5,896
Water and wastewater system bonds, current	681,657	541,101
Accrued interest	15,531	19,934
Total current liabilities	977,525	643,940
<b>LONG-TERM LIABILITIES</b>		
Water and wastewater system bonds, noncurrent	20,419,259	21,272,920
Note payable, noncurrent	76,296	10,827
Capital lease payable, noncurrent	1,042	2,456
Total long-term liabilities	20,496,597	21,286,203
Total liabilities	21,474,122	21,930,143
<b>NET POSITION</b>		
Restricted for debt service	852,981	564,808
Net invested in capital assets	1,044,519	82,780
Unrestricted	3,109,907	2,668,715
Total net position	5,007,407	3,316,303
Total liabilities and net position	\$ 26,481,529	\$ 25,246,446

See the accompanying independent auditors' report.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	<b>Years Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 3,668,802	\$ 3,380,408
<b>OPERATING EXPENSES</b>		
Personnel	411,370	454,451
Accounting	30,371	34,767
Bank charges	1,590	1,323
Bad debt	1,270	-
Consulting	10,161	13,434
Engineering	96,498	49,612
Insurance	49,800	35,434
Legal fees	65,919	32,649
Licenses and permits	5,281	2,713
Miscellaneous	7,000	2,947
Office expenses and supplies	142,073	85,432
Utilities, water and sewer use	669,641	700,957
Total operating expenses	1,490,974	1,413,719
Operating income	2,177,828	1,966,689
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Interest income	55,874	4,852
Depreciation expense	(805,437)	(764,992)
Interest expense	(631,341)	(651,994)
Special assessment equalization rate revenues	80,221	-
Property taxes levied	813,959	815,157
Total non-operating revenues (expenses)	(486,724)	(596,977)
Contributed capital	-	1,144,812
<b>CHANGE IN NET POSITION</b>	1,691,104	2,514,524
<b>NET POSITION, beginning of year</b>	3,316,303	801,779
<b>NET POSITION, end of year</b>	\$ 5,007,407	\$ 3,316,303

See the accompanying independent auditors' report.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT  
STATEMENTS OF CASH FLOWS**

	<b>Years Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 3,518,473	\$ 3,357,090
Payments to employees	(403,534)	(461,329)
Payments to suppliers and agencies	<u>(1,028,636)</u>	<u>(930,279)</u>
Net cash provided by operating activities	<u>2,086,303</u>	<u>1,965,482</u>
<b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>		
Acquisition of water and wastewater assets	(911,863)	(528,770)
Net purchases of investments	(3,072,476)	-
Investment income	<u>51,298</u>	<u>-</u>
Net cash used by investing activities	<u>(3,933,041)</u>	<u>(528,770)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Tax receipts and other income (expense)	865,094	853,228
Interest received on delinquent tax notices	<u>4,576</u>	<u>4,852</u>
Net cash provided by noncapital financing activities	<u>869,670</u>	<u>858,080</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payments on long term debt	(733,777)	(642,529)
Payments on capital lease	(1,416)	(1,416)
Interest paid	<u>(635,744)</u>	<u>(648,414)</u>
Net cash used by capital and related financing activities	<u>(1,370,937)</u>	<u>(1,292,359)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(2,348,005)	1,002,433
Cash at beginning of year	<u>3,037,873</u>	<u>2,035,440</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 689,868</u>	<u>\$ 3,037,873</u>
<b>Classified As:</b>		
Cash and cash equivalents - unrestricted	\$ 109,078	\$ 197,090
Board designated cash and cash equivalents	320,625	2,275,975
Restricted cash and cash equivalents	<u>260,165</u>	<u>564,808</u>
Total cash and cash equivalents	<u>\$ 689,868</u>	<u>\$ 3,037,873</u>

See the accompanying independent auditors' report.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT  
STATEMENTS OF CASH FLOWS (Continued)**

	Years Ended June 30	
	2019	2018
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 2,177,828	\$ 1,966,689
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in operating assets		
Accounts receivable	(128,948)	(32,764)
Unbilled service revenue	(21,381)	9,446
Increase (decrease) in operating liabilities		
Accounts payable	50,968	28,989
Payroll liabilities	7,836	(6,878)
	(91,525)	(1,207)
Net cash provided by operating activities	\$ 2,086,303	\$ 1,965,482
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:</b>		
Non-cash transactions:		
Capital contributed	\$ -	\$ 1,144,812
Asset additions through accounts payable	\$ 120,120	\$ -
Asset additions financed through note payable	\$ 104,650	\$ -

See the accompanying independent auditors' report.



**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Four Corners County Water and Sewer District (the District), have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**Reporting Entity**

The Four Corners County Water and Sewer District ("the District") was created on April 15, 2003, voted by the residents and landowners within the designated boundaries of the water and sewer district in the unincorporated area known as Four Corners located within the boundaries of Gallatin County, Montana pursuant to Title 7, Chapter 13, Parts 22 and 23 of the Montana Code Annotated. The purpose of the District is to provide a public water supply and distribution system and a wastewater collection and treatment facility within its boundaries, and to do all things necessary and proper to maintain and operate these facilities as required by law and bylaws of the District.

In determining the financial reporting entity, the District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and 34*.

**Measurement Focus and Basis of Accounting**

The term "measurement focus" is used to denote what is being measured and reported in the District's operating statements. The District is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets, deferred outflows of resources and liabilities (whether current or noncurrent), deferred inflows or resources associated with their activities are reported and equity is reported as net position.

The term "basis of accounting" is used to determine when a transaction or event is recognized on the District's financial statements. The District uses full accrual basis accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment, billing or receipt may not occur until after the period ends.

Pursuant to GASB Statement No. 62, the District follows all GASB pronouncements and may apply Financial Accounting Standards Board (FASB) pronouncements for accounting issues not addressed by GASB literature.

**Cash and Investments**

The District is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP). The District does not have a policy regarding credit risk and interest rate risk in relation to the District's deposits. For the purpose of the cash flow statement, cash is considered to be cash on hand, deposits in demand accounts and money market accounts.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Board Restricted Cash and Investments**

Certain resources are classified as board restricted assets on the statement of net position because their use has been designated by the Board for system replacements and repairs.

**Restricted Cash and Investments**

Certain resources are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

**Revenue and Expenses**

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are water and wastewater user charges. Revenue from user charges and sales of services is recognized as the related services are provided. Refunds to customers are charged to income in the period in which those refunds are paid. Operating expenses include the costs associated with the conveyance of water and wastewater, treatment or wastewater, and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**Accounts Receivable**

The District's accounts receivable relate to utility services provided to the customers of the District. The District is able to apply tax liens to properties for unpaid utility bills, therefore, there is no allowance for uncollectible accounts as determined by the Board.

**Unbilled Service Revenue**

Unbilled service revenue consists of service revenue earned but not yet billed.

**Tax Revenue**

Property taxes levied in accordance with Title 7, Chapter 13, Part 23, Montana Code Annotated. The District provides the amount of taxes to levied on each applicable property submits this information to the County Treasurer by September 15. Real property taxes are generally billed in October and are payable one half by November 30 and on half by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month from the time of delinquency until paid plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales.

**Capital Assets**

The District's capital assets are recorded at historical cost or estimated historical cost if actual cost is unavailable. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized. Donated capital assets, including developer-constructed infrastructure, are recorded as assets on the books of the District and depreciated accordingly. The recorded value of the asset is recognized as income in the year of conveyance. Capital assets of the District are depreciated or amortized using the straight-line method over the following estimated useful lives:

Utility infrastructure system	20 years
Utility piping system	40 years
Furniture, machinery, equipment	3-5 years

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Tax Exempt Status**

The District is a municipal corporation and, therefore is not liable for federal and state income taxes pursuant to Internal Revenue Code 501(c)(1).

**Capital Contributions**

Contributions are recognized in the statement of revenues, expenses and changes in net position when received. Contributions include developer contributed utility systems.

**Net Position**

Proprietary fund net position is classified in the following categories:

*Net investment in capital assets* – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus capital asset related deferred outflows of resources less capital asset related deferred inflows of resources related to those assets.

*Restricted net position* – consists of assets that are restricted as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other government or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* – all other net position is reported in this category.

The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

**Budget**

The District is not legally required to adopt a budget; therefore, budgetary comparison information is not included in the District's financial statements.

**Use of Estimates**

The preparation of the basic 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.

**Financial Statement Presentation**

Certain reclassifications have been made to the 2018 balances to conform to the 2019 presentation.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following as of June 30:

	<b>2019</b>	<b>2018</b>
Cash	\$ 132,174	\$ 94,665
Money market account	557,694	2,919,937
Undeposited funds	-	23,271
	<b>\$ 689,868</b>	<b>\$ 3,037,873</b>

The District maintains cash balances in separate bank accounts at the same financial institution. Account balances are insured up to \$250,000 by the FDIC. The balances in excess of the federally insured limits totaled \$833,919 and \$2,664,603 for the years ended June 30, 2019 and 2018, respectively.

A portion of unrestricted cash that was held in the money market account was assigned for future additional expenditures on the wastewater system infrastructure in the amount of \$0 and \$76,384 for the years ended June 30, 2019 and 2018, respectively.

**3. INVESTMENTS**

The District voluntarily participates in the STIP (Short Term Investment Pool) administered by the Montana Board of Investments (MBOI). A local government's ownership is represented by shares, the prices of which are fixed at \$1.00 per share, and participants may buy or sell shares with one business days' notice. STIP administrative expenses are charged daily against the STIP income, which is distributed on the first calendar day of each month. Shareholders have the option to automatically reinvest their distribution income in additional shares. STIP is not registered with the Securities and Exchange Commission. STIP is not FDIC insured or otherwise insured or guaranteed by the federal government, the State of Montana, the Montana Board of Investments or any other entity against investment losses and there is no guaranteed rate of return on funds invested in STIP shares. The Montana Board of Investments maintains a reserve fund to offset possible losses and limit fluctuations in STIP's valuation. The STIP investment portfolio consists of securities with maximum maturity of 2 years. Information on investments held in the STIP can be found in the Annual Report on the Montana Board of Investments website at <http://investment.com/AnnualReportAudits>. Investments in the STIP included in board designated and restricted investments totaled \$3,072,476 and \$0 for the years ended June 30, 2019 and 2018, respectively.

**4. RISK MANAGEMENT**

The District faces a considerable number of risks of loss, including a) general liability, b) auto liability (non-owned/hired), and c) professional liability (i.e. errors and omissions). The District utilizes commercial insurance policies to cover these risks. The Board believes such coverage is sufficient to preclude any significant uninsured losses to the District.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**5. CAPITAL ASSETS**

Capital assets of the District for the years ended June 30, 2019 and 2018, consisted of the following:

	<b>Balance, June 30, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2019</b>
Water and wastewater infrastructure	\$ 7,994,622	\$ 54,425	\$ (4,355)	\$ 8,044,692
Water and wastewater piping	15,372,077	-	-	15,372,077
Construction in progress	344,722	964,234	-	1,308,956
Vehicles	33,308	17,680	-	50,988
Sewer equipment	-	104,650	-	104,650
Office equipment	10,869	-	-	10,869
	23,755,598	1,140,989	(4,355)	24,892,232
Less: accumulated depreciation	<u>(1,838,203)</u>	<u>(805,437)</u>	<u>-</u>	<u>(2,643,640)</u>
Property and equipment, net	<u>\$ 21,917,395</u>	<u>\$ 335,552</u>	<u>\$ (4,355)</u>	<u>\$ 22,248,592</u>

	<b>Balance, June 30, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2019</b>
Website	\$ 17,030	\$ -	\$ -	\$ 17,030
Less: accumulated amortization	<u>(17,030)</u>	<u>-</u>	<u>-</u>	<u>(17,030)</u>
Intangible assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<b>Balance, June 30, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2018</b>
Water and wastewater infrastructure	\$ 6,665,762	\$ 1,328,860	\$ -	\$ 7,994,622
Water and wastewater piping	15,372,077	-	-	15,372,077
Construction in progress	-	344,722	-	344,722
Vehicles	33,308	-	-	33,308
Office equipment	10,869	-	-	10,869
	22,082,016	1,673,582	-	23,755,598
Less: accumulated depreciation	<u>(1,073,211)</u>	<u>(764,992)</u>	<u>-</u>	<u>(1,838,203)</u>
Property and equipment, net	<u>\$ 21,008,805</u>	<u>\$ 908,590</u>	<u>\$ -</u>	<u>\$ 21,917,395</u>

	<b>Balance, June 30, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2018</b>
Website	\$ 17,030	\$ -	\$ -	\$ 17,030
Less: accumulated amortization	<u>(17,030)</u>	<u>-</u>	<u>-</u>	<u>(17,030)</u>
Intangible assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**5. CAPITAL ASSETS (Continued)**

Depreciation expense for the years ended June 30, 2019 and 2018, was \$805,437 and \$764,992, respectively.

Construction in progress for the years ended June 30, 2019 and 2018, includes \$1,088,185 and \$344,722, respectively, for the construction of a waste water treatment facility. During the year ended June 30, 2019, the District entered into a construction contract for the completion of the waste water treatment facility in the amount of \$11,825,285. The expected completion date is September 2020. The total estimated cost to complete is \$13,000,000. Subsequent to June 30, 2019, the District obtained financing to complete the construction of the waste water treatment facility through the State of Montana Department of Natural Resources and Conservation (See Note 11.)

Construction in progress for the year ended June 30, 2019, also includes other various projects that do not have contracts to complete. The estimated costs to complete the other projects included in construction in progress at June 30, 2019, is \$285,000 and are expected to be completed in the year ending June 30, 2020.

**6. CAPITAL LEASE**

The District entered into a five-year noncancelable lease agreement in January 2016 for office equipment classified as a capital lease. The leased equipment has a recorded cost of \$7,056 with accumulated depreciation of \$3,410 and \$1,999 for the years ended June 30, 2019 and 2018, respectively.

Capital lease obligations at June 30, 2019 and 2018, and the change for the fiscal years then ended are as follows:

<u>Balance, June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2019</u>	<u>Due within one year</u>
\$ 3,871	\$ -	\$ (1,415)	\$ 2,456	\$ 1,415
<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2018</u>	<u>Due within one year</u>
\$ 5,286	\$ -	\$ (1,415)	\$ 3,871	\$ 1,415

Future minimum lease payments consist of the following as of June 30:

2020	\$ 1,415
2021	<u>1,041</u>
 Total minimum lease payments	 <u>\$ 2,456</u>

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**7. LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the years ended June 30, 2019 and 2018:

	<b>Balance, June 30, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2019</b>	<b>Due within one year</b>
Coal Severance Tax Loan \$	2,769,479	\$ -	\$ (122,401)	\$ 2,647,078	\$ 126,100
Water Pollution Control State Revolving Loan	8,985,000	-	(265,000)	8,720,000	236,000
Water System Revenue Bond, Series 2015	3,574,575	-	(154,677)	3,419,898	159,779
Special Assessment Bond, Series 2015	6,484,967	-	(171,027)	6,313,940	159,778
Big Sky Western Bank Loan	16,723	-	(16,723)	-	-
Western Equipment Finance	-	104,650	(3,950)	100,700	24,404
	<u>\$ 21,830,744</u>	<u>\$ 104,650</u>	<u>\$ (733,778)</u>	<u>\$ 21,201,616</u>	<u>\$ 706,061</u>

	<b>Balance, June 30, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2018</b>	<b>Due within one year</b>
Coal Severance Tax Loan \$	2,888,289	\$ -	\$ (118,810)	\$ 2,769,479	\$ 122,401
Water Pollution Control State Revolving Loan	9,209,000	-	(224,000)	8,985,000	115,000
Water System Revenue Bond, Series 2015	3,724,312	-	(149,737)	3,574,575	154,677
Special Assessment Bond, Series 2015	6,629,255	-	(144,288)	6,484,967	149,023
Big Sky Western Bank Loan	22,417	-	(5,694)	16,723	5,896
	<u>\$ 22,473,273</u>	<u>\$ -</u>	<u>\$ (642,529)</u>	<u>\$ 21,830,744</u>	<u>\$ 546,997</u>

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**7. LONG-TERM DEBT (Continued)**

Long-term debt obligations consist of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Obligation to the State of Montana, requires semi-annual payments of \$102,287 including interest at 3.0%, matures November 1, 2035. \$	2,647,078	\$ 2,769,479
Obligation to the State of Montana, requires estimated semi-annual payments of \$227,000, including interest and administrative fees totaling 3.50%, matures January 1, 2046.	8,720,000	8,985,000
Obligation to the USDA, requires monthly payments of \$22,380, including interest at 3.25%, matures September 23, 2035. The loan is secured by net revenues generated by the Water System. The loan is secured by a pledge of the water system's revenues and other agreements.	3,419,898	3,574,575
Obligation to the USDA, requires semi-annual payments of \$179,292, including interest at 3.25%, matures December 23, 2045. The loan is secured by the special assessment tax levy collected by Gallatin County on behalf of the District. The loan is secured by a pledge of the water system's revenues and property tax assessments.	6,313,940	6,484,967
Note payable to Big Sky Western Bank, requires monthly payments of \$532, including interest at 3.50%, matures March 15, 2021. The loan is secured by a vehicle. The note was paid off during the year ended June 30, 2019.	-	16,723
Note payable to Western Equipment Finance, requires monthly payments of \$2,048, including interest at 5.0%, matures March 5, 2023. The loan is secured by equipment.	100,700	-
	21,201,616	21,830,744
Less current portion	(706,061)	(546,997)
	<b>\$ 20,495,555</b>	<b>\$ 21,283,747</b>



**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**7. LONG-TERM DEBT (Continued)**

The required annual payments for debt are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 706,061	\$ 612,241	\$ 1,318,302
2021	722,311	590,903	1,313,214
2022	743,230	568,908	1,312,138
2023	762,001	546,236	1,308,237
2024	759,890	523,740	1,283,630
2025 to 2029	4,152,915	2,265,787	6,418,702
2030 to 2034	4,811,195	1,608,969	6,420,164
2035 to 2039	3,815,931	944,095	4,760,026
2040 to 2044	3,612,011	469,574	4,081,585
2045 to 2046	<u>1,116,071</u>	<u>40,953</u>	<u>1,157,024</u>
	<u>\$ 21,201,616</u>	<u>\$ 8,171,406</u>	<u>\$ 29,373,022</u>

**8. COMPENSATED ABSENCES**

All full-time employees accumulate vacation and sick leave hours in proportion to the hours they work. Employees earn annual leave at the rate of 10 days per year for each of their first 5 years of employment. Between 6 and 10 years of employment, they earn increasing rates up to 20 days per year, with a maximum of 20 days after 10 years of employment. There is no requirement that annual leave be taken. However, the maximum accumulation is two times the annual rate, determined at the end of the calendar year. At termination, employees are paid for any accumulated annual leave. Sick leave is earned at the rate of twelve days per year. There is no limit on the accumulation of sick leave. At termination, employees are paid for one-fourth of their accumulated sick leave.

The balance of compensated absences payable is included in payroll liabilities on the statement of net position. Changes in compensated absences during the years ended June 30, 2019 and 2018, were as follows:

<u>Balance, June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2019</u>
\$ 12,293	\$ 34,414	\$ (25,464)	\$ 21,243

  

<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2018</u>
\$ 17,252	\$ 20,505	\$ (25,464)	\$ 12,293

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**9. RETIREMENT PLANS**

Beginning in fiscal year 2017, the District sponsors a Section 457 defined contribution plan. Employees are eligible to participate when they attain age 21 and complete one year of service. Participating employees may make contributions up to allowable limits. The District will match up to 6% of employee contributions, which are subject to vesting. Employer contributions totaled \$7,971 and \$11,823 for the years ended June 30, 2019 and 2018.

Beginning in fiscal year 2017, the District also sponsors a 401(a) money purchase plan. Employees are eligible to participate when they attain age 21 and complete one year of service. Participating employees are required to contribute 6.6% of gross wages. The District contributes 6.6% of employees' gross wages to the plan on the employee's behalf, which the employee is fully vested. The District also contributes an additional 2% of an employee's gross wages, which are subject to vesting. Employer contributions totaled \$26,315 and \$29,821 for the year ended June 30, 2019 and 2018.

**10. CONTINGENCIES AND LITIGATION**

The District is involved in ongoing litigation with the Elk Grove Development Company regarding the District's use of water rights outside the physical boundaries of the Elk Grove Subdivision. In July 2019, the Court issued its decision granting an injunction stopping the District from using the water rights. The District has appealed the decision to the Montana Supreme Court. In the event of loss at the Montana Supreme Court level, the District will be obligated to secure a water right from another source to provide water to the specified property.

**11. SUBSEQUENT EVENTS**

In July 2019, the District obtained financing for the construction of a waste water treatment facility through the State of Montana's Department of Natural Resources and Conservation revolving fund program. The loans are secured by bonds. Loan A is for \$300,000 and may be forgiven upon completion of program requirements. Loan B is for \$11,300,000 and is secured by special assessments against all taxable properties in the District. Loan B will be for a term of 30 years at an interest rate of 2.5%.

Date of Management Evaluation

Management has evaluated subsequent events through November 19, 2019, the date on which the financial statements were available to be issued.



**INDEPENDENT AUDITORS' 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***

**To the Board of Directors  
Four Corners County Water and Sewer District  
Bozeman, Montana**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Four Corners County Water and Sewer District ("the District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 19, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-C-1.

We noted certain matters that we reported to management of the District in a separate letter dated November 19, 2019.

## **District's Response to Findings**

The Four Corners County Water and Sewer District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The District's response was not subjected 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 District's internal control or on compliance. This report is an integral part of the 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.

***Amatics CPA Group***

Bozeman, Montana

November 19, 2019

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**SCHEDULE OF CURRENT YEAR FINDINGS**  
**June 30, 2019**

The results of our tests disclosed one instance of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters and no internal control deficiencies required to be reported under *Government Auditing Standards* as of June 30, 2019.

<b>2019-C-1</b>	<b>Criteria:</b>	According to MCA 7-13-2311, the District must designate depositories to have custody of the funds of the District, all of which depositories shall give security sufficient to secure the district against possible loss.
	<b>Condition:</b>	The District has cash deposits in excess of FDIC insurance limits which are not secured by the depositories where the funds are held.
	<b>Effect:</b>	The District's cash deposits in excess of FDIC insurance limits is not secured and is subject to possible loss and is out of compliance with MCA requirements.
	<b>Cause:</b>	The District has not obtained, through a depository, proper security against loss for cash funds in excess of FDIC limits.
	<b>Recommendation:</b>	The District should maintain deposits at a depository where deposits in excess of FDIC insurance limits are secured against possible loss.
	<b>Response:</b>	The District agrees with the finding and is currently in the process of working with its financial institution to determine the best approach for insuring amounts in excess of FDIC limits are secured from possible loss.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS**  
**June 30, 2019**

The results of our tests disclosed the following internal control deficiency considered to be a material weakness, which was required to be reported under *Government Auditing Standards* as of June 30, 2018.

<b>2018-1</b>	Criteria:	In accordance with generally accepted accounting principles, the District should capitalize and depreciate developed-constructed water and sewer system infrastructure.
	Condition:	Developers construct water and sewer extensions and other infrastructure required to install and complete new construction projects and subdivisions within the District. After construction, this infrastructure and the responsibility for the maintenance is transferred to the District.
	Effect:	The District's infrastructure and contributed capital were understated by \$1,144,812.
	Cause:	The District does not have a process in place to track and report donated infrastructure.
	Recommendation:	The District should develop a process that allows for identification, tracking, and reporting of all donated infrastructure.
	Status:	Resolved. The District has implemented a process where new developers are required to maintain a bond with the District and once the construction is completed, the bond is released. Action is completed based on a bill of sale being signed by both parties. This triggers the recording and assessment of contributed infrastructure.