

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2021 and 2020



AMATICS
CPA GROUP

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
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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, 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.

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, 2021 and 2020, 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 December 17, 2021 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
December 17, 2021

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2021 and 2020

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 617,862	\$ 721,917
Board designated cash and cash equivalents	581,037	648,030
Board designated investments	6,453,509	4,676,997
Accounts receivable, net	375,038	321,331
Taxes receivable	57,495	29,251
Unbilled service revenue	159,309	111,872
Due from other governments	50,391	45,994
Prepaid expenses	-	1,000
	<u>8,294,641</u>	<u>6,556,392</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	187,540	81,642
Restricted investments	621,440	657,692
	<u>808,980</u>	<u>739,334</u>
PROPERTY AND EQUIPMENT, net of depreciation		
	<u>37,468,380</u>	<u>30,376,108</u>
Total assets	<u>\$ 46,572,001</u>	<u>\$ 37,671,834</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 916,016	\$ 1,869,705
Payroll liabilities	41,489	34,741
Capital lease payable, current	15,022	7,518
Water and wastewater system bonds, current	1,453,415	960,554
Accrued interest	17,292	18,908
	<u>2,443,234</u>	<u>2,891,426</u>
LONG-TERM LIABILITIES		
Water and wastewater system bonds, noncurrent	29,083,359	26,245,978
Capital lease payable, noncurrent	23,878	13,926
	<u>29,107,237</u>	<u>26,259,904</u>
Total long-term liabilities	<u>29,107,237</u>	<u>26,259,904</u>
Total liabilities	<u>31,550,471</u>	<u>35,167,713</u>
NET POSITION		
Restricted for debt service	808,980	739,334
Net invested in capital assets	6,916,584	3,148,132
Unrestricted	7,295,966	4,633,038
	<u>15,021,530</u>	<u>8,520,504</u>
Total net position	<u>15,021,530</u>	<u>8,520,504</u>
Total liabilities and net position	<u>\$ 46,572,001</u>	<u>\$ 37,671,834</u>

See the accompanying independent auditors' report.

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

	Years Ended June 30	
	2021	2020
OPERATING REVENUES		
Charges for services	\$ 7,692,886	\$ 4,954,512
OPERATING EXPENSES		
Personnel	692,150	568,092
Accounting	17,300	16,275
Bank charges	1,217	1,470
Bad debt	3,495	1,525
Consulting	3,283	4,080
Engineering	67,266	95,258
Insurance	54,618	39,030
Legal fees	39,403	43,334
Licenses and permits	9,613	13,585
Miscellaneous	3,972	1,884
Office expenses and supplies	226,338	189,481
Utilities, water and sewer use	607,342	511,594
Total operating expenses	1,725,997	1,485,608
Operating income	5,966,889	3,468,904
NON-OPERATING REVENUE (EXPENSES)		
Interest income	14,061	81,269
Depreciation expense	(1,024,383)	(846,074)
Interest expense	(643,536)	(618,101)
Property taxes levied	1,318,995	1,302,599
Total non-operating revenues (expenses)	(334,863)	(80,307)
Contributed capital	869,000	124,500
CHANGE IN NET POSITION	6,501,026	3,513,097
NET POSITION, beginning of year	8,520,504	5,007,407
NET POSITION, end of year	\$ 15,021,530	\$ 8,520,504

See the accompanying independent auditors' report.

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

	Years Ended June 30	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 7,591,742	\$ 4,936,409
Payments to employees	(685,402)	(558,810)
Payments to suppliers and agencies	(2,842,508)	(1,061,717)
Net cash provided by operating activities	4,063,832	3,315,882
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of water and wastewater assets	(1,823,277)	(1,071,166)
Net purchases of investments	(1,740,779)	(2,341,538)
Investment income	11,778	79,326
Net cash used by investing activities	(3,552,278)	(3,333,378)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tax receipts and other income (expense)	1,286,355	1,282,847
Interest received on delinquent tax notices	2,283	1,943
Net cash provided by noncapital financing activities	1,288,638	1,284,790
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long term debt	-	1,179,773
Payments on long term debt	(1,203,117)	(1,061,725)
Payments on capital lease	(17,073)	(8,897)
Interest paid	(645,152)	(614,724)
Net cash used by capital and related financing activities	(1,865,342)	(505,573)
NET INCREASE (DECREASE) IN CASH	(65,150)	761,721
Cash at beginning of year	1,451,589	689,868
CASH AT END OF YEAR	\$ 1,386,439	\$ 1,451,589
Classified As:		
Cash and cash equivalents - unrestricted	\$ 617,862	\$ 721,917
Board designated cash and cash equivalents	581,037	648,030
Restricted cash and cash equivalents	187,540	81,642
Total cash and cash equivalents	\$ 1,386,439	\$ 1,451,589

See the accompanying independent auditors' report.

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

	Years Ended June 30	
	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,966,889	\$ 3,468,904
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in operating assets		
Accounts receivable	(53,707)	(9,290)
Unbilled service revenue	(47,437)	(8,813)
Prepaid expenses	1,000	(1,000)
Increase (decrease) in operating liabilities		
Accounts payable	(1,809,661)	(143,201)
Payroll liabilities	6,748	9,282
	(1,903,057)	(153,022)
Net cash provided by operating activities	\$ 4,063,832	\$ 3,315,882
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:		
Non-cash transactions:		
Capital contributed	\$ 869,000	\$ 124,500
Asset additions through bonds payable	\$ 4,533,359	\$ 5,966,193
Asset additions through accounts payable	\$ 855,972	\$ 1,783,848
Asset additions financed through capital lease payable	\$ 34,529	\$ 27,884

See the accompanying independent auditors' report.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Board Designated Cash and Investments

Certain resources are classified as board designated 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, 2021 and 2020

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.

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.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

2. CASH AND CASH EQUIVALENTS

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

	2021	2020
Cash	\$ 877,913	\$ 849,177
Money market account	508,526	600,847
Undeposited funds	-	1,565
	\$ 1,386,439	\$ 1,451,589

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 \$1,327,435 and \$1,224,941 for the years ended June 30, 2021 and 2020, 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 \$7,074,949 and \$5,334,689 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020

5. CAPITAL ASSETS

Capital assets of the District for the years ended June 30, 2021 and 2020, consisted of the following:

	Balance, June 30, 2020	Additions	Deletions/ Transfers	Balance, June 30, 2021
Water and wastewater infrastructure	\$ 9,055,354	\$ 1,498,990	\$ 14,742,351	\$ 25,296,695
Water and wastewater piping	15,496,577	-	-	15,496,577
Construction in progress	9,068,018	6,583,136	(14,742,351)	908,803
Vehicles	119,457	34,529	-	153,986
Sewer equipment	104,650	-	-	104,650
Office equipment	21,766	-	-	21,766
	<u>33,865,822</u>	<u>8,116,655</u>	<u>-</u>	<u>41,982,477</u>
Less: accumulated depreciation	<u>(3,489,714)</u>	<u>(1,024,383)</u>	<u>-</u>	<u>(4,514,097)</u>
Property and equipment, net	<u>\$ 30,376,108</u>	<u>\$ 7,092,272</u>	<u>\$ -</u>	<u>\$ 37,468,380</u>

	Balance, June 30, 2020	Additions	Deletions	Balance, June 30, 2021
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>

	Balance, June 30, 2019	Additions	Deletions/ Transfers	Balance, June 30, 2020
Water and wastewater infrastructure	\$ 8,044,692	\$ 1,010,662	\$ -	\$ 9,055,354
Water and wastewater piping	15,372,077	124,500	-	15,496,577
Construction in progress	1,308,956	7,979,833	(220,771)	9,068,018
Vehicles	50,988	68,469	-	119,457
Sewer equipment	104,650	-	-	104,650
Office equipment	10,869	10,897	-	21,766
	<u>24,892,232</u>	<u>9,194,361</u>	<u>(220,771)</u>	<u>33,865,822</u>
Less: accumulated depreciation	<u>(2,643,640)</u>	<u>(846,074)</u>	<u>-</u>	<u>(3,489,714)</u>
Property and equipment, net	<u>\$ 22,248,592</u>	<u>\$ 8,348,287</u>	<u>\$ (220,771)</u>	<u>\$ 30,376,108</u>

	Balance, June 30, 2019	Additions	Deletions	Balance, June 30, 2020
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, 2021 and 2020

5. CAPITAL ASSETS (Continued)

Depreciation expense for the years ended June 30, 2021 and 2020, was \$1,024,383 and \$846,074, respectively.

Construction in progress for the year ended June 30, 2020, amounted to \$8,907,809, and was for the construction of a waste water treatment facility. The project was completed and placed into service during the year ending June 30, 2021. 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 7).

Construction in progress for the year ended June 30, 2021, 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, 2021, are \$8,518,000 and all projects are expected to be completed in the years ending June 30, 2022 and 2023.

6. CAPITAL LEASES

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 \$7,056 and \$6,233 for the years ended June 30, 2021 and 2020, respectively.

The District entered into a four-year noncancelable lease agreement in April 2020 for a truck classified as a capital lease. The leased equipment has a recorded cost of \$27,884 with accumulated depreciation of \$6,971 and \$1,394 for the years ended June 30, 2021 and 2020, respectively.

The District entered into a four-year noncancelable lease agreement in June 2021 for a truck classified as a capital lease. The leased equipment has a recorded cost of \$34,529 with accumulated depreciation of \$575 for the year ended June 30, 2021.

Capital lease obligations at June 30, 2021 and 2020, and the change for the fiscal years then ended are as follows:

<u>Balance, June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2021</u>	<u>Due within one year</u>
\$ 21,444	\$ 34,529	\$ (17,073)	\$ 38,900	\$ 15,022
<u>Balance, June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2020</u>	<u>Due within one year</u>
\$ 2,456	\$ 27,884	\$ (8,896)	\$ 21,444	\$ 7,518

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

6. CAPITAL LEASES (Continued)

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

2022	\$	15,022
2023		15,315
2024		8,563
Total minimum lease payments		\$ 38,900

7. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the years ended June 30, 2021 and 2020:

	<u>Balance, June 30, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2021</u>	<u>Due within one year</u>
Coal Severance Tax Loan \$	2,520,978	\$ -	\$ (129,911)	\$ 2,391,067	\$ 133,838
Water Pollution Control State Revolving Loan	8,484,000	-	(242,000)	8,242,000	247,000
Water System Revenue Bond, Series 2015	3,237,751	-	(408,352)	2,829,399	637,485
Special Assessment Bond, Series 2015	6,154,162	-	(159,854)	5,994,308	165,092
Wastewater System Special Assessment Bond Series 2019B	6,509,641	4,533,359	(263,000)	10,780,000	270,000
Wastewater System Bonds Series 2019A	300,000	-	-	300,000	-
	<u>\$ 27,206,532</u>	<u>\$ 4,533,359</u>	<u>\$ (1,203,117)</u>	<u>\$ 30,536,774</u>	<u>\$ 1,453,415</u>

	<u>Balance, June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2020</u>	<u>Due within one year</u>
Coal Severance Tax Loan \$	2,647,078	\$ -	\$ (126,100)	\$ 2,520,978	\$ 129,912
Water Pollution Control State Revolving Loan	8,720,000	-	(236,000)	8,484,000	242,000
Water System Revenue Bond, Series 2015	3,419,898	-	(182,147)	3,237,751	165,788
Special Assessment Bond, Series 2015	6,313,940	-	(159,778)	6,154,162	159,854
Wastewater System Special Assessment Bond Series 2019B	-	6,766,641	(257,000)	6,509,641	263,000
Wastewater System Bonds Series 2019A	-	300,000	-	300,000	-
Western Equipment Finance	100,700	-	(100,700)	-	-
	<u>\$ 21,201,616</u>	<u>\$ 7,066,641</u>	<u>\$ (1,061,725)</u>	<u>\$ 27,206,532</u>	<u>\$ 960,554</u>

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

7. LONG-TERM DEBT (Continued)

Long-term debt obligations consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Obligation to the State of Montana, requires semi-annual payments of \$102,287 including interest at 3.0%, matures November 1, 2035. Refinanced subsequent to June 30, 2021, see Note 11.	\$ 2,391,067	\$ 2,520,978
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. Refinanced subsequent to June 30, 2021, see Note 11.	8,242,000	8,484,000
Obligation to the USDA, requires monthly payments of \$60,000, including interest at 3.25%, matures September 23, 2025. 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. Refinanced subsequent to June 30, 2021, see Note 11.	2,829,399	3,237,751
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. Refinanced subsequent to June 30, 2021, see Note 11.	5,994,308	6,154,162
Obligation to the State of Montana, requires estimated semi-annual payments of \$269,000, including interest at 2.50%, matures July 1, 2049. The loan is secured by the special assessments against all taxable properties in the District.	10,780,000	6,509,641
Obligation to the State of Montana, forgivable loan as determined by obligor, if not forgiven, requires monthly payments beginning on first payment date following noncompliance statement and maturing July 1, 2049, including interest at 2.50%. The loan is secured by the special assessments against all taxable properties in the District.	<u>300,000</u>	<u>300,000</u>
	30,536,774	27,206,532
Less current portion	<u>(1,453,415)</u>	<u>(960,554)</u>
	<u>\$ 29,083,359</u>	<u>\$ 26,245,978</u>

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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>
2022	\$ 1,453,415	\$ 819,085	\$ 2,272,500
2023	1,496,906	775,589	2,272,495
2024	1,542,384	730,774	2,273,158
2025	1,586,887	684,596	2,271,483
2026	1,060,075	643,630	1,703,705
2027 to 2031	4,944,569	2,823,608	7,768,177
2032 to 2036	5,561,862	2,102,278	7,664,140
2037 to 2041	5,379,505	1,381,166	6,760,671
2042 to 2046	5,669,171	616,786	6,285,957
2047 to 2049	1,842,000	68,025	1,910,025
	<u>\$ 30,536,774</u>	<u>\$ 10,645,537</u>	<u>\$ 41,182,311</u>

Interest expense during the years ended June 30, 2021 and 2020 was \$643,536 and \$618,101, respectively. Interest capitalized for the years ended June 30, 2021 and 2020 was \$188,702 and \$88,333, respectively.

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, 2021 and 2020, were as follows:

<u>Balance, June 30, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2021</u>
\$ 29,540	\$ 45,823	\$ (39,651)	\$ 35,712

<u>Balance, June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2020</u>
\$ 21,243	\$ 39,926	\$ (31,629)	\$ 29,540

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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 \$11,474 and \$12,245 for the years ended June 30, 2021 and 2020, respectively.

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 \$43,766 and \$36,056 for the years ended June 30, 2021 and 2020, respectively.

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 appealed the decision to the Montana Supreme Court and the lower court decision was reversed. In October 2020, a new district court assumed jurisdiction of the case. In the event of loss of the ongoing dispute, the District will be obligated to secure a water right from another source to provide water to the specified property.

11. SUBSEQUENT EVENTS

In October 2021, the District was authorized to refinance debt through the issuance of Special Assessment Refunding Bonds Series, 2021A up to \$13,850,000 and Revenue Refunding Bonds, Series 2021B up to \$4,460,000. The refinancing requires annual principal payments and semi-annual interest payments at 4.0% for both Series 2021A and Series 2021B. Initial interest payments are due January 1, 2022, annual interest payments are due July 1 in subsequent years.

Date of Management Evaluation

Management has evaluated subsequent events through December 17, 2021, 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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 17, 2021.

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) as a basis for designing 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 we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as items 2021-IC-1 that we consider to be a significant deficiency.



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*.

District's Response to Findings

The Four Corners County Water and Sewer District's response to the finding 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
December 17, 2021

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2021

The results of our tests disclosed no instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters and one significant deficiency required to be reported under *Government Auditing Standards* as of June 30, 2021.

2021-IC-1	Criteria:	Internal controls should be implemented to ensure that employees are properly paid for hours worked.
	Condition:	The District outsources the processing of payroll. The contracted accountant enters payroll information based on schedules and information provided by the District. The payroll is not reviewed by the District prior to submission for payment.
	Effect:	The District underpaid an employee for one pay period tested and overpaid an employee for another pay period tested.
	Cause:	The District does not have a process in place to review payroll calculations prior to submission for payment.
	Recommendation:	The District should develop a process to ensure that payroll is properly calculated and payroll transactions are reviewed prior to the submission of payroll for payment.
	Response:	The District receives a payroll summary with each payroll that will be reviewed and approved. In addition, the District switched their timesheet system from a manual paper system to a computerized timesheet system that will help mitigate manual math errors and provide additional reports for the District to use to cross check against the payroll summary.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATUS OF PRIOR YEAR FINDINGS
June 30, 2021

The results of our tests disclosed one instance of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters and one material weakness required to be reported under *Government Auditing Standards* as of June 30, 2020.

- 2020-IC-1** Criteria: In accordance with generally accepted accounting principles, the District should properly record transactions in the period when items are incurred and revenues are earned.
- Condition: The District is in the process of constructing a Wastewater Treatment Plant as of June 30, 2020. In addition, the District receives revenues for capacity fees and will serves for customers to receive service from the District.
- Effect: The District's construction in progress and accounts payable were understated by \$1,783,848. In addition, charges for services and accounts receivable were overstated by \$140,000.
- Cause: The District does not have a process in place to ensure that transactions are recorded and recognized in the proper accounting period.
- Recommendation: The District should develop a process to ensure that transactions are recorded in the proper accounting period.
- Status: We noted no issues of transactions being recorded in the improper accounting period.
- 2020-C-1** Criteria: According to MCA 7-13-2311, the District must designate depositaries to have custody of the funds of the District, all of which depositaries shall give security sufficient to secure the district against possible loss.
- Condition: The District has cash deposits in excess of FDIC insurance limits which are not secured by the depositaries where the funds are held.
- Effect: 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.
- Cause: The District has not obtained, through a depository, proper security against loss for cash funds in excess of FDIC limits.
- Recommendation: The District should maintain deposits at a depository where deposits in excess of FDIC insurance limits are secured against possible loss.
- Status: We noted that the depository where the District has its deposits was able to produce evidence that deposits in excess of FDIC are properly collateralized according to Montana Code Annotated.