

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT

**Financial Statements
with
Independent Auditors' Report**

June 30, 2016 and 2015

Four Corners County Water and Sewer District
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June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Four Corners County Water and Sewer District

Report on the Financial Statements

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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

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 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 audits 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 Four Corners County Water and Sewer District, as of June 30, 2016 and 2015, and the respective changes in financial position, and, where applicable, 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

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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017 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 testing of 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 an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Ridd & Company, PLLC

Bozeman, Montana
February 21, 2017

Four Corners County Water and Sewer District
Statements of Net Position
For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents, unrestricted	\$ 292,133	\$ 152,299
Accounts receivable, net	129,053	113,530
Taxes receivable	19,463	13,617
Unbilled service revenue	89,714	44,552
Due from other governments	15,485	19,678
Total Current Assets	<u>545,848</u>	<u>343,676</u>
Noncurrent Assets		
Restricted cash and cash equivalents	370,169	-
Total Noncurrent Assets	<u>370,169</u>	<u>-</u>
Property and equipment, net of depreciation	<u>21,557,286</u>	<u>10,736,070</u>
Intangibles, net of amortization	<u>5,676</u>	<u>11,353</u>
Total Assets	<u>\$ 22,478,979</u>	<u>\$ 11,091,099</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 65,738	\$ 166,415
Payroll liabilities	13,654	-
Capital lease payable, current	1,416	-
Water and wastewater system bonds, current	335,020	-
Accrued interest	108,847	336,441
Total Current Liabilities	<u>524,675</u>	<u>502,856</u>
Long Term Liabilities		
Water and wastewater system bonds, noncurrent	22,535,934	-
Capital lease payable, noncurrent	5,286	11,303,290
Total Long Term Liabilities	<u>22,541,220</u>	<u>11,303,290</u>
Total Liabilities	<u>\$ 23,065,895</u>	<u>\$ 11,806,146</u>
Net Position		
Restricted		
Debt service	\$ 6,702	\$ -
Unrestricted	<u>(593,618)</u>	<u>(715,047)</u>
Total Net Position	<u>\$ (586,916)</u>	<u>\$ (715,047)</u>

The accompanying notes are an integral part of these statements.

**Four Corners County Water and Sewer District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30,**

	2016	2015
Operating Revenues		
Charges for services	\$ 1,754,628	\$ 1,079,171
Total revenue	<u>1,754,628</u>	<u>1,079,171</u>
Operating Expenses		
Personnel	134,114	-
Accounting	22,087	13,505
Bank charges	2	-
Bad debt	12,457	3,777
Consulting	17,414	10,468
Engineering	45,087	71,362
Insurance	19,703	1,735
Legal fees	70,430	48,552
Licenses and permits	8,252	760
Miscellaneous	2,326	1,111
Office supplies	79,273	7,746
Utilities	71,714	-
Water and sewer use	1,038,702	1,067,248
Total operating expenses	<u>1,521,561</u>	<u>1,226,264</u>
Operating income (loss)	<u>233,067</u>	<u>(147,093)</u>
Non-Operating Revenues (Expenses)		
Interest income	1,485	2,741
Other income	23,073	-
Depreciation expense	(356,095)	(376,776)
Amortization expense	(5,677)	(5,677)
Interest expense	(482,376)	(595,690)
Loan fee expense	(91,800)	-
Property taxes	806,454	772,170
Total non-operating revenues (expenses)	<u>(104,936)</u>	<u>(203,232)</u>
Net Increase (Decrease) in Net Position	<u>128,131</u>	<u>(350,325)</u>
Net Position, Beginning of Year	<u>(715,047)</u>	<u>(364,722)</u>
Net Position, End of Year	<u>\$ (586,916)</u>	<u>\$ (715,047)</u>

The accompanying notes are an integral part of these statements.

**Four Corners County Water and Sewer District
Statements of Cash Flows
For the Years Ended June 30,**

	2016	2015
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,693,943	\$ 1,040,003
Payments to suppliers and agencies	(1,601,882)	(1,177,549)
Net Cash Provided (Used) by Operating Activities	92,061	(137,546)
Cash Flows From Investing Activities		
Acquisition of water and wastewater assets	(22,484,254)	(17,030)
Net Cash Used by Investing Activities	(22,484,254)	(17,030)
Cash Flows From Financing Activities		
Tax receipts and other income	827,874	792,463
Interest received on delinquent tax notices	1,485	2,741
Proceeds from issuance of long term debt	22,779,154	-
Interest paid	(706,317)	(560,860)
Net Cash Provided by Financing Activities	22,902,196	234,344
Net Increase in Cash	510,003	79,768
Cash at Beginning of Year	152,299	72,531
Cash at End of Year	\$ 662,302	\$ 152,299
Classified As:		
Current Assets	\$ 292,133	\$ 152,299
Restricted Assets	370,169	-
Total Cash and Cash Equivalents	\$ 662,302	\$ 152,299
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities		
	2016	2015
Operating income (loss)	\$ 233,067	\$ (147,093)
Adjustments to reconcile change in net position to net cash provided (used) by operating activities:		
Decrease in operating assets		
Accounts receivable	(15,523)	(29,553)
Unbilled service revenue	(45,162)	(9,615)
Increase (decrease) in operating liabilities		
Accounts payable	(100,677)	99,193
Capital lease	6,702	-
Payroll liabilities	13,654	-
Contract payables	-	(50,478)
Net Cash Provided (Used) by Operating Activities	\$ 92,061	\$ (137,546)

The accompanying notes are an integral part of these statements.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

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 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 the 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*.

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's activity is accounted for on the "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) and deferred inflows of 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.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

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). As of June 30, 2016 and 2015, the District had no investments. The District does not have a policy regarding custodial credit risk in relation to the District's deposits. For the purpose of the cash flow statement, cash and cash equivalents are considered to be cash on hand, deposits in demand accounts and money market accounts.

Restricted Cash

Certain resources are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants and they are maintained in separate bank accounts.

Revenues 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 of 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 consumers of the District. Allowance for uncollectible accounts is determined by the board.

Unbilled Service Revenue

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

Tax Revenue

Property taxes are levied in accordance with Title 7, Chapter 13, Part 23, Montana Code Annotated. The District provides the amount of taxes to be levied on each applicable property and submits this information to the County Treasurer by September 15th. Real property taxes are generally billed in October and are payable one half by November 30 and one 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.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded at actual 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.

Capital assets of the District are depreciated or amortized using the straight-line method over the following estimated lives:

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

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- consist 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 governments 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, budget 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.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management has evaluated subsequent events through February 21, 2017, the date which the financial statements were available for issue.

2. Cash

Cash and cash equivalents consist of the following:

	<u>2016</u>	<u>2015</u>
Cash	\$ 172,430	\$ 152,299
Money market account	480,066	-
Undeposited funds	<u>9,806</u>	<u>-</u>
	<u>\$ 662,302</u>	<u>\$ 152,299</u>

The District maintains cash balances in separate bank accounts at the same financial institution. The non-interest and interest bearing accounts were insured up to \$250,000 by the FDIC. The balances in excess of the federally insured limits totaled \$230,066 and \$0 for the years ended June 30, 2016 and 2015, respectively.

A portion of unrestricted cash that is held in the money market account is assigned for future additional expenditures on the wastewater system infrastructure in the amount of \$101,384.

3. Accounts Receivable

As of June 30, 2016 and 2015, the outstanding accounts receivable balances and related allowances for uncollectible accounts are as follows:

	<u>2016</u>	<u>2015</u>
Accounts receivable	\$ 161,518	\$ 133,538
Allowance for uncollectible accounts	<u>(32,465)</u>	<u>(20,008)</u>
Net accounts receivable	<u>\$ 129,053</u>	<u>\$ 113,530</u>

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

4. Commitments

The District had a service agreement with Utility Solutions, LLC (“Utility Solutions”), to provide water and wastewater services. Rates for this agreement varied by user categories and are in part based on volume. This agreement expired on December 21, 2015. For the year ended June 30, 2015, the District expensed \$1,067,248 for these services. The accounts payable balance due to Utility Solutions as of June 30, 2015 was \$116,621. This amount represents the unpaid balances for services.

In addition to this service agreement, in fiscal 2011, a four-year tax levy was approved to pay Utility Solutions, for amounts the District failed to pay under the initial agreement. The District agreed with Utility Solutions on the past due amount as a result of the default and obtained approval from the Gallatin County Commission to levy taxes on properties in the District.

For fiscal year 2015, tax levies were \$772,170, of which \$560,860 was to be paid to Utility Solutions. Payments made under the lease agreement for fiscal year 2015 were applied solely to interest expense under the capital lease.

The June 30, 2014 payable was fully paid in fiscal year 2015.

In fiscal year 2014, the District agreed to contract with Utility Solutions to lease water distribution mains and sewer main collection lines for an initial annual cost of \$560,860 with Utility Solutions responsible for all maintenance to the leased property. The District agreed to levy taxes on an annual basis for the first three years in the amount not less than \$770,780 to provide Utility Solutions reasonable assurance of the District’s ability to continue to perform this agreement. The District was allowed to retain the first \$50,000 annually of this levied amount for its normal operating expenses. The District had agreed to pay Utility Solutions tax funds collected up to a total payment of \$560,860 during the first year of the lease and \$612,000 the second year of the lease and thereafter, noting these amounts may be adjusted for inflation and any increased capital investment by Utility Solutions in subsequent years. The District had retained any tax collections over these amounts in the first two years of the lease. Subsequent to the first two years, the District was required to assess sufficient taxes to meet its operating expenses, establish a reasonable reserve and to pay Utility Solutions the amounts due. The District’s obligation to this contract was to continue for thirty years.

As part of this contract, the District is required to work with Utility Solutions to negotiate and close terms of a sale of all Utility Solutions water and sewer treatment assets, including water rights to the District. If a sale did not occur within thirty years of the lease agreement, the District was able purchase all assets at the end of the term for the price of \$1. However, the District did not have an obligation to do so. This contract resulted in a capital lease; however, in December 2015, the District pursued the purchase of the infrastructure owned by Utility Solutions.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

4. Commitments (Continued)

The buyout agreement consisted of the District purchasing all treatment facilities, disposals facilities, water rights presently servicing the lands within the District's boundaries and that of Elk Grove Subdivision from Utility Solutions. The District purchased all assets for \$19.5 million, plus the actual cost of ongoing major plant upgrade, plus other required upgrades. The total purchase price was approximately \$22,353,588. After the purchase, the District undertook to serve all those eligible to receive water and sewer service from Utility Solutions. Also, as per the buy-sell agreement, the parties acknowledged the existing 2013 capital lease agreement with a remaining balance of \$306,000 to be paid by June 20, 2016 and the termination of the capital lease agreement effective the date of closing, on December 23, 2015.

5. Capital Assets

Capital assets of the District for the years ended June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Water and wastewater infrastructure	\$ 6,534,248	\$ 11,303,290
Water and wastewater piping	15,372,077	-
Leased office equipment	7,056	-
	<u>21,913,381</u>	<u>11,303,290</u>
Less: Accumulated Depreciation	<u>(356,095)</u>	<u>(567,220)</u>
	<u>\$ 21,557,286</u>	<u>\$ 10,736,070</u>
Website	17,030	17,030
Less: Accumulated Amortization	<u>(11,354)</u>	<u>(5,677)</u>
	<u>\$ 5,676</u>	<u>\$ 11,353</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$365,360 and \$376,776, respectively. Website amortization for both years ended June 30, 2016 and 2015 was \$5,677.

6. Capital Lease

In fiscal year 2014, the District entered into agreement (see Note 4) with Utility Solutions to lease the water and sewer infrastructure and water rights related to water and sewer distribution in the District. Payments made under the lease agreement for fiscal year 2015 applied only to interest.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

6. Capital Lease (Continued)

In fiscal year 2016, the District purchased the infrastructure, releasing them from their capital lease. Leased equipment under the capital lease as of June 30, 2015 was \$11,303,290 based upon the present value of the future minimum lease payments. This asset was depreciated on the straight-line method over 30 years. The depreciation expense for the year ended June 30, 2015 was \$380,888.

With the buy-out of the capital lease agreement that occurred in December 2015, the asset was valued at \$11,303,290, with accumulated depreciation at \$567,220. The capital lease balance was \$11,306,943, which resulted in a decrease of the carrying value of the purchased asset of the remaining amount of \$570,873.

In fiscal year 2016, the District entered into a capital lease agreement in January 2016 with J&H Inc. The agreement included the leasing of a copier over a five-year period, with a \$1 buy-out provision at the end of the term. The fair value of the copier at the lease inception was \$7,056. The copier accumulated depreciation and depreciation expense was \$588 in 2016.

Capital lease obligations at June 30, 2016, and the changes for the fiscal year then ended are as follows:

Balance as of June 30, 2015	\$ 11,303,290
Additions	6,702
Reductions	<u>(11,303,290)</u>
Balance as of June 30, 2016	<u>\$ 6,702</u>
Due within one year	<u>\$ 1,416</u>

The following presents the future minimum lease payments as of June 30, 2016:

FY2017	\$ 1,416
FY2018	1,416
FY2019	1,416
FY2020	1,416
FY2021	<u>1,038</u>
	<u>\$ 6,702</u>

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

7. Long-Term Debt Obligations

The following is a summary of long-term debt transactions of the District's governmental activities for the fiscal year ended June 30, 2016:

	Coal Severance Tax Loan	Water Pollution Control State Revolving Loan	Water System Revenue Bond, Series 2015	Special Assessment Bond, Series 2015	Total
Balance, July 1, 2015	-	-	-	-	23,000,000
Additions	3,060,000	9,300,000	3,940,000	6,700,000	(129,046)
Deletions	(56,387)	-	(72,659)	-	22,870,954
Balance, June 30, 2016	<u>\$ 3,003,613</u>	<u>\$ 9,300,000</u>	<u>\$ 3,867,341</u>	<u>\$ 6,700,000</u>	<u>\$ 45,741,908</u>
Current portion	115,324	5,000	145,019	69,677	22,535,934
Long term portion	<u>2,888,289</u>	<u>9,295,000</u>	<u>3,722,322</u>	<u>6,630,323</u>	<u>22,870,954</u>
	<u>\$ 3,003,613</u>	<u>\$ 9,300,000</u>	<u>\$ 3,867,341</u>	<u>\$ 6,700,000</u>	<u>\$ 45,406,888</u>

Long-term debt obligations consist of the following at June 30, 2016:

	<u>2016</u>
Obligation to the State of Montana, interest bearing at 3.0%, due November 1, 2035. Payable in semi-annual installments of \$102,287, including interest, and is unsecured.	\$ 3,003,613
Obligation to the State of Montana, interest bearing at 2.50%, due January 1, 2046. Payable in semi-annual installments of \$223,773, including interest, and is unsecured.	9,300,000
Obligation to the USDA, interest bearing at 3.25%, due September 23, 2035. Payable in monthly installments of \$22,380, including interest, and is unsecured.	3,867,341
Obligation to the USDA, interest bearing at 3.25%, due December 23, 2045. Payable in semi-annual installments of \$179,292, including interest, and is unsecured.	<u>6,700,000</u>
	22,870,954
Less current portion	<u>(335,020)</u>
	<u>\$ 22,535,934</u>

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2016 and 2015

8. Long-Term Debt Obligations (Continued)

The required annual payments for all debt are as follows:

Fiscal Year	Principal	Interest	Rate
2017	\$ 335,020	778,408	2.50% - 3.25%
2018	608,406	651,613	2.50% - 3.25%
2019	652,649	633,107	2.50% - 3.25%
2020	672,318	613,700	2.50% - 3.25%
2021	691,431	593,701	2.50% - 3.25%
2022 to 2026	3,780,262	2,647,040	2.50% - 3.25%
2027 to 2031	4,377,896	2,048,756	2.50% - 3.25%
2032 to 2036	4,820,784	1,410,700	2.50% - 3.25%
2037 to 2041	3,284,990	776,130	2.50% - 3.25%
2042 to 2046	3,647,198	278,787	2.50% - 3.25%
Total	\$ 22,870,954	\$ 10,431,942	

9. 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).

10. Risk Management

The District faces a considerable number of risks of loss, including general liability, auto liability (non-owned/hired), and 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
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016**

	<u>CFDA #</u>	<u>Expenditures</u>
DIRECT LOANS:		
United States Department of Agriculture:		
Water and Waste Disposal Systems for Rural Communities		
Water System Special Assessment Bond, Series 2015	10.760	\$ 6,700,000
Water System Revenue Bond, Series 2015	10.760	<u>3,940,000</u>
Total United States Department of Agriculture		<u>\$ 10,640,000</u>

The accompanying notes are an integral part of these statements.

Four Corners County Water and Sewer District
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal loans of the District and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of Title 2 *U.S Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Loan Balances Involving Federal Funds

During fiscal year 2016, the District was awarded \$6,700,000 in loan proceeds from the United States Department of Agriculture (USDA), Water System Special Assessment Bond, Series 2015, for the purchase of the water system infrastructure under the Water and Waste Disposal Systems for Rural Communities (CFDA# 10.760). This loan was fully drawn down and expenditures in the amount of \$6,700,000 are reflected on the schedule of expenditures of federal awards. The loan balance at June 30, 2016 was \$6,700,000.

During fiscal year 2016, the District was awarded \$3,940,000 in loan proceeds from the United States Department of Agriculture, Water System Revenue Bond, Series 2015, for the purchase of the water system piping under the Water and Waste Disposal Systems for Rural Communities (CFDA# 10.760). This loan was fully drawn down and expenditures in the amount of \$3,940,000 are reflected on the schedule of expenditures of federal awards. The loan balance at June 30, 2016 was \$3,867,341.



**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***

To the Board of Trustees
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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Four Corners County Water and Sewer District ("the District"), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 21, 2017.

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 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We

did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency: 2016-1.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 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.

Rudd & Company, PLLC

Bozeman, Montana
February 21, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
Four Corners County Water and Sewer District

Report on Compliance for Each Major Federal Program

We have audited Four Corners County Water and Sewer District's ("the District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance, this report is not suitable for any other purpose.

Rudd & Company, PLLC

Bozeman, Montana
February 21, 2017

**Four Corners County Water and Sewer District
 Schedule of Findings and Questioned Costs and Summary of Prior Year Audit Findings
 For the Year Ended June 30, 2016**

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:
 Material weakness identified? No
 Significant deficiency identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Type of auditor’s report on compliance for major programs: Unmodified

Internal control over major programs:
 Material weakness identified? No
 Significant deficiency identified? None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516.(a)? No

Identification of major program:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>	
10.760	US Department of Agriculture	Water and Waste Disposal Systems for Rural Communities

The dollar threshold used to distinguish between type A and type B was \$750,000

Four Corners County Water and Sewer District does not qualify as a low-risk auditee.

**Four Corners County Water and Sewer District
Schedule of Findings and Questioned Costs and Summary of Prior Year Audit Findings
For the Year Ended June 30, 2016**

Significant Deficiency

2016-1 Number of Year-End Adjusting Entries

Criteria

Several accounts on the balance sheet were not properly recorded and reconciled in accordance with GAAP and the supporting documentation.

Condition

During our audit, we identified and proposed adjusting entries to properly state several balance sheet account items in accordance with GAAP.

Context

There were 15 adjusting entries proposed to properly state balance sheet accounts. The largest was for \$9,072,669, related to reclassification of capital asset types.

Effect

The balances reported did not match supporting documentation and, thus, were improperly classified or stated.

Recommendation

We recommend that the District review the noted adjusted accounts and match all ending balances to the supporting documentation and make the proper year-end adjustments.

District Response

There was a complex transaction that occurred in FY16 that will not occur in FY17 so large unusual adjustments are not anticipated moving forward; for example, there were significant adjustments made to capital asset types so that depreciation schedules would align closer to actual values of the water and sewer systems (piping and infrastructure for each are on different depreciation schedules). The District has added a CPA on the Board who can help identify unusual items that may need adjusting on the financials. The District will also have a contracted accountant ensure that proper journal entries have been made and the accountant will also assist with year-end books.

Prior Year Audit Findings: None reported