

**COUNTY WATER DISTRICT OF
BILLINGS HEIGHTS**

Audited Financial Statements

June 30, 2019 and 2018

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Audited Financial Statements

Table of Contents

	<u>Page</u>
Management Discussion and Analysis	1 - 5
Independent Auditors' Report	6 - 7
Financial Statements:	
Statements of Net Position	8 - 9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12 – 24
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit Of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 – 27
Schedule of Findings	28
Current Status of Prior Year Recommendations	29
Independent Auditors' Report on Compliance with Bond Resolution	30

MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of the County Water District of Billings Heights' (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements that begin on page 8.

HIGHLIGHTS

Financial Highlights

- The District's net position increased by \$691,908 or 4.02% as a result of this year's operations as compared to an increase of approximately \$693,279 (4.19%) for the year ended June 30, 2018.
- Operating revenues increased by \$75,040 or 1.60%. Water usage revenue decreased \$214,041, service line fees increased by \$645,135, system buy-in fees decreased approximately \$349,258 and miscellaneous operating revenues decreased by \$6,796. The decrease in water usage revenue was primarily due to the decrease in water usage as a result of a wet spring in the area in 2019.
- Operating expenses for the year increased by \$135,725 or 3.30%. Water purchased decreased by \$123,781 or 5.59% over 2018. Most other expenses remained relatively stable over the prior year; inflationary costs affected most expense categories. An increase was noted in depreciation with the new Ox Bow water main and reservoir being put into use.
- The District invested \$155,097 in capital assets during the year ended June 30, 2019. The increase was primarily attributable to purchases of meters and reservoir improvements.
- Due to an increase in revenues, the board designated capital improvement funds increased by approximately \$165,325 or 1.93%.
- The District has three loans from the State of Montana, through its Drinking Water State Revolving Fund Program. The loans bear interest at 3.00% and 2.50%. The loans are payable in semi-annual payments over 20 years.

Authority Highlights

- The District continued to proceed on several initiatives relating to updating the water distribution system and planning for future growth in terms of District boundaries, local development, and number of consumers.
- The District's service area continues to experience development which is putting additional strain on the existing infrastructure.
- Rate increases were implemented by the District in 2016, 2015, 2014, and 2013 in response to increases in rates by the District's supplier of water. Management had determined that they would pass on the rate increases imposed by its supplier of water over a three-year period. No rate changes have occurred since 2016.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis, and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities and provides answers to such questions as "from where did cash come?", "for what was cash used?", and "what was the change in cash balance during the reporting period?".

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?". The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes to them. You can think of the District's net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will also need to consider non-financial factors such as changes in economic conditions, population growth, new or changed legislation, and the District's relation to the City of Billings, the District's provider of water.

The District's net position increased from June 30, 2018 to June 30, 2019 by \$691,908. The increase mainly related to higher overall revenues for the year as a result of weather conditions, and an increase in various expenses. The increase in the prior year, from June 30, 2017 to June 30, 2018 was \$693,279. Our analysis focuses on the District's net position (Table 1) and changes in net position (Table 2) during the years. The June 30, 2017 financials were restated for correction of an error.

Table 1

	<u>2019</u>	<u>2018</u>	Restated <u>2017</u>
Current Assets	\$ 1,985,765	\$ 1,100,476	\$ 2,488,186
Capital Assets	13,203,933	13,793,250	10,186,047
Investments and Other Assets	<u>8,732,963</u>	<u>8,567,638</u>	<u>7,839,449</u>
Total Assets	<u>\$ 23,922,661</u>	<u>\$ 23,461,364</u>	<u>\$ 20,513,682</u>
Current Liabilities	\$ 1,087,003	\$ 1,078,574	\$ 495,187
Customer Deposits	218,875	214,915	213,150
Long-Term Liabilities	<u>4,698,000</u>	<u>4,941,000</u>	<u>3,271,749</u>
Total Liabilities	<u>\$ 6,003,878</u>	<u>\$ 6,234,489</u>	<u>\$ 3,980,086</u>
Net Position:			
Net Investment in Capital Assets	\$ 8,262,933	\$ 8,613,250	\$ 6,685,298
Investment Funds, Board			
Designated and Restricted	8,732,963	8,567,638	7,839,449
Unrestricted	738,504	(138,396)	1,824,446
Restricted: Loan Reserve Account	<u>184,383</u>	<u>184,383</u>	<u>184,383</u>
Total Net Position	<u>\$ 17,918,783</u>	<u>\$ 17,226,875</u>	<u>\$ 16,533,596</u>

During the fiscal year ended June 30, 2003, the District paid off the remaining long-term debt obligation related to construction of its original infrastructure. The District has been able to pay for water distribution system improvements and other capital asset acquisitions with net operating income and long-term debt, thereby minimizing the need to draw down on board designated capital improvement investment funds.

During the year ended June 30, 2017, the District received a \$2,200,000 loan from the State of Montana and the Drinking Water State Revolving Fund Program to pay for improvements of the water distribution system and other capital assets.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the years.

Table 2

	<u>2019</u>	<u>2018</u>	Restated <u>2017</u>
Water Sales	\$ 3,797,573	\$ 4,011,614	\$ 4,291,147
Other Operating Revenues	973,313	684,232	838,491
Non-Operating Revenues	<u>168,002</u>	<u>108,688</u>	<u>126,985</u>
Total Revenues	\$ 4,938,888	\$ 4,804,534	\$ 5,256,623
Operating Expenses	<u>4,246,980</u>	<u>4,111,255</u>	<u>3,032,765</u>
Change in Net Position	\$ 691,908	\$ 693,279	\$ 2,223,858
Net Position, Beginning of Year	<u>17,226,875</u>	<u>16,533,596</u>	<u>14,309,739</u>
Net Position, End of Year	<u>\$ 17,918,783</u>	<u>\$ 17,226,875</u>	<u>\$ 16,533,596</u>

Total revenues reflect an increase of 2.8% from 2018 to 2019 as a result of an increase in service line fees along with a reduction in water usage revenues and system buy-in fees. The revenues reflected a decrease of 7.9% from 2017 to 2018 as a result of a decrease in water sales due to a wetter fall and spring. The District also changed their rate system and went to a 3-tier conservation system in 2017.

Operating expenses increased slightly by approximately 3.3% from 2018 to 2019. Operating expenses increased by approximately 35.6% from 2017 to 2018. Expense increased significantly due a supplier calculation error, while most other operating expenses were comparable.

THE DISTRICT'S FUNDS

The County Water District of Billings Heights was established on August 29, 1958 and revenue bonds were issued in 1963 to fund construction of the District's original water distribution system. The "1-1-63 Bond Resolution", as it was called, required the District to maintain six separate funds. The final bonds were paid off on January 2, 2003 and use of the six separate funds was discontinued at the end of that fiscal year. Currently the District maintains a single proprietary fund which reports all revenues and expenses of the District.

CAPITAL ASSETS

As of June 30, 2019, the District had \$21,911,161 invested in a broad range of capital assets including its water distribution system, pump stations, meters and related equipment, maintenance equipment, vehicles, and office equipment. This amount represents a net increase of \$115,075, or 0.53% over the prior year. During the year ended June 30, 2018, capital assets increased by approximately \$4,227,760. That increase was primarily attributable to capital improvements for a major update to the water delivery system, water main, meters, pump stations, and maintenance equipment.

ECONOMIC FACTORS AND FUTURE RATES

The number of services billed for the June 2019 billing cycle (5,714) was up by 72 meters over the prior year. Continuing commercial and residential development within and surrounding the District will continue to put strains on the water distribution system and additional capital assets will be necessary to satisfactorily service the District's customers.

Effective with the August 2016, 2015, 2014, and 2013 billing cycles, rate increases were adopted by the District's Board of Directors. No rate increase occurred in 2017 or 2018. The District's sole provider of water, the City of Billings, Montana, adopted new rates that increased the District's cost of water purchased. It was the District's intention to pass the increased costs on to its consumers over three-year phase-in periods.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's general manager at County Water District of Billings Heights, 1540 Popelka Drive, Billings, Montana 59105.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
County Water District of Billings Heights
Billings, Montana

Summers McNea, P.C.
80 25th Street West
Billings, Montana 59102
406.652.2320
Toll-Free: 1.800.468.5333
Fax: 406.652.2043
www.summers-mcnea.com

Report on the Financial Statements

We have audited the accompanying statements of net position of County Water District of Billings Heights (a county water district as defined in Title 7, Chapter 13, Parts 22 & 23, Montana Code Annotated) as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of County Water District of Billings Heights as of June 30, 2019 and 2018, and the respective 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019, on our consideration of County Water District of Billings Heights' 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 County Water District of Billings Heights internal control over financial reporting and compliance and should be read in conjunction with this report in considering the results of our audit. This report is included in its entirety on pages 25 through 27 of this financial report.



Summers, McNea & Company, P.C.
Certified Public Accountants

November 4, 2019

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Statements of Net Position

June 30, 2019 and 2018

ASSETS

Current Assets	<u>2019</u>	<u>2018</u>
Cash and Equivalents-Unrestricted	\$ 1,251,756	\$ 474,551
Cash and Equivalents-Restricted	184,383	184,383
Accounts Receivable-Customers	383,814	337,995
Materials and Supplies	107,612	99,277
Prepaid Expenses	58,200	4,270
Total Current Assets	<u>\$ 1,985,765</u>	<u>\$ 1,100,476</u>
Capital Assets		
Land	\$ 245,961	\$ 245,961
Water Distribution System	20,136,004	20,027,389
Maintenance Equipment and Vehicles	841,536	835,076
Structures and Improvements	560,845	560,845
Office Furniture and Equipment	126,815	126,815
Total Capital Assets	<u>\$ 21,911,161</u>	<u>\$ 21,796,086</u>
Less Accumulated Depreciation	<u>(8,707,228)</u>	<u>(8,002,836)</u>
Net Capital Assets	<u>\$ 13,203,933</u>	<u>\$ 13,793,250</u>
Non-Current Assets		
Restricted Assets:		
Investments	<u>\$ 8,732,963</u>	<u>\$ 8,567,638</u>
Total Assets	<u><u>\$ 23,922,661</u></u>	<u><u>\$ 23,461,364</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Statements of Net Position

June 30, 2019 and 2018

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current Portion of Long-Term Liabilities	\$ 243,000	\$ 239,000
Accounts Payable	771,605	766,414
Payroll Tax and Withholding Liabilities	983	1,093
Accrued Liability for Compensated Absences	71,415	72,067
Customer Deposits	<u>218,875</u>	<u>214,915</u>
Total Current Liabilities	\$ 1,305,878	\$ 1,293,489
 Long-Term Liabilities		
Long-Term Debt, net of Current Maturities	4,698,000	4,941,000
 Commitments and Contingencies	<u>-</u>	<u>-</u>
 Total Liabilities and Deferred Credits	\$ 6,003,878	\$ 6,234,489
 Net Position		
Unrestricted Net Position:		
Unrestricted	\$ 738,504	\$ (138,396)
Net Investment in Capital Assets	8,262,933	8,613,250
Board Designated:		
Capital Improvement Funds	8,732,963	8,567,638
Restricted Net Position:		
Loan Reserve Account	<u>184,383</u>	<u>184,383</u>
Total Net Position	<u>\$ 17,918,783</u>	<u>\$ 17,226,875</u>
 Total Liabilities and Net Position	<u><u>\$ 23,922,661</u></u>	<u><u>\$ 23,461,364</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water Usage	\$ 3,797,573	\$ 4,011,614
System Buy-In Fees	41,898	391,156
Service Line Fees	842,326	197,191
Other Operating Revenue	89,089	95,885
Total Operating Revenues	<u>\$ 4,770,886</u>	<u>\$ 4,695,846</u>
Operating Expenses		
Water Purchased	\$ 2,092,063	\$ 2,215,844
Depreciation	744,414	620,557
Salaries and Wages	510,874	483,723
Employee Benefits	251,810	213,547
Payroll Taxes	41,449	39,067
Bad Debts	2,669	1,208
Director Fees	14,350	14,050
Gas, Fuel and Oil	14,411	11,357
Insurance	65,749	51,530
Interest Expense	140,471	144,866
Miscellaneous Expenses	16,534	10,478
Office Expenses	52,497	31,933
Postage	21,439	19,895
Professional Fees	105,776	86,785
Repairs and Maintenance-Distribution System	111,392	83,695
Repairs and Maintenance-Other	6,128	19,711
Subscriptions and Legal Notices	134	1,187
Supplies-Operations	6,692	9,871
Taxes	5,164	7,154
Telephone and Communications	4,148	4,414
Travel and Training	1,345	400
Utilities	37,471	39,983
Total Operating Expenses	<u>\$ 4,246,980</u>	<u>\$ 4,111,255</u>
Operating Income	<u>\$ 523,906</u>	<u>\$ 584,591</u>
Non-Operating Revenues (Expenses)		
Investment Income	<u>\$ 168,002</u>	<u>\$ 108,688</u>
Change in Net Position	<u>\$ 691,908</u>	<u>\$ 693,279</u>
Net Position - Beginning	<u>17,226,875</u>	<u>16,533,596</u>
Net Position - Ending	<u><u>\$ 17,918,783</u></u>	<u><u>\$ 17,226,875</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts From Customers	\$ 4,729,027	\$ 4,861,982
Payments to Suppliers	(3,048,877)	(2,441,984)
Payments to Employees	(511,526)	(483,126)
Net Cash Provided by Operating Activities	<u>\$ 1,168,624</u>	<u>\$ 1,936,872</u>
Cash Flows From Capital and Related Financing Activities		
Principal Payments on Long-Term Debt	\$ (239,000)	\$ (231,000)
Proceeds from Long-Term Debt	-	1,910,251
Purchases of Capital Assets	(155,097)	(4,227,760)
Net Cash (Used) by Capital and Related Financing Activities	<u>\$ (394,097)</u>	<u>\$ (2,548,509)</u>
Cash Flows From Investing Activities		
Proceeds From Sales and Maturities of Investments	\$ 1,010,000	\$ 1,746,278
Purchase of Investments	(1,175,324)	(2,474,466)
Investment Income	168,002	108,688
Net Cash Provided (Used) by Investing Activities	<u>\$ 2,678</u>	<u>\$ (619,500)</u>
Net Increase (Decrease) in Cash and Equivalents	\$ 777,205	\$ (1,231,137)
Cash and Equivalents - Beginning of Year	<u>658,934</u>	<u>1,890,071</u>
Cash and Equivalents - End of Year	<u><u>\$ 1,436,139</u></u>	<u><u>\$ 658,934</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 523,906	\$ 584,591
Depreciation	744,414	620,557
Changes in Assets and Liabilities:		
Accounts Receivable	(45,819)	164,371
Materials and Supplies	(8,335)	(3,528)
Prepaid Expenses	(53,930)	(4,270)
Accounts Payable	5,190	572,648
Payroll Tax and Withholding Liabilities	(110)	141
Accrued Liability for Compensated Absences	(652)	597
Customer Deposits	3,960	1,765
Net Cash Provided by Operating Activities	<u><u>\$ 1,168,624</u></u>	<u><u>\$ 1,936,872</u></u>
Supplemental Information:		
Interest Paid	<u><u>\$ 129,865</u></u>	<u><u>\$ 132,137</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Operations

County Water District of Billings Heights (the District) was organized on August 29, 1958 as a quasi-governmental organization under Title 7, Chapter 13, Parts 22 and 23, Montana Code Annotated. At the time of its organization, the District was formed to provide an adequate water supply and distribution system for an unincorporated area northeast of Billings, Montana, commonly referred to as "Billings Heights". Subsequent to the District's organization and completion of the water supply and distribution system, a large part of the District's service area has been annexed into the City of Billings, Montana, but the District continues to serve those annexed areas.

The County Water District of Billings Heights is governed by a Board of Directors. The Board of Directors is granted broad powers under Montana laws and the District's governing documents. The Board of Directors consists of seven (7) individuals. Five (5) Board members are elected for four-year terms in elections held every two years. The terms are staggered so that no more than three terms expire in a single election year. Two (2) Board members are appointed; one (1) each by the City of Billings, Montana and the County of Yellowstone Montana.

Day-to-day operations of the District are managed by a general manager hired by the Board of Directors.

Basis of Accounting

County Water District of Billings Heights maintains its accounting records and prepares its financial statements on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Operating revenues are defined as revenues derived from water usage, system buy-in and tap fees, and miscellaneous revenues related to the sale and distribution of water. Non-operating revenues include interest income and proceeds from the sale of capital assets.

The original construction of the District's water supply and distribution system was financed through the issuance of revenue bonds under a resolution known as "1-1-63 Bond Resolution". In accordance with that resolution, the District was required to utilize six (6) specific funds in accounting for the District's operations: gross income fund; operations and maintenance fund; acquisition fund; bond retirement fund; capital improvement and replacement fund; and reserve fund. In all years prior to the year ending June 30, 2004, the District prepared its financial statements on a fund basis in accordance with the "1-1-63 Bond Resolution".

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of Accounting – Continued

On January 2, 2003, the final installment on the revenue bonds was paid. Accordingly, the accounting requirements under the “1-1-63 Bond Resolution” are no longer applicable as all outstanding bonds were retired on that date. Consequently, management of the District adopted the financial reporting model prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments* for fiscal years subsequent to June 30, 2003.

Cash and Cash Equivalents

The District considers all highly liquid investments with original maturities of less than three (3) months when purchased to be cash equivalents for purposes of the statements of cash flows. However, board designated capital improvement funds are generally restricted as to use and, accordingly, such investments and cash balances are excluded from cash and cash equivalents even when specific investments and cash balances meet the “three month” definition.

Bad Debts

The District has consistently utilized the direct write-off method of accounting for bad debts which is not an accounting principle generally accepted in the United States of America. However, because the District can effectively control and limit bad debts through their policy of requiring advance customer deposits and of discontinuing service to delinquent customers, the District’s bad debts are inconsequential and therefore its policy is not considered to be a material departure from accounting principles generally accepted in the United States of America.

Materials and Supplies

Materials and supplies consist primarily of items used for the maintenance of the water supply and distribution system and is stated at the lower of cost (determined on the first-in, first-out basis) or market.

Capital Assets

Cost of capital assets acquired from third parties is recorded at actual cost less proceeds from certain grants and other reimbursements. Prior to December 13, 2006, the District had not adopted a formal capitalization policy and, accordingly, substantially all long-lived assets had been capitalized when acquired. On December 13, 2006, a capitalization policy of \$1,000 was approved by the Board.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital Assets (Continued)

The annual costs of replacing and adding service meters are capitalized and depreciated utilizing the useful lives disclosed below. When the meters become fully depreciated, the cost and related accumulated depreciation are removed from the capital asset accounts as it is impracticable to account for individual meters.

Real estate developers and other property owners construct water distribution system infrastructure to District specifications. If such specifications cost in excess of the amount that would have been incurred in meeting the requirements under local building codes, the District reimburses the third party for the excess cost. Whereas all such infrastructure added by real estate developers and other property owners becomes a part of the District's infrastructure, only the excess cost paid by the District is capitalized on the District's books.

Depreciation of capital assets is provided utilizing the straight-line method over the following estimated lives:

	Estimated Life
	<u>In Years</u>
Main Lines, Reservoirs, and Service Lines	25 - 50
Meters	5 - 15
Maintenance Equipment and Vehicles	5 - 10
Buildings and Improvements	5 - 39
Office Furniture and Equipment	5 - 10

Investments

Investments are stated at market value and, in accordance with the District's investment policy, consist primarily of United States Government obligations or certificates of deposit which are fully insured by the United States Government. As of June 30, 2019 and 2018, the cost of investments approximated their market value.

Customer Deposits

The District requires all customers to pay an advance deposit prior to their obtaining service. Interest at the rate of 6% per annum is paid on the customer deposits and is credited to each customer's monthly billing on the annual anniversary month of the deposit payment.

Use of Resources

It is the District's policy to utilize restricted resources only if and when unrestricted resources are depleted.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income Taxes

As a quasi-governmental organization, the District is exempt from federal and state income taxes. Accordingly, there is no provision for income taxes in the accompanying financial statements.

Budgeting

Although the District prepares an operating budget for purposes of financial management of operations and accountability to the Board of Directors, the District is not legally required to do so.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS:

As of June 30, 2019 and 2018, cash and equivalents consisted of the following:

<u>Unrestricted</u>	<u>2019</u>	<u>2018</u>
Petty Cash	\$ 250	\$ 250
Non-Interest Bearing Accounts	18,396	5,251
Interest Bearing Accounts:		
Unrestricted	1,233,110	469,050
Restricted – Loan Reserve (a)	<u>184,383</u>	<u>184,383</u>
Total Cash and Equivalents	<u>\$ 1,436,139</u>	<u>\$ 658,934</u>

- (a) Under the terms of the bond resolution related to the Department of Natural Resources and Conservation revolving loan program (see Note 5), the District must maintain minimum reserves so long as the loans are outstanding.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

3. CAPITAL ASSETS:

Capital assets activity for the years ended June 30, 2019 and 2018 was as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2019</u>
Land	\$ 245,961	\$ -	\$ -	\$ 245,961
Water Distribution System	20,027,389	148,637	(40,022)	20,136,004
Maintenance Equipment and Vehicles	835,076	6,460	-	841,536
Structures and Improvements	560,845	-	-	560,845
Office Furniture and Equipment	<u>126,815</u>	<u>-</u>	<u>-</u>	<u>126,815</u>
	\$ 21,796,086	\$ 155,097	\$ (40,022)	\$ 21,911,161
Accumulated Depreciation	<u>(8,002,836)</u>	<u>(744,414)</u>	<u>40,022</u>	<u>(8,707,228)</u>
Net Capital Assets	<u>\$ 13,793,250</u>	<u>\$ (589,317)</u>	<u>\$ -</u>	<u>\$ 13,203,933</u>

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Land	\$ 245,961	\$ -	\$ -	\$ 245,961
Water Distribution System	15,829,958	4,197,431	-	20,027,389
Maintenance Equipment and Vehicles	804,747	30,329	-	835,076
Structures and Improvements	560,845	-	-	560,845
Office Furniture and Equipment	<u>126,815</u>	<u>-</u>	<u>-</u>	<u>126,815</u>
	\$ 17,568,326	\$ 4,227,760	\$ -	\$ 21,796,086
Accumulated Depreciation	<u>(7,382,279)</u>	<u>(620,557)</u>	<u>-</u>	<u>(8,002,836)</u>
Net Capital Assets	<u>\$ 10,186,047</u>	<u>\$ 3,607,203</u>	<u>\$ -</u>	<u>\$ 13,793,250</u>

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

4. INVESTMENTS:

As disclosed previously, the District's basis of accounting was prescribed by the "1-1-63 Bond Resolution" prior to the fiscal year ended June 30, 2004. Such resolution required certain minimum investments to be maintained so long as any revenue bonds remained outstanding. In addition, during the year ended June 30, 2006, the District contracted preparation of a capital improvement plan that identified \$15,000,000 of improvements to the District's infrastructure of which \$7,864,000 were identified as first priority projects. The original water supply and distribution system components are now approximately fifty-five (55) years of age, and the Board has anticipated that future system repair and replacement costs could eventually exceed funds generated from annual operations. Accordingly, prior to the termination of the "1-1-63 Bond Resolution" the Board of Directors elected to fund the Capital Improvement and Replacement Fund under that resolution in excess of the amounts required. Except as noted below, subsequent to the expiration of the "1-1-63 Bond Resolution" on January 2, 2003, the Board of Directors has not taken any action to un-designate capital improvement funds.

Accordingly, the accompanying financial statements have been prepared in accordance with previous Board designations. As a result of the designation of investments as capital improvement funds and the practice of periodically transferring all excess operating funds to the investment accounts, the unrestricted net position of the District ended the June 30, 2006 fiscal year with a deficit balance of \$5,277. Accordingly, on December 13, 2006 the Board designated \$100,000 of the investment funds as an operating reserve. The unrestricted net position of the District also ended the June 30, 2012 and 2011 fiscal years with deficit balances of \$(385,409) and \$(317,798), respectively. On November 14, 2012 the Board designated \$245,000 of the investment funds as an operating reserve. Also, during the year ended June 30, 2013, a \$500,000 note payable to the Department of Natural Resources and Conservation (Loan A) was forgiven since the District satisfied the requirements set forth in the 2011 resolution and this amount was reclassified to unrestricted net position. Additional investment funds could be designated as operating reserves at its discretion subject to a Board resolution to cure any deficit. The unrestricted net position of the District ended the June 30, 2019 and 2018 fiscal year with a surplus of \$738,504 and a deficit of (\$138,396), respectively.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

4. INVESTMENTS (Continued):

The balance of investments restricted for capital asset additions and improvements as of June 30, 2019 and 2018 consisted of the following:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Federally Insured Certificates of Deposit - Various certificates of deposit with yields ranging from 1.25% to 3.45% and varying maturities as of June 30, 2019 ranging from July 25, 2019 to February 7, 2023: Face Value	\$ 8,598,281	\$ 8,458,280
Cash Fund with a yield of .35% as of June 30, 2019	76,760	35,264
Accrued Interest Receivable	25,333	22,356
Unamortized Premiums (Discounts)	<u>32,589</u>	<u>51,738</u>
	<u>\$ 8,732,963</u>	<u>\$ 8,567,638</u>

5. PLEDGED ASSETS AND LONG-TERM DEBT:

Long-Term debt at June 30, 2019 and 2018 is as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
\$538,000, 3.00% note payable to Department of Natural Resources and Conservation (Loan B) due in semi-annual installments ranging from \$17,680 to \$18,645, including interest, through January, 2031, secured by a revenue bond (a)	\$ 351,000	\$ 377,000
\$2,987,000, 2.50% note payable to Department of Natural Resources and Conservation due in semi- annual installments ranging from \$94,863 to \$95,863, including interest, through January, 2036, secured by a revenue bond	2,564,000	2,689,000
\$2,200,000, 2.50% note payable to Department of Natural Resources and Conservation due in semi- annual installments ranging from \$69,763 to \$70,738, including interest, through January, 2036, secured by a revenue bond	<u>2,026,000</u>	<u>2,114,000</u>
	\$ 4,941,000	\$ 5,180,000
Less Current Maturities	<u>(243,000)</u>	<u>(239,000)</u>
Total Long-Term Debt	<u>\$ 4,698,000</u>	<u>\$ 4,941,000</u>

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

5. PLEDGED ASSETS AND LONG-TERM DEBT (Continued):

- (a) In September 2010, the State of Montana Department of Natural Resources and Conservation (DNRC), through its Drinking Water State Revolving Fund Program approved a loan to the District in the amount of \$1,038,000 which was represented and secured by a Revenue Bond in the amount of \$1,038,000. Loan A was for \$500,000 and was forgiven upon successful completion of the program requirements. Loan B is for \$538,000 for a term of 20 years at an interest rate of 3.00% per annum. Loan B was refinanced to obtain a lower interest rate (from 3.75%) during the year ended June 30, 2014

The loan proceeds for all loans were borrowed for the purpose of designing, engineering, constructing, and installing certain improvements to the District's water system, including water main replacement, acquisition and installation of pumps, construction of reservoir, and other improvements and expansions.

The current aggregate maturities of long-term debt for the years ending June 30 are as follows:

2020	243,000
2021	250,000
2022	257,000
2023	262,000
2024	271,000
Thereafter	<u>3,658,000</u>
Total	<u>\$4,941,000</u>

6. COMMITMENTS AND CONTINGENCIES:

On June 18, 1963, the District entered into an exclusive water supply contract with the City of Billings, Montana. Under the agreement, which has no expiration date, the District and the City of Billings, Montana each agree to furnish, operate and maintain, at their own expense, all water supply and distribution lines and equipment from/to the point of delivery of such water supply. The agreement requires the City of Billings to provide a minimum water supply, but reserves the right to restrict the use of water by the District in the event that a shortage of water makes it necessary to impose restrictions. However, any such restrictions shall be no different than those imposed within the City of Billings own water delivery system.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

6. COMMITMENTS AND CONTINGENCIES (Continued):

The agreement with the City of Billings further sets an initial water rate charge to be paid by the District to the City of Billings and limits future increases to that which it simultaneously applies to all other users of the City's water.

If for any reason, the City of Billings should fail to provide the contracted water supply to the District, there is no alternative source of water supply for the District's customers. Total water purchased by the District for the years ended June 30, 2019 and 2018 was \$2,092,063 and \$2,215,844, respectively. The amount payable for purchased water reflected in accounts payable in the accompanying statements of net position is \$760,096 and \$753,470 as of June 30, 2019 and 2018, respectively. (Also, see Note 13 for contingency and subsequent event.)

As noted in Note 4 to the financial statements, the District has identified \$15,000,000 in capital improvement projects of which \$7,864,000 were identified as first priority projects. The original water supply and distribution system is now approximately 55 years old and the District must provide for new infrastructure as a result of growth within and surrounding the District's boundaries. Although management pursues federal monies to partially fund these costs, revenue bonds or similar municipal-type bonds could be issued to finance a portion of these anticipated costs.

7. RETIREMENT PLAN:

The District maintains a 401(k) defined contribution profit sharing plan covering substantially all employees meeting minimal eligibility requirements. Under the plan, the District matches employee contributions up to 10% of 50% of eligible compensation (effective rate of 5% of eligible compensation). The District may also make discretionary profit sharing contributions to the plan in an amount determined by the Board of Directors. Employee contributions to the plan are fully vested immediately; employer contributions are vested 20% per year such that after five (5) years of service they are fully vested with the employee.

All funding of the profit sharing plan is made on a monthly basis such that there were no unfunded contributions to the plan as of June 30, 2019 and 2018. Total retirement plan contributions for the years ended June 30, 2019 and 2018 amounted to \$45,775 and \$43,238, respectively. The adoption of the profit sharing plan was made under a prototype document which has been qualified by the Internal Revenue Service under Internal Revenue Code §401(a).

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

8. COMPENSATED ABSENCES:

On January 8, 1997, the District Board of Directors adopted a compensated absences policy that states unused sick leave accumulates at the rate of one (1) day per month per employee, of which twenty-five percent (25%) is paid to employees at termination of employment at the employees pay rate then in effect. Effective August 10, 2011, the District Board of Directors adopted a policy that states vacation leave may be accumulated to a total not to exceed (2) two times the maximum number of days earned annually as of the end of the first pay period of the next calendar year. Excess vacation time is not forfeited if taken within 90 calendar days from the last day of the calendar year in which the excess was accrued. Vacation is earned based on how many years of employment the employee has with the District. Upon termination of employment, unused earned vacation will be paid at the current rate of pay after completion of the qualifying period.

9. CONCENTRATIONS:

The District maintains its primary bank accounts in two financial institutions located in Billings, Montana. Those balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. Certificates of deposit held for investment purposes are held with various financial institutions throughout the United States and those balances are insured by the FDIC. Temporarily idle investment funds are maintained in cash deposits at brokerage firms which may or may not be federally insured. At June 30, 2019, the District's uninsured balances totaled \$1,174,091.

The District is engaged primarily in the delivery of water service to its customers. Assets that potentially subject the District to concentrations of credit risk consist primarily of trade accounts receivable. The District performs ongoing credit evaluations of its customers but generally requires no collateral except for minimal customer deposits. The customer base consists of water consumers within the District's geographical boundaries. As described above the District's sole available source of supply for water is the City of Billings, Montana.

10. WATER RATES:

The minimum water rate charged per month varies from \$17.55 per gallon to \$264.56 per gallon for the first 3,300 gallons of water used depending upon the consumer's meter size. All gallons over 3,300 per month are charged at the rate of \$3.88 per 1,000 gallons up to 20,000 gallons. The rate on the next 30,000 gallons is \$4.66 per 1,000 gallons. For usage in excess of 50,000 gallons, the rate is \$5.59 per 1,000 gallons. The number of meters billed for the month of June 2019 was 5,714.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

11. RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees and natural disaster. During the fiscal year ended June 30, 2019, the District was insured with private insurance carriers for errors and omissions, liability, property, and crime damage. Coverage under those insurance policies was as follows:

Non-Profit Organization Liability Policy for	
Directors and Officers Including Employment Practices	\$ 1,000,000
Commercial General Liability	3,000,000
Commercial Excess Liability	1,000,000
Commercial Automobile Liability	1,000,000
Commercial Automobile Physical Damage	Insured Values
Building and Contents	1,546,284
Equipment	Insured Values
Inland Marine	152,280
Crime Insurance:	
Employee Dishonesty, Forgery, Alteration, Theft	50,000
Computer Fraud	25,000

The District has had no significant reduction in insurance coverage from prior years. The District has had no settlements exceed insurance coverage in recent years.

The District maintains a premium based health care insurance plan through Blue Cross Blue Shield called Blue Dimensions for substantially all full-time employees. Effective January 1, 2013, the District switched to this health insurance plan due to cost savings associated with the new plan.

Workers' compensation insurance coverage is maintained by paying premiums to the Montana State Fund, the default workers' compensation insurance provider for all employers in the State of Montana. The premium is calculated based upon accident history and administrative costs.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

12. FAIR VALUE MEASUREMENTS:

The County Water District of Billings Heights is required to disclose the fair value for financial instruments, whether or not recognized in the statements of net position. A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both impose a contractual obligation on one entity to deliver cash or another financial instrument to a second entity. The following methods and assumptions were used by the County Water District of Billings Heights in estimating the fair value of its financial instruments:

Financial Assets: Due to the liquid nature of the instruments, the carrying value of cash and cash equivalents approximates fair value. The fair value of receivables approximates book value as the District expects contractual receipt in the near-term. Prepaid expenses represent payments made for next fiscal year's expenses and are recorded at fair value. Investments are valued as disclosed in Notes 1 and 4 based on quoted market prices and as of June 30, 2019 and 2018 cost approximates fair value.

Financial Liabilities: The fair value of accounts payable and accrued expenses approximates book value due to contractual payment in the near-term. The fair value of the District's long-term debt is estimated based on the borrowing rates currently available for loans with similar terms and average maturities. The fair value of the long-term debt and carrying value is estimated to be the same.

13. SUBSEQUENT EVENTS AND CONTINGENCY:

Subsequent to June 30, 2018 the County Water District received an invoice from the City of Billings (water supplier) for past, previously unbilled, water charges that were the result of errors made by the City of Billings in converting water to and from gallons from another unit of measurement. Those errors by the City of Billings began in approximately December of 2014 and were not discovered and corrected for over two years. The total error asserted by the City of Billings and billed to the County Water District amounted to approximately \$2.5 million for that period of time.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2019 and 2018

13. SUBSEQUENT EVENTS AND CONTINGENCY (Continued):

The District's legal counsel has advised the District that "Montana law states that if a public utility makes a billing error, it can only collect back on the error over six months.". However, legal counsel has also advised the District that: "There has been no litigation under Montana's statute and it is difficult to say if a court would apply the statute to limit the City of Billing's claim." If that law were applied the County Water District has determined it would owe approximately \$550,000 and has accrued a liability as of June 30, 2018 for that amount with a charge to water purchased in the accompanying financial statements. The matter is not currently in litigation and efforts are being made in an attempt to settle the dispute. Although, the District intends to present a vigorous defense, if unsuccessful, the amount of the liability to the City of Billings would be the entire approximate amount of \$2.5 million invoiced.

Other than the contingent liability as noted above, management has evaluated subsequent events and is unaware of any other events subsequent to November 4, 2019, the date of the independent auditor's report, that are required to be disclosed under accounting principles generally accepted in the United States of America.

**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**

Summers McNea, P.C.
80 25th Street West
Billings, Montana 59102
406.652.2320
Toll-Free: 1.800.468.5333
Fax: 406.652.2043
www.summers-mcnea.com

Board of Directors
County Water District of Billings Heights
Billings, Montana

We have audited, 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, the financial statements of County Water District of Billings Heights, which comprise the statement of net position for the year ended June 30, 2019 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered County Water District of Billings Heights's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Water District of Billings Height's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Water District of Billings Height'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

#2019-1 - Segregation of Duties and Financial Statement Preparation –

The administrative staff of the District is very small, in terms of the number of personnel, with a general manager who fulfills management-level administrative responsibilities, and two full time office staff that perform substantially all of the bookkeeping and accounting functions including billing, cash receipts, disbursements, posting of transactions, reconciliations, etc. A good internal control structure contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. Under the circumstances, it is simply impossible to provide all of the desirable internal control procedures due to the inability to adequately segregate personnel functions without incurring the costs of hiring additional personnel. While we recognize that the organization is not large enough to permit adequate segregation of duties in all respects, it is important that management be aware of this condition and for the Board to remain proactive in authorizing and reviewing transactions and accounting data and records.

In addition, the organization does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements. This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Finding #2019-1 is a repeat finding of #2018-1 reported in the prior year report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether County Water District of Billings Height's financial statements are free of 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County Water District of Billings Heights Response to Finding

County Water District of Billings Heights' response to the finding #2019-1 identified in our audit is described in the accompanying Schedule of Findings and Responses on Page 28. We did not audit County Water District of Billings Heights' response 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 result 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.

A handwritten signature in blue ink that reads "Summers, McNea & Company, P.C.".

Summers, McNea & Company, P.C.
Certified Public Accountants

November 4, 2019

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS
Schedule of Findings and Responses
For the Years Ended June 30, 2019 and 2018

Finding #2019-1 – Segregation of Duties and Financial Statement Preparation – Significant Deficiency

Criteria - County Water District of Billings Heights is a small organization with limited personnel and thus limited ability to segregate duties. Further, the Organization does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited.

Condition – A good internal control structure contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. Management requested us to draft the financial statements and accompanying notes to those financial statements.

Cause – Although the circumstance is not unusual for an organization of this size, the absence of controls over segregation of duties and preparation of financial statements increases the possibility that a misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the Organization's internal control.

Effect – This significant deficiency could result in a material misstatement to the financial statements.

Recommendation – It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. In order to mitigate the inability to segregate duties, management and the Board of Directors should continue to exercise effective oversight.

Views of Responsible Officials – There is no disagreement with the finding and management and those charged with governance are aware of the significant deficiencies and will continue to provide the appropriate oversight to mitigate the risk.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS
Current Status of Prior Year Recommendations
For the Years Ended June 30, 2019 and 2018

Finding

#2018-1 Segregation of Duties and
Financial Statement Preparation

Resolution

Repeat Finding. (See current year
finding #2019-1)

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH BOND RESOLUTION**

Board of Directors
County Water District of Billings Heights
Billings, Montana

Summers McNea, P.C.
80 25th Street West
Billings, Montana 59102
406.652.2320
Toll-Free: 1.800.468.5333
Fax: 406.652.2043
www.summers-mcnea.com

We have audited the financial statements of County Water District of Billings Heights (the District), as of and for the year ended June 30, 2019, and have issued our report thereon dated November 4, 2019.

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 of material misstatement.

Compliance with the provisions of the County Water District of Billings Heights' bond resolution relating to \$5,725,000 Water Revenue Bonds (DNRC Drinking Water State Revolving Loan Program) consisting of \$538,000 Series 2011 Bond, \$2,987,000 Series 2016 Bond, and \$2,200,000 Series 2017 Bond and related regulations is the responsibility of County Water District of Billings Heights' management. As a part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of County Water District of Billings Heights compliance with the bond resolution and related regulations. However, our objective was not to provide an opinion on overall compliance with the bond resolution and related regulations. Accordingly, we do not express an opinion of County Water District of Billings Heights compliance with those provisions.

The results of our audit procedures did not disclose any material instances of noncompliance with the requirements referred to above.

This report is intended solely for the information and use of the Board of Directors, management, the Department of Natural Resources and Conservation of the State of Montana, and the Department of Environmental Quality of the State of Montana and is not intended to be and should not be used by anyone other than these specified parties.



Summers, McNea & Company, P.C.
Certified Public Accountants

November 4, 2019