

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2017 and 2016



AMATICS
CPA GROUP

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
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INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees
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 year ended June 30, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 2017 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, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Prior Period Financial Statements

The financial statements of Four Corners County Water and Sewer District as of June 30, 2016, were audited by other auditors whose report dated February 21, 2017, expressed an unmodified opinion on those statements.

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 February 20, 2018 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

February 20, 2018

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 370,042	\$ 284,024
Board designated cash and cash equivalents	1,197,910	-
Accounts receivable, net	150,329	129,053
Taxes receivable	15,511	19,463
Unbilled service revenue	91,124	89,714
Due from other governments	48,965	15,485
Total current assets	1,873,881	537,739
NONCURRENT ASSETS		
Restricted cash and cash equivalents	467,488	378,278
PROPERTY AND EQUIPMENT, net of depreciation		
	21,008,805	21,557,286
INTANGIBLE ASSETS, net of amortization		
	-	5,676
Total assets	\$ 23,350,174	\$ 22,478,979

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 28,982	\$ 65,738
Payroll liabilities	24,500	13,654
Capital lease payable, current	1,415	1,416
Note payable, current	5,694	-
Water and wastewater system bonds, current	451,108	335,020
Accrued interest	16,354	108,847
Total current liabilities	528,053	524,675
LONG-TERM LIABILITIES		
Water and wastewater system bonds, noncurrent	21,999,748	22,535,934
Note payable, noncurrent	16,723	-
Capital lease payable, noncurrent	3,871	5,286
Total long-term liabilities	22,020,342	22,541,220
Total liabilities	22,548,395	23,065,895
NET POSITION		
Restricted for debt service	467,488	378,278
Unrestricted	334,291	(965,194)
Total net position	801,779	(586,916)
Total liabilities and net position	\$ 23,350,174	\$ 22,478,979

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	
	2017	2016
OPERATING REVENUES		
Charges for services	\$ 3,178,579	\$ 1,754,628
OPERATING EXPENSES		
Personnel	406,569	134,114
Accounting	46,033	22,087
Bank charges	645	2
Bad debt	-	12,457
Consulting	4,562	17,414
Engineering	27,140	45,087
Insurance	16,446	19,703
Legal fees	15,701	70,430
Licenses and permits	1,520	8,252
Miscellaneous	4,146	2,326
Office supplies	79,693	79,273
Utilities	67,685	71,714
Water and sewer use	437,680	1,038,702
Total operating expenses	1,107,820	1,521,561
Operating income	2,070,759	233,067
NON-OPERATING REVENUE (EXPENSES)		
Interest income	2,749	1,485
Other income	237	23,073
Depreciation expense	(717,116)	(356,095)
Amortization expense	(5,676)	(5,677)
Interest expense	(803,473)	(482,376)
Loan fee expense	-	(91,800)
Other expenses	(923)	-
Property taxes levied	842,138	806,454
Total non-operating revenues (expenses)	(682,064)	(104,936)
CHANGE IN NET POSITION	1,388,695	128,131
NET POSITION, beginning of year	(586,916)	(715,047)
NET POSITION, end of year	\$ 801,779	\$ (586,916)

See the accompanying independent auditors' report.

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

	Years Ended June 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,155,893	\$ 1,693,943
Payments to employees	(395,723)	(120,460)
Payments to suppliers and agencies	<u>(738,007)</u>	<u>(1,481,422)</u>
Net cash provided by operating activities	2,022,163	92,061
CASH FLOWS USED BY INVESTING ACTIVITIES		
Acquisition of water and wastewater assets	(168,635)	(22,484,254)
CASH FLOWS FROM FINANCING ACTIVITIES		
Tax receipts and other income (expense)	811,924	827,874
Interest received on delinquent tax notices	2,749	1,485
Proceeds from issuance of long term debt	23,824	22,779,154
Payments on long term debt	(421,505)	-
Payments on capital lease	(1,416)	-
Interest paid	<u>(895,966)</u>	<u>(706,317)</u>
Net cash provided (used) by financing activities	<u>(480,390)</u>	<u>22,902,196</u>
NET INCREASE IN CASH	1,373,138	510,003
Cash at beginning of year	<u>662,302</u>	<u>152,299</u>
CASH AT END OF YEAR	<u><u>\$ 2,035,440</u></u>	<u><u>\$ 662,302</u></u>
Classified As:		
Cash and cash equivalents - unrestricted	\$ 370,042	\$ 284,024
Board designated cash and cash equivalents	1,197,910	-
Restricted cash and cash equivalents	<u>467,488</u>	<u>378,278</u>
Total cash and cash equivalents	<u><u>\$ 2,035,440</u></u>	<u><u>\$ 662,302</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,070,759	\$ 233,067
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in operating assets		
Accounts receivable	(21,276)	(15,523)
Unbilled service revenue	(1,410)	(45,162)
Increase (decrease) in operating liabilities		
Accounts payable	(36,756)	(100,677)
Capital lease	-	6,702
Payroll liabilities	<u>10,846</u>	<u>13,654</u>
	<u>(48,596)</u>	<u>(141,006)</u>
Net cash provided by operating activities	<u><u>\$ 2,022,163</u></u>	<u><u>\$ 92,061</u></u>

See the accompanying independent auditors' report.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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). As of June 30, 2017 and 2016, the District had no investments. 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, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. 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 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 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. All donated capital assets are acquired by the District through formal transfer agreements which are recorded at the appropriate county office. The contributed assets are then recorded as either water or sewer 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, 2017 and 2016

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 2016 balances to conform to the 2017 presentation.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

2. CASH AND CASH EQUIVALENTS

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

	<u>2017</u>	<u>2016</u>
Cash	\$ 251,393	\$ 172,430
Money market account	1,768,166	480,066
Undeposited funds	<u>15,881</u>	<u>9,806</u>
	<u>\$ 2,035,440</u>	<u>\$ 662,302</u>

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 \$1,859,232 and \$230,066 for the years ended June 30, 2017 and 2016, 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 for the years ended June 30, 2017 and 2016, respectively.

3. ACCOUNTS RECEIVABLE

As of June 30, 2017 and 2016, the outstanding accounts receivable balances and related allowance for uncollectible accounts are as follows:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 182,794	\$ 161,520
Allowance for uncollectible accounts	<u>(32,465)</u>	<u>(32,465)</u>
	<u>\$ 150,329</u>	<u>\$ 129,055</u>

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, 2017 and 2016

5. CAPITAL ASSETS

Capital assets of the District for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>Balance, June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2017</u>
Water and wastewater infrastructure	\$ 6,534,248	\$ 131,514	\$ -	\$ 6,665,762
Water and wastewater piping	15,372,077	-	-	15,372,077
Vehicles	-	33,308	-	33,308
Office equipment	7,056	3,813	-	10,869
	<u>21,913,381</u>	<u>168,635</u>	<u>-</u>	<u>22,082,016</u>
Less: accumulated depreciation	<u>(356,095)</u>	<u>(717,116)</u>	<u>-</u>	<u>(1,073,211)</u>
Property and equipment, net	<u>\$ 21,557,286</u>	<u>\$ (548,481)</u>	<u>\$ -</u>	<u>\$ 21,008,805</u>
	<u>Balance, June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2017</u>
Website	\$ 17,030	\$ -	\$ -	\$ 17,030
Less: accumulated amortization	<u>(11,354)</u>	<u>(5,676)</u>	<u>-</u>	<u>(17,030)</u>
Intangible assets, net	<u>\$ 5,676</u>	<u>\$ (5,676)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the years ended June 30, 2017 and 2016, was \$717,116 and \$356,095, respectively. Website amortization for the years ended June 30, 2017 and 2016, was \$5,676 and \$5,677, respectively.

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 \$1,999 and \$588 for the years ended June 30, 2017 and 2016, respectively.

Capital lease obligations at June 30, 2017, and the changes for the fiscal year then ended are as follows:

<u>Balance, June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2017</u>	<u>Due within one year</u>
<u>\$ 6,702</u>	<u>\$ -</u>	<u>\$ (1,416)</u>	<u>\$ 5,286</u>	<u>\$ 1,415</u>

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

2018	\$ 1,415
2019	1,415
2020	1,415
2021	<u>1,041</u>

Total minimum lease payments \$ 5,286

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

7. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

	<u>Balance, June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2017</u>	<u>Due within one year</u>
Coal Severance Tax Loan \$	3,003,613	\$ -	\$ (115,324)	\$ 2,888,289	\$ 118,810
Water Pollution Control State Revolving Loan	9,300,000	-	(91,000)	9,209,000	111,000
Water System Revenue Bond, Series 2015	3,867,341	-	(143,029)	3,724,312	149,737
Special Assessment Bond, Series 2015	6,700,000	-	(70,745)	6,629,255	71,561
Big Sky Western Bank Loan	-	23,824	(1,407)	22,417	5,694
	<u>\$ 22,870,954</u>	<u>\$ 23,824</u>	<u>\$ (421,505)</u>	<u>\$ 22,473,273</u>	<u>\$ 456,802</u>

Long-term debt obligations consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Obligation to the State of Montana, requires semi-annual payments of \$102,287 including interest at 3.0%, matures November 1, 2035.	\$ 2,888,289	\$ 3,003,613
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.	9,209,000	9,300,000
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.	3,724,312	3,867,341
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.	6,629,255	6,700,000
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.	22,417	-
	22,473,273	22,870,954
Less current portion	(456,802)	(335,020)
	<u>\$ 22,016,471</u>	<u>\$ 22,535,934</u>

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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>
2018	\$ 456,802	\$ 428,124	\$ 884,926
2019	657,604	634,539	1,292,143
2020	677,419	614,986	1,292,405
2021	695,079	594,842	1,289,921
2022	710,853	574,265	1,285,118
2023 to 2027	3,886,551	2,541,301	6,427,852
2028 to 2032	4,498,625	1,927,302	6,425,927
2033 to 2037	4,477,774	1,229,552	5,707,326
2038 to 2042	3,363,334	697,686	4,061,020
2043 to 2046	<u>3,049,232</u>	<u>196,991</u>	<u>3,246,223</u>
	<u>\$ 22,473,273</u>	<u>\$ 9,439,588</u>	<u>\$ 31,912,861</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 year ended June 30, 2017, were as follows:

<u>Balance, June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2017</u>
<u>\$ 6,643</u>	<u>\$ 17,404</u>	<u>\$ (6,795)</u>	<u>\$ 17,252</u>

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 \$5,976 for the year ended June 30, 2017.

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 \$17,894 for the year ended June 30, 2017.

10. SUBSEQUENT EVENTS

Infrastructure of \$1,229,967 was put in place during construction projects during the years ended June 30, 2017 and 2016. This infrastructure has been conveyed to the District subsequent to June 30, 2017, and will be recognized as donated capital assets when the District formally takes ownership of the infrastructure.

Date of Management Evaluation

Management has evaluated subsequent events through February 20, 2018, 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 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 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, 2017, 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 20, 2018.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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*.

We noted certain matters that we reported to management of the District in a separate letter dated February 20, 2018.

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
February 20, 2018

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF CURRENT YEAR FINDINGS
June 30, 2017**

The results of our tests disclosed no 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, 2017.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATUS OF PRIOR YEAR FINDINGS
June 30, 2017

The results of the prior auditors' tests disclosed the following internal control deficiency considered to be a significant deficiency, which was required to be reported under *Government Auditing Standards* as of June 30, 2016.

2016-1	Criteria:	Several accounts on the 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 journal 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.
	Status:	While we proposed significant adjusting journal entries related to reclassifying capital assets from expenditures to balance sheet accounts, we did not identify issues of the same magnitude during the current year audit.