

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2022 and 2021



AMATICS
CPA GROUP

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

| FINANCIAL STATEMENTS | <u>Page</u> |
|---|--------------------|
| Independent auditors' report | 3 - 4 |
| Statements of net position | 5 |
| Statements of revenues, expenses and change in net position | 6 |
| Statements of cash flows | 7 - 8 |
| Notes to the financial statements | 9 - 19 |
| ADDITIONAL REPORTS | |
| Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 20 - 21 |
| Schedule of findings and responses | 22 |
| Status of prior year findings | 23 |



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Four Corners County Water and Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise a substantial doubt about Four Corners County Water and Sewer District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements



are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Four Corners County Water and Sewer District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Four Corners County Water and Sewer District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 Reporting Required by *Government Auditing Standards*

In accordance with the *Government Auditing Standards*, we have also issued our report dated November 16, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Amatics CPA Group
Bozeman, Montana
November 16, 2022

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2022 and 2021

ASSETS

| | 2022 | 2021 |
|---|---------------|---------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents, unrestricted | \$ 425,060 | \$ 617,862 |
| Board designated cash and cash equivalents | 1,292,670 | 581,037 |
| Board designated investments | 9,903,946 | 6,453,509 |
| Accounts receivable, net | 280,059 | 375,038 |
| Taxes receivable | 27,849 | 57,495 |
| Unbilled service revenue | 129,997 | 159,309 |
| Due from other governments | 35,974 | 50,391 |
| Inventory | 209,261 | - |
| Prepaid expenses | 15,395 | - |
| Total current assets | 12,320,211 | 8,294,641 |
| NONCURRENT ASSETS | | |
| Restricted cash and cash equivalents | 1,439,350 | 187,540 |
| Restricted investments | - | 621,440 |
| Prepaid bond insurance | 301,936 | - |
| Total noncurrent assets | 1,741,286 | 808,980 |
| PROPERTY AND EQUIPMENT , net of depreciation | 41,596,727 | 37,468,380 |
| Total assets | \$ 55,658,224 | \$ 46,572,001 |

LIABILITIES AND NET POSITION

| | | |
|---|---------------|---------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 833,871 | \$ 916,016 |
| Payroll liabilities | 51,613 | 41,489 |
| Note payable, current | 22,745 | 6,796 |
| Water and wastewater system bonds, current | 973,000 | 1,453,415 |
| Accrued interest | 626,829 | 17,292 |
| Total current liabilities | 2,508,058 | 2,435,008 |
| LONG-TERM LIABILITIES | | |
| Water and wastewater system bonds, noncurrent | 30,100,693 | 29,083,359 |
| Note payable, noncurrent | 33,440 | 32,104 |
| Total long-term liabilities | 30,134,133 | 29,115,463 |
| Total liabilities | 32,642,191 | 31,550,471 |
| NET POSITION | | |
| Restricted for debt service | 1,439,350 | 808,980 |
| Net invested in capital assets | 10,466,849 | 6,916,584 |
| Unrestricted | 11,109,834 | 7,295,966 |
| Total net position | 23,016,033 | 15,021,530 |
| Total liabilities and net position | \$ 55,658,224 | \$ 46,572,001 |

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 | |
|---|-----------------------------|-----------------------------|
| | 2022 | 2021 |
| OPERATING REVENUES | | |
| Charges for services | <u>\$ 11,230,276</u> | <u>\$ 7,692,886</u> |
| OPERATING EXPENSES | | |
| Personnel | 858,265 | 692,150 |
| Accounting | 18,574 | 17,300 |
| Bank charges | 1,298 | 1,217 |
| Bad debt | 13,694 | 3,495 |
| Consulting | 28,045 | 3,283 |
| Engineering | 66,545 | 67,266 |
| Insurance | 88,815 | 54,618 |
| Legal fees | 41,781 | 39,403 |
| Licenses and permits | 14,921 | 9,613 |
| Miscellaneous | 3,462 | 3,972 |
| Office expenses and supplies | 190,641 | 226,338 |
| Utilities, water and sewer use | <u>641,468</u> | <u>607,342</u> |
| Total operating expenses | <u>1,967,509</u> | <u>1,725,997</u> |
| Operating income | <u>9,262,767</u> | <u>5,966,889</u> |
| NON-OPERATING REVENUE (EXPENSES) | | |
| Interest income | 31,943 | 14,061 |
| Other income | 15,000 | - |
| Depreciation expense | (1,364,455) | (1,024,383) |
| Interest expense | (826,272) | (643,536) |
| Bond issuance costs | (446,133) | - |
| Property taxes levied | <u>1,321,653</u> | <u>1,318,995</u> |
| Total non-operating revenues (expenses) | <u>(1,268,264)</u> | <u>(334,863)</u> |
| Contributed capital | <u>-</u> | <u>869,000</u> |
| CHANGE IN NET POSITION | 7,994,503 | 6,501,026 |
| NET POSITION, beginning of year | <u>15,021,530</u> | <u>8,520,504</u> |
| NET POSITION, end of year | <u><u>\$ 23,016,033</u></u> | <u><u>\$ 15,021,530</u></u> |

See the accompanying independent auditors' report.

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

| | Years Ended June 30 | |
|---|---------------------|--------------|
| | 2022 | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 11,354,567 | \$ 7,591,742 |
| Payments to employees | (848,141) | (685,402) |
| Payments to suppliers and agencies | (1,416,045) | (1,986,536) |
| Net cash provided by operating activities | 9,090,381 | 4,919,804 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of water and wastewater assets | (5,459,384) | (2,679,248) |
| Net purchases of investments | (2,748,709) | (1,740,779) |
| Investment income | 27,450 | 11,778 |
| Net cash used by investing activities | (8,180,643) | (4,408,249) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Tax receipts and other income (expense) | 1,380,716 | 1,286,354 |
| Interest received on delinquent tax notices | 4,493 | 2,283 |
| Net cash provided by noncapital financing activities | 1,385,209 | 1,288,637 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Payments on long term debt | (307,571) | (1,220,190) |
| Interest paid | (216,735) | (645,152) |
| Net cash used by capital and related financing activities | (524,306) | (1,865,342) |
| NET INCREASE (DECREASE) IN CASH | 1,770,641 | (65,150) |
| Cash at beginning of year | 1,386,439 | 1,451,589 |
| CASH AT END OF YEAR | \$ 3,157,080 | \$ 1,386,439 |
| Classified As: | | |
| Cash and cash equivalents - unrestricted | \$ 425,060 | \$ 617,862 |
| Board designated cash and cash equivalents | 1,292,670 | 581,037 |
| Restricted cash and cash equivalents | 1,439,350 | 187,540 |
| Total cash and cash equivalents | \$ 3,157,080 | \$ 1,386,439 |

See the accompanying independent auditors' report.

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

| | Years Ended June 30 | |
|---|---------------------|--------------|
| | 2022 | 2021 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 9,262,767 | \$ 5,966,889 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 94,979 | (53,707) |
| Unbilled service revenue | 29,312 | (47,437) |
| Inventory | (209,261) | - |
| Prepaid expenses | (15,395) | 1,000 |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | (82,145) | (953,689) |
| Payroll liabilities | 10,124 | 6,748 |
| | (172,386) | (1,047,085) |
| Net cash provided by operating activities | \$ 9,090,381 | \$ 4,919,804 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS: | | |
| Non-cash transactions: | | |
| Capital contributed | \$ - | \$ 869,000 |
| Asset additions through bonds payable | \$ - | \$ 4,533,359 |
| Bonds payable refunded through issuance of bonds payable | \$ 19,299,337 | \$ - |
| Bond issuance costs paid through issuance of bonds payable | \$ 436,244 | \$ - |
| Bond insurance premiums paid through issuance of bonds payable | \$ 311,825 | \$ - |
| Interest expense paid through issuance of bonds payable | \$ 147,430 | \$ - |
| Asset additions financed through note payable | \$ 33,419 | \$ 34,529 |

See the accompanying independent auditors' report.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 and cash equivalents are 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, 2022 and 2021

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 requirements and covenants.

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.

Inventory

Inventory consists of water meters stated at cost.

Prepaid Bond Insurance

As a result of the Series 2021A and 2021B bond issuances, the District paid bond insurance premiums. The bond insurance is being amortized over the life of the bonds.

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.

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.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 |

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, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Lease Guidance

The District adopted GASB Statement No. 87, *Leases*, for the year ended June 30, 2022. This statement enhances the relevance and consistency of information related to leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset. The adoption of the standard did not have a significant impact on the District's financial statements.

Reclassifications

Certain reclassifications have been made to the 2021 balances to conform to the 2022 presentation. The reclassifications did not have an effect on previously reported net position.

2. CASH AND CASH EQUIVALENTS

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

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Cash | \$ 819,163 | \$ 877,913 |
| Money market funds | 967,598 | 508,526 |
| Held by bond trustee - money market funds | 1,369,675 | - |
| Undeposited funds | 644 | - |
| | \$ 3,157,080 | \$ 1,386,439 |

The District maintains cash balances in separate bank accounts at a financial institution. Account balances are insured up to \$250,000 by the FDIC. The balances in excess of the federally insured limits totaled \$2,165,072 and \$1,327,435 for the years ended June 30, 2022 and 2021, respectively.

As a result of the refunding bond issuances during the year ended June 30, 2022, the District has money market funds held by the bond trustee to be used for debt service and other bond requirements, which is reported in restricted cash and cash equivalents on the statement of net position.

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.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

3. INVESTMENTS (Continued)

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 \$9,903,946 and \$6,453,509 for the years ended June 30, 2022 and 2021, 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.

5. CAPITAL ASSETS

Capital assets of the District for the years ended June 30, 2022 and 2021, consisted of the following:

| | <u>Balance, June 30, 2021</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>Balance, June 30, 2022</u> |
|-------------------------------------|-----------------------------------|---------------------|---------------------------------|-----------------------------------|
| Water and wastewater infrastructure | \$ 25,296,695 | \$ 919,394 | \$ 815,098 | \$ 27,031,187 |
| Water and wastewater piping | 15,496,577 | - | - | 15,496,577 |
| Construction in progress | 908,803 | 4,530,501 | (815,098) | 4,624,206 |
| Vehicles | 153,986 | 33,419 | - | 187,405 |
| Sewer equipment | 104,650 | 9,488 | - | 114,138 |
| Office equipment | <u>21,766</u> | <u>-</u> | <u>-</u> | <u>21,766</u> |
| | 41,982,477 | 5,492,802 | - | 47,475,279 |
| Less: accumulated depreciation | <u>(4,514,097)</u> | <u>(1,364,455)</u> | <u>-</u> | <u>(5,878,552)</u> |
| Property and equipment, net | <u>\$ 37,468,380</u> | <u>\$ 4,128,347</u> | <u>\$ -</u> | <u>\$ 41,596,727</u> |
| | <u>Balance, June 30, 2021</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance, June 30, 2022</u> |
| 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, 2022 and 2021

5. CAPITAL ASSETS (Continued)

| | <u>Balance, June 30, 2020</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>Balance, June 30, 2021</u> |
|-------------------------------------|-----------------------------------|---------------------|---------------------------------|-----------------------------------|
| 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 | <u>21,766</u> | <u>-</u> | <u>-</u> | <u>21,766</u> |
| | 33,865,822 | 8,116,655 | - | 41,982,477 |
| 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> |
| | <u>Balance, June 30, 2020</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance, June 30, 2021</u> |
| 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> |

Depreciation expense for the years ended June 30, 2022 and 2021, was \$1,364,455 and \$1,024,383, respectively.

Construction in progress for the year ended June 30, 2022, includes various projects that have contracts to complete. The estimated costs to complete the other projects included in construction in progress at June 30, 2022, are \$9,398,000 and all projects are expected to be completed in the years ending June 30, 2023 and 2024.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the years ended June 30, 2022 and 2021:

| | <u>Balance, June 30, 2021</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance, June 30, 2022</u> | <u>Due within one year</u> |
|--|-----------------------------------|----------------------|------------------------|-----------------------------------|--------------------------------|
| Coal Severance Tax Loan \$ | 2,391,067 | \$ - | \$ (2,391,067) | \$ - | \$ - |
| Water Pollution Control State Revolving Loan | 8,242,000 | - | (8,242,000) | - | - |
| Water System Revenue Bond, Series 2015 | 2,829,399 | - | (2,829,399) | - | - |
| Special Assessment Bond, Series 2015 | 5,994,308 | - | (5,994,308) | - | - |
| Wastewater System Special Assessment Bond Series 2019B | 10,780,000 | - | (134,000) | 10,646,000 | 273,000 |
| Wastewater System Bonds Series 2019A | 300,000 | - | - | 300,000 | - |
| Special Assessment Refunding Bonds, Series 2021A | - | 13,850,000 | - | 13,850,000 | 470,000 |
| Revenue Refunding Bonds, Series 2021B | - | 4,460,000 | - | 4,460,000 | 230,000 |
| GM Financial | 13,926 | - | (6,796) | 7,130 | 7,130 |
| GM Financial | 24,974 | - | (403) | 24,571 | 7,823 |
| GM Financial | - | 33,419 | (8,935) | 24,484 | 7,792 |
| | <u>30,575,674</u> | <u>18,343,419</u> | <u>(19,606,908)</u> | <u>29,312,185</u> | <u>995,745</u> |
| | <u>Balance, June 30, 2021</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance, June 30, 2022</u> | <u>Due within one year</u> |
| Unamortized bond premiums | | | | | |
| Series 2021A | - | 1,118,870 | (33,566) | 1,085,304 | - |
| Series 2021B | - | 770,936 | (38,547) | 732,389 | - |
| | <u>-</u> | <u>1,889,806</u> | <u>(72,113)</u> | <u>1,817,693</u> | <u>-</u> |
| | <u>\$ 30,575,674</u> | <u>\$ 20,233,225</u> | <u>\$ (19,679,021)</u> | <u>\$ 31,129,878</u> | <u>\$ 995,745</u> |

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

6. LONG-TERM DEBT (Continued)

| | <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 | - |
| GM Financial | 20,403 | - | (6,477) | 13,926 | 6,796 |
| GM Financial | - | 33,529 | (8,555) | 24,974 | - |
| | <u>\$ 27,226,935</u> | <u>\$ 4,566,888</u> | <u>\$ (1,218,149)</u> | <u>\$ 30,575,674</u> | <u>\$ 1,460,211</u> |

Long-term debt obligations consist of the following at June 30, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|--|-------------|--------------|
| Obligation to the State of Montana, requires semi-annual payments of \$102,287 including interest at 3.0%, matures November 2035. Refunded during the year ended June 30, 2022 through the Series 2021A and 2021B bonds. | \$ - | \$ 2,391,067 |
| Obligation to the State of Montana, requires estimated semi-annual payments of \$227,000, including interest and administrative fees totaling 3.50%, matures January 2046. Refunded during the year ended June 30, 2022 through the Series 2021A and 2021B bonds. | - | 8,242,000 |
| 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. Refunded during the year ended June 30, 2022 through the Series 2021A and 2021B bonds. | - | 2,829,399 |
| 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. Refunded during the year ended June 30, 2022 through the Series 2021A and 2021B bonds. | - | 5,994,308 |

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

6. LONG-TERM DEBT (Continued)

| | 2022 | 2021 |
|--|---------------|---------------|
| Obligation to the State of Montana, requires estimated semi-annual payments of \$269,000, including interest at 2.50%, matures July 2049. The loan is secured by the special assessments against all taxable properties in the District. | 10,646,000 | 10,780,000 |
| 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 2049, including interest at 2.50%. The loan is secured by the special assessments against all taxable properties in the District. | 300,000 | 300,000 |
| Special Assessment Refunding Bonds Series 2021A, requires semi-annual interest payments at 4.0% and annual principal payments, maturing on July 2046. The bonds are secured by special assessments against all taxable properties in the District. | 13,850,000 | - |
| Revenue Refunding Bonds Series 2021B, requires semi-annual interest payments at 4.0% and annual principal payments, maturing July 2036. The bonds are secured by revenues generated from purchased assets. | 4,460,000 | - |
| Note payable to GM Financial, requires annual payments of \$7,481 including interest at 4.82%, maturing April 2023. The note is secured by a vehicle. | 7,130 | 13,926 |
| Note payable to GM Financial, requires annual payments of \$8,958 including interest at 4.52%, maturing July 2025. The note is secured by a vehicle. | 24,571 | 24,974 |
| Note payable to GM Financial, requires annual payments of \$8,935 including interest at 4.57%, maturing July 2025. The note is secured by a vehicle. | 24,484 | - |
| | 29,312,185 | 30,575,674 |
| Less current portion | (995,745) | (1,460,211) |
| Plus unamortized bond premiums | 1,817,693 | - |
| | \$ 30,134,133 | \$ 29,115,463 |

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

6. 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> |
|----------------------|----------------------|----------------------|----------------------|
| 2023 | \$ 995,745 | \$ 891,379 | \$ 1,887,124 |
| 2024 | 906,340 | 857,241 | 1,763,581 |
| 2025 | 939,100 | 824,532 | 1,763,632 |
| 2026 | 954,000 | 790,625 | 1,744,625 |
| 2027 | 987,000 | 756,325 | 1,743,325 |
| 2028 to 2032 | 5,505,000 | 3,215,150 | 8,720,150 |
| 2033 to 2037 | 6,287,000 | 2,136,238 | 8,423,238 |
| 2038 to 2042 | 5,416,000 | 1,237,875 | 6,653,875 |
| 2043 to 2047 | 5,730,000 | 521,625 | 6,251,625 |
| 2047 to 2049 | <u>1,592,000</u> | <u>48,750</u> | <u>1,640,750</u> |
| | <u>\$ 29,312,185</u> | <u>\$ 11,279,740</u> | <u>\$ 40,591,925</u> |

Interest expense during the years ended June 30, 2022 and 2021 was \$826,272 and \$643,536, respectively. Interest capitalized for the years ended June 30, 2022 and 2021 was \$0 and \$188,702, respectively.

The Series 2021A and Series 2021B refunding resulted in bond premiums of \$1,118,870 and \$770,936, respectively, that are being amortized over the life the bonds. Amortization of the bond premiums for the year ended June 30, 2022 was \$72,113.

7. 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, 2022 and 2021, were as follows:

| <u>Balance, June 30, 2021</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance, June 30, 2022</u> |
|-----------------------------------|------------------|------------------|-----------------------------------|
| \$ 35,712 | \$ 66,193 | \$ (60,297) | \$ 41,608 |

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021**

7. COMPENSATED ABSENCES (Continued)

| <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 |

8. 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 \$22,299 and \$11,474 for the years ended June 30, 2022 and 2021, 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 \$55,143 and \$43,766 for the years ended June 30, 2022 and 2021, respectively.

9. SUBSEQUENT EVENTS

In November 2022, the requirements for the forgiveness of the \$300,000 forgiveable loan due to the State of Montana were met and the loan was forgiven. See Note 6.

Date of Management Evaluation

Management has evaluated subsequent events through November 16, 2022, 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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 16, 2022.

Report on 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as items 2022-IC-1 that we consider to be a material weakness.



Report on 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
November 16, 2022

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2022

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 material weakness required to be reported under *Government Auditing Standards* as of June 30, 2022.

| | | |
|------------------|------------------------|--|
| 2022-IC-1 | Criteria: | The District should properly record and classify transactions in accordance with general accepted accounting principles. |
| | Condition: | During audit testing we noted that a deposit received after year end was recorded as received as of year end and included in revenues. In addition, during audit testing we noted that bond issuance transactions and the recording of bond payments were not recorded properly. |
| | Effect: | The District's cash balance was materially overstated and revenues was materially overstated, due to the improper recording of the transaction. In addition, the improper recording of the bond issuance transactions and the recording of bond payments resulted in a material misstatement for bond issuance costs, prepaid bond insurance, and bonds payables balances. The recording of this transaction did have a material impact on the net position of the District. |
| | Cause: | The District made an error in recording the cash deposit. The District did not obtain detailed information regarding the bond issuance and the District's understanding of payments made to the bond trustee resulted in improper recording of bond transactions and balances. |
| | Recommendation: | The District should develop a process to ensure that transactions are properly recorded in accordance with generally accepted accounting principles. |
| | Response: | The District has implemented a system to review deposits in transit and revenue in order to make sure that they are recorded in the appropriate period. The District has adjusted how it is recording its bond payments to agree with a transfer to a trust fund and one annual lump sum payment and made notes in its records to make sure that any future bond issuance costs are appropriately expensed rather than capitalized and amortized. |

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATUS OF PRIOR YEAR FINDINGS
June 30, 2022

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.
- Status: We noted no issues during current year testing of payroll transactions.