

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT

**Financial Statements
with
Independent Auditors' Report**

June 30, 2014 and 2013

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

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, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of 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.

As discussed in Note 1, the financial statements present only the Four Corners County Water and Sewer District and do not purport to, and do not present fairly the financial position of Gallatin County, as of June 30, 2014 and 2013, the changes in its financial position, or where applicable, its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Reid & Company, PLLC

Bozeman, Montana
February 4, 2015

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

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash	\$ 72,531	\$ 81,520
Accounts receivable, net	83,977	75,484
Taxes receivable	36,629	24,421
Unbilled service revenue	34,937	27,498
Due from other governments	16,959	15,703
Total Current Asset	<u>245,033</u>	<u>224,626</u>
Property and Equipment		
Water and sewer infrastructure	11,426,626	-
Less: accumulated depreciation	<u>(190,444)</u>	<u>-</u>
Total Property and Equipment	<u>11,236,182</u>	<u>-</u>
Total Assets	<u>\$ 11,481,215</u>	<u>\$ 224,626</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 67,222	\$ 118,630
Accrued interest	301,611	-
Contract payable	<u>50,478</u>	<u>29,999</u>
Total Current Liabilities	<u>419,311</u>	<u>148,629</u>
Long Term Liabilities		
Capital lease	<u>11,426,626</u>	<u>-</u>
Total Long Term Liabilities	<u>11,426,626</u>	<u>-</u>
Total liabilities	<u>11,845,937</u>	<u>148,629</u>
Net Position		
Net Position, Beginning of Year	75,997	(599,702)
Restatements of Prior Year (Note 7)	<u>-</u>	<u>627,281</u>
Restated Prior Year Net Position	75,997	27,579
Net Increase (Decrease) in Net Position	<u>(440,719)</u>	<u>48,418</u>
Net Position, End of Year	<u>(364,722)</u>	<u>75,997</u>
Total Unrestricted Net Position	<u>(364,722)</u>	<u>75,997</u>
Total Liabilities and Net Position	<u>\$ 11,481,215</u>	<u>\$ 224,626</u>

The accompanying notes are an integral part of these statements.

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

	2014	2013
Increases in Unrestricted Net Position		
Operating Revenues		
Charges for services	\$ 876,647	\$ 714,432
Total revenue	876,647	714,432
Decreases in Unrestricted Net Position		
Operating Expenses		
Accounting	32,789	17,065
Bank charges	-	1,083
Bad debt	83	2,231
Engineering	14,255	-
Insurance	1,682	1,556
Late charges	40	-
Legal fees	13,300	10,770
Licenses and permits	760	786
Miscellaneous	775	831
Office supplies	1,258	1,751
Operating contract	720,780	720,780
Water and sewer use	815,387	684,932
Total operating expenses	1,601,109	1,441,785
Operating loss	(724,462)	(727,353)
Non-Operating Revenues (Expenses)		
Interest income	2,431	8,471
Depreciation expense	(190,444)	-
Interest expense	(301,611)	-
Theft loss	-	(3,480)
Property taxes	773,367	770,780
Total non-operating revenues	283,743	775,771
Net Increase (Decrease) in Net Position	(440,719)	48,418
Net Position, Beginning of Year	75,997	(599,702)
Restatements of Prior Year (Note 7)	-	627,281
Restated Prior Year Net Position	75,997	27,579
Net Position, End of Year	\$ (364,722)	\$ 75,997

The accompanying notes are an integral part of these statements.

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

	2014	2013
Cash Flows From Operating Activities		
Receipts from customers	\$ 860,715	\$ 659,685
Payments to suppliers and agencies	(1,632,038)	(1,485,013)
Net Cash Used by Operating Activities	(771,323)	(825,328)
Cash Flows From Financing Activities		
Tax receipts	759,903	825,830
Interest received on delinquent tax notices	2,431	8,471
Net Cash Provided by Financing Activities	762,334	834,301
Net (Decrease) Increase in Cash	(8,989)	8,973
Cash at Beginning of Year	81,520	72,547
Cash at End of Year	\$ 72,531	\$ 81,520
Reconciliation of Operating Loss to Net Cash Used By Operating Activities		
	2014	2013
Operating loss	\$ (724,462)	\$ (727,353)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Increase in operating assets		
Accounts receivable	(8,493)	(47,839)
Unbilled service revenue	(7,439)	(6,908)
(Decrease) Increase in operating liabilities		
Accounts payable	(51,408)	12,579
Contract payable	20,479	(55,807)
Net Cash Used by Operating Activities	\$ (771,323)	\$ (825,328)

The accompanying notes are an integral part of these statements.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

In determining the financial reporting entity, the District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Measurement Focus and Basis of Accounting

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

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

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

Reclassifications

Certain reclassifications have been made to the fiscal 2013 financial statement presentation to correspond to the current year's format. Net position and changes in net position are unchanged due to these reclassifications.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies (Continued)

Cash and Investments

The District is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP). As of June 30, 2014 and 2013, the District had no investments. The District does not have a policy regarding custodial credit risk in relation to the District's deposits. For the purpose of the cash flow statement, cash and cash equivalents are considered to be cash on hand, deposits in demand accounts and money market accounts.

Revenues and Expenses

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

Accounts Receivable

The District's accounts receivable relate to utility services provided to the consumers of the District. Allowance for uncollectible accounts is determined by the board.

Unbilled Service Revenue

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

Taxes Payable

Taxes payable consists of amounts levied to tax payers that are to be remitted to Utility Solutions, LLC (a third party billing and collection service provider to the District) in accordance with their contract. See Note 4 for further discussion on taxes payable.

Tax Revenue

Property taxes are levied in accordance with Title 7, Chapter 13, Part 23, Montana Code Annotated. The District provides the amount of taxes to be levied on each applicable property and submits this information to the County Treasurer by September 15th. Real property taxes are generally billed in October and are payable one half by November 30 and one half by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month from the time of delinquency until paid plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies (Continued)

Net Position

The District adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position in the year ended June 30, 2013. Statement 63 provides a net position format to report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Proprietary fund net position is classified in the following categories:

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

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

Unrestricted net position - all other net position is reported in this category.

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

Budget

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

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through February 4, 2015, the date on which the financial statements were available to be issued.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement

During the year, the District implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, (“GASB No. 65”), which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Under GASB No. 65, deferred tax revenue will not be reported as Deferred Inflow of Resources instead of as a liability.

2. Cash

For the years ended June 30, 2014 and 2013, the District had ending bank balances of \$111,568 and \$75,782, respectively. All amounts are in noninterest bearing transaction accounts, so they are FDIC insured up to \$250,000. At June 30, 2014 and 2013, there were no uninsured amounts; however at times during the year cash balances may exceed the limit.

3. Accounts Receivable

As of June 30, 2014 and 2013, the outstanding accounts receivable balances and related allowances for uncollectible accounts are as follows:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 100,208	\$ 91,715
Allowance for uncollectible accounts	(16,231)	(16,231)
Net accounts receivable	<u>\$ 83,977</u>	<u>\$ 75,484</u>

4. Commitment

The District has a service agreement with Utility Solutions, LLC, to provide water and wastewater services. Rates for this agreement vary by user categories and are in part based on volume. This agreement expires on January 1, 2017. For the years ended June 30, 2014 and 2013, the District expensed Utility Solutions, LLC, \$815,387 and \$684,932 for these services, respectively. The accounts payable balances as of June 30, 2014 and 2013 were \$65,589 and \$118,604, respectively represented in the unpaid amounts for services to Utility Solutions.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2014 and 2013

4. Commitment (continued)

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

For the fiscal years 2014 and 2013, the levies were \$773,367 and \$770,780, of which \$720,780 was to be paid to Utility Solutions, LLC in both years.

As of June 30, 2014 and 2013, taxes payable of \$50,478 and \$29,999 were due to Utility Solutions, LLC. The June 30, 2014 payable is expected to be fully paid in fiscal year 2015.

In fiscal year 2015, the District agreed to contract with Utility Solutions to lease water distribution mains and sewer main collection lines for an initial annual cost of \$560,860 with Utility Solutions responsible for all maintenance to the leased property. The District agreed to levy taxes on an annual basis for the first three years in the amount not less than \$770,780 to provide Utility Solutions reasonable assurance of the District's ability to continue to perform this agreement. The District may retain the first \$50,000 annually of this levied amount for its normal operating expenses. The District has agreed to pay Utility Solutions tax funds collected up to a total payment of \$560,860 during the first year of the lease and \$612,000 the second year of the lease and thereafter noting these amounts may be adjusted for inflation and any increased capital investment by Utility Solutions in subsequent years. The District will retain any tax collections over these amounts in the first two years of the lease. Subsequent to the first two years, the District is required to assess sufficient taxes to meet its operating expenses, establish a reasonable reserve and to pay Utility Solutions the amounts due. The District's obligation to this contract will continue for thirty years.

As part of this contract, the District is required to work with Utility Solutions to negotiate and close terms of a sale of all Utility Solutions water and sewer treatment assets, including water rights to the District. If a sale does not occur within thirty years of the lease agreement, the District may purchase all assets at the end of the term for the price of \$1. However, the District does not have an obligation to do so. This contract results in a capital lease. See Note 5 for further discussion on the capital lease.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2014 and 2013

5. Capital Lease

In fiscal year 2014, the District entered into agreement (see Note 4) with Utility Solutions, LLC to lease the water and sewer infrastructure and water rights related to water and sewer distribution in the District. Leased equipment under the capital lease as of June 30, 2014 is reported at \$11,426,626 based upon the present value of the future minimum lease payments. This asset is depreciated on the straight-line method over 30 years. The depreciation expense for the year end June 30, 2014 was \$190,444.

Capital lease obligations at June 30, 2014, and the changes for the fiscal year then ended are as follows:

Balance as of June 30, 2013	\$	-
Additions		11,426,626
Reductions		<u>-</u>
Balance as of June 30, 2014	\$	<u>11,426,626</u>
Due within one year	\$	<u>560,860</u>

The following presents the future minimum lease payments as of June 30, 2014:

FY2015	\$	560,860
FY2016		612,000
FY2017		622,404
FY2018		632,984
FY2019		643,746
Thereafter		<u>8,354,632</u>
	\$	<u>11,426,626</u>

6. Theft Loss

During fiscal year 2013, the District hired a certified public accounting firm to complete a forensic audit the billings and collections of the District. The report concluded \$8,579 of payments received on account were not ultimately deposited into the District's bank account. In the year ended June 30, 2012, the prior auditor reported a theft loss in the amount of \$5,099. The remaining amount of \$3,480 was recorded as a theft loss in the year ended June 30, 2013.

Four Corners County Water and Sewer District
Notes to the Financial Statements
June 30, 2014 and 2013

7. Restatement of Prior Year Net Position

In fiscal year 2013, it was noted that the 2012 audited financial statements reported contract (taxes) payable in the amount of \$756,281; however, this amount was overstated and did not reflect payments made to Utility Solutions, LLC for taxes received in fiscal years 2011 and 2012.

The fiscal year 2012 audited financial statements reported accounts receivable, net of allowance in the amount of \$51,488; however, this amount was overstated and did not reflect collections received in fiscal year 2012.

Further, unbilled service revenue and accounts payable were not reported as of June 30, 2012 in the amount of \$20,590 and \$43,461, respectively. The following table summarizes the restatement of prior year net position to reflect the above mentioned items:

Net Position, June 30, 2012, per audited financial statements	\$	(599,702)
Unbilled service revenue		20,590
Accounts receivable		(20,323)
Accounts payable		(43,461)
Contract payable		<u>670,475</u>
Restated net position as of June 30, 2012	\$	<u>27,579</u>

The above adjustments increased the change in net position by \$627,281 in 2012 and had no impact on the 2014 and 2013 change in net position.

8. 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).

9. Risk management

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



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Four Corners Water and Sewer District ("the District"), as of and for the years ended June 30, 2014 and 2013, 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 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Redd & Company, PLLC

Bozeman, Montana
February 4, 2015

**Four Corners County Water and Sewer District
Schedule of Findings and Responses and Status of Prior Year Audit Findings
For Year Ended June 30, 2014**

No Current Year Audit Findings

Status of Prior Year Audit Findings

2013-1 – Lack of Accounting Expertise
Implemented

2013-2 – Lack of Control over Cash Receipts
Implemented