

**COUNTY WATER DISTRICT OF
BILLINGS HEIGHTS**

Audited Financial Statements

June 30, 2023 and 2022

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Audited Financial Statements

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COUNTY WATER DISTRICT OF BILLINGS HEIGHTS
June 30, 2023

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, 2023. Please read it in conjunction with the District's financial statements that begin on page 9.

HIGHLIGHTS

Financial Highlights

- The District's net position increased by \$553,171 or 3.38% as a result of this year's operations as compared to a decrease of approximately \$109,310 (0.006%) for the year ended June 30, 2022. The increase was mostly noted for a slight increase in revenue and decreased expenses.
- Operating revenues increased by \$388,344 or 7.50%. Water usage revenue increased \$218,960, service line fees increased by \$58,400, system buy-in fees decreased approximately \$389,550 and miscellaneous operating revenues and grants increased by \$500,500. The increase in water usage revenue was primarily due to the increase in water usage as a result of a hotter summer in the area in 2022.
- Operating expenses for the year decreased by \$225,916 or 4.20%. Water purchased increased slightly. Most other expenses remained relatively stable over the prior year; inflationary costs affected most expense categories. Decreases were noted in depreciation, professional fees, and insurance.
- The District invested \$724,897 in capital assets during the year ended June 30, 2023. The increase was primarily attributable to purchases of meters, chlorination and potable water project, and various equipment.
- The capital improvement funds stayed pretty steady from the prior year.
- 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 2022, 2021, 2019, 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.

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, 2022 to June 30, 2023 by \$553,171. The increase mainly related to revenue being higher for the year and some decreased expenses that were made. The decrease in the prior year, from June 30, 2021 to June 30, 2022 was related to revenue being lower along with increased expenses. Our analysis focuses on the District's net position (Table 1) and changes in net position (Table 2) during the years.

Table 1

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current Assets	\$ 1,090,141	\$ 1,068,248	\$ 1,745,506
Capital Assets	13,015,129	13,048,227	13,291,462
Investments and Other Assets	<u>6,975,791</u>	<u>6,835,943</u>	<u>9,265,056</u>
Total Assets	<u>\$ 21,081,061</u>	<u>\$ 20,952,418</u>	<u>\$ 24,302,024</u>
Current Liabilities	\$ 602,463	\$ 535,816	\$ 3,517,502
Customer Deposits	-	229,175	225,785
Long-Term Liabilities	<u>3,667,000</u>	<u>3,929,000</u>	<u>4,191,000</u>
Total Liabilities	<u>\$ 4,269,463</u>	<u>\$ 4,693,991</u>	<u>\$ 7,934,287</u>
Net Position:			
Net Investment in Capital Assets	\$ 9,086,129	\$ 8,857,227	\$ 8,843,462
Investment Funds, Board			
Designated and Restricted	6,791,408	6,651,560	6,653,019
Unrestricted	749,678	565,257	686,873
Restricted: Loan Reserve Account	<u>184,383</u>	<u>184,383</u>	<u>184,383</u>
Total Net Position	<u>\$ 16,811,598</u>	<u>\$ 16,258,427</u>	<u>\$ 16,367,737</u>

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.

The District received loans 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 between the years 2011 and 2017. These are reflected as liabilities on the financial statements.

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>2023</u>	<u>2022</u>	<u>2021</u>
Water Sales	\$ 4,815,130	\$ 4,596,172	\$ 4,879,852
Other Operating Revenues	746,454	577,068	605,871
Non-Operating Revenues	<u>143,428</u>	<u>95,207</u>	<u>150,503</u>
Total Revenues	\$ 5,705,012	\$ 5,268,447	\$ 5,636,226
Operating Expenses	<u>5,151,841</u>	<u>5,377,757</u>	<u>4,889,000</u>
Change in Net Position	\$ 553,171	\$ (109,310)	\$ 747,226
Net Position, Beginning of Year	16,258,427	16,367,737	18,006,763
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>(2,386,252)</u>
Net Position, End of Year	<u>\$ 16,811,598</u>	<u>\$ 16,258,427</u>	<u>\$ 16,367,737</u>

Total revenues reflect an increase of 8.30% from 2022 to 2023 as a result of an increase in grants received along with an increase in water usage revenues and decreased system buy-in fees. The revenues reflected a decrease of 6.50% from 2021 to 2022 as a result of a decrease in service line fees along with a decrease in water usage revenues. The District also changed their rate system and went to a 3-tier conservation system in 2017.

Operating expenses decreased slightly by approximately 4.2% from 2022 to 2023. The cost for insurance, depreciation, and professional fees were less during the year. Operating expenses increased by approximately 7.6% from 2021 to 2022 due to the cost of water and repairs. Most other operating expenses were comparable to the prior year.

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, 2023, the District had \$24,337,029 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 \$724,897, or 3.00% over the prior year. The majority of the increase was for additions to the water plant. During the year ended June 30, 2022, capital assets increased by approximately \$558,361. That increase was primarily attributable to capital improvements for a water transmission plant to aid in the water delivery system.

ECONOMIC FACTORS AND FUTURE RATES

The number of services billed for the June 2023 billing cycle (5,958) was up by 70 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 2022, 2021, 2019, 2016, 2015, and 2014 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 AUDITORS' REPORT

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

Report on the Financial Statements

Opinion

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, 2023 and 2022, 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.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County Water District of Billings Heights, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about County Water District of Billings Heights' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of County Water District of Billings Heights' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about County Water District of Billings Heights ability to continue as a going concern for a reasonable period of time.

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

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 10, 2023, 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 26 through 28 of this financial report.

Summers, McNea & Company, P.C.

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

November 10, 2023

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Statements of Net Position

June 30, 2023 and 2022

ASSETS

Current Assets	<u>2023</u>	<u>2022</u>
Cash and Equivalents-Unrestricted	\$ 564,281	\$ 496,498
Accounts Receivable-Customers	365,318	349,054
Materials and Supplies	158,348	152,280
Prepaid Expenses	2,194	70,416
Total Current Assets	<u>\$ 1,090,141</u>	<u>\$ 1,068,248</u>
Capital Assets		
Land	\$ 245,961	\$ 245,961
Water Distribution System	22,420,331	21,695,434
Maintenance Equipment and Vehicles	956,966	956,966
Structures and Improvements	575,033	575,033
Office Furniture and Equipment	138,738	138,738
Total Capital Assets	<u>\$ 24,337,029</u>	<u>\$ 23,612,132</u>
Less Accumulated Depreciation	<u>(11,321,900)</u>	<u>(10,563,905)</u>
Net Capital Assets	<u>\$ 13,015,129</u>	<u>\$ 13,048,227</u>
Non-Current Assets		
Restricted Assets:		
Cash and Equivalents-Restricted	\$ 184,383	\$ 184,383
Investments	6,791,408	6,651,560
Total Non-Current Assets	<u>\$ 6,975,791</u>	<u>\$ 6,835,943</u>
Total Assets	<u><u>\$ 21,081,061</u></u>	<u><u>\$ 20,952,418</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, 2023 and 2022

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
Current Liabilities		
Current Portion of Long-Term Liabilities	\$ 262,000	\$ 262,000
Accounts Payable	258,400	202,414
Payroll Tax and Withholding Liabilities	671	577
Accrued Liability for Compensated Absences	81,392	70,825
Customer Deposits	-	229,175
Total Current Liabilities	<u>\$ 602,463</u>	<u>\$ 764,991</u>
Long-Term Liabilities		
Long-Term Debt, net of Current Maturities	3,667,000	3,929,000
Commitments and Contingencies	<u>-</u>	<u>-</u>
Total Liabilities and Deferred Credits	\$ 4,269,463	\$ 4,693,991
Net Position		
Unrestricted Net Position:		
Unrestricted	\$ 749,678	\$ 565,257
Net Investment in Capital Assets	9,086,129	8,857,227
Board Designated:		
Capital Improvement Funds	6,791,408	6,651,560
Restricted Net Position:		
Loan Reserve Account	184,383	184,383
Total Net Position	<u>\$ 16,811,598</u>	<u>\$ 16,258,427</u>
Total Liabilities and Net Position	<u><u>\$ 21,081,061</u></u>	<u><u>\$ 20,952,418</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Water Usage	\$ 4,815,130	\$ 4,596,172
System Buy-In Fees	-	389,553
Service Line Fees	216,304	157,870
Grants and Other Operating Revenue	530,150	29,645
Total Operating Revenues	<u>\$ 5,561,584</u>	<u>\$ 5,173,240</u>
Operating Expenses		
Water Purchased	\$ 2,827,107	\$ 2,811,601
Depreciation	757,995	801,595
Salaries and Wages	606,648	630,008
Employee Benefits	271,673	271,647
Payroll Taxes	50,463	60,013
Bad Debts	-	639
Director Fees	9,950	11,400
Gas, Fuel and Oil	18,875	12,225
Insurance	81,132	143,187
Interest Expense	110,989	118,014
Miscellaneous Expenses	8,182	3,611
Office Expenses	57,445	67,216
Postage	28,441	24,300
Professional Fees	79,186	131,449
Repairs and Maintenance-Distribution System	140,010	151,413
Repairs and Maintenance-Other	18,640	63,112
Subscriptions and Legal Notices	855	5,846
Supplies-Operations	8,997	8,416
Taxes	7,897	4,188
Telephone and Communications	5,768	8,515
Travel and Training	2,023	287
Utilities	59,565	49,075
Total Operating Expenses	<u>\$ 5,151,841</u>	<u>\$ 5,377,757</u>
Operating Income (Loss)	<u>\$ 409,743</u>	<u>\$ (204,517)</u>
Non-Operating Revenues (Expenses)		
Investment Income	<u>\$ 143,428</u>	<u>\$ 95,207</u>
Change in Net Position	<u>\$ 553,171</u>	<u>\$ (109,310)</u>
Net Position - Beginning	<u>16,258,427</u>	<u>16,367,737</u>
Net Position - Ending	<u><u>\$ 16,811,598</u></u>	<u><u>\$ 16,258,427</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Receipts From Customers	\$ 5,316,145	\$ 5,654,590
Payments to Suppliers	(3,668,964)	(6,979,325)
Payments to Employees	(596,081)	(587,693)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,051,100</u>	<u>\$ (1,912,428)</u>
Cash Flows From Capital and Related Financing Activities		
Principal Payments on Long-Term Debt	\$ (262,000)	\$ (257,000)
Purchases of Capital Assets	(724,897)	(558,361)
Net Cash (Used) by Capital and Related Financing Activities	<u>\$ (986,897)</u>	<u>\$ (815,361)</u>
Cash Flows From Investing Activities		
Proceeds From Sales and Maturities of Investments	\$ 3,252,944	\$ 6,715,000
Purchase of Investments	(3,392,792)	(4,327,288)
Investment Income	143,428	95,207
Net Cash Provided by Investing Activities	<u>\$ 3,580</u>	<u>\$ 2,482,919</u>
Net Increase (Decrease) in Cash and Equivalents	<u>\$ 67,783</u>	<u>\$ (244,870)</u>
Cash and Equivalents - Beginning of Year	<u>680,881</u>	<u>925,751</u>
Cash and Equivalents - End of Year	<u><u>\$ 748,664</u></u>	<u><u>\$ 680,881</u></u>
On the Statement of Net Position as:		
Cash and Cash Equivalents-Unrestricted	\$ 564,281	\$ 496,498
Cash and Cash Equivalents-Restricted	184,383	184,383
Total Cash and Cash Equivalents	<u><u>\$ 748,664</u></u>	<u><u>\$ 680,881</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating Income	\$ 409,743	\$ (204,517)
Depreciation	757,995	801,595
Changes in Assets and Liabilities:		
Accounts Receivable	(16,264)	477,960
Materials and Supplies	(6,068)	(382)
Prepaid Expenses	68,222	(3,788)
Accounts Payable	55,986	(3,026,943)
Payroll Tax and Withholding Liabilities	94	(2,058)
Accrued Liability for Compensated Absences	10,567	42,315
Customer Deposits	(229,175)	3,390
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 1,051,100</u></u>	<u><u>\$ (1,912,428)</u></u>
Supplemental Information:		
Interest Paid	<u><u>\$ 104,470</u></u>	<u><u>\$ 118,014</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, 2023 and 2022

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 six (6) 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. One (1) Board member is appointed by the City of Billings, 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. Water usage revenues are recorded at the end of each month when the meters are read. 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, 2023 and 2022

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, 2023 and 2022

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, 2023 and 2022, the cost of investments approximated their market value.

Customer Deposits

The District required all customers to pay an advance deposit prior to their obtaining service. Interest at the rate of 6% per annum was paid on the customer deposits and was credited to each customer's monthly billing on the annual anniversary month of the deposit payment. The Board decided not to require deposits any longer and during the year ended June 30, 2023 refunded the deposits back to the customers.

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, 2023 and 2022

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, 2023 and 2022, cash and equivalents consisted of the following:

<u>Unrestricted</u>	<u>2023</u>	<u>2022</u>
Petty Cash	\$ 250	\$ 250
Non-Interest Bearing Accounts	310,491	245,302
Interest Bearing Accounts:		
Unrestricted	253,540	250,946
Restricted – Loan Reserve (a)	<u>184,383</u>	<u>184,383</u>
Total Cash and Equivalents	<u>\$ 748,664</u>	<u>\$ 680,881</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, 2023 and 2022

3. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2023 and 2022 was as follows:

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2023</u>
Land	\$ 245,961	\$ -	\$ -	\$ 245,961
Water Distribution System	21,695,434	724,897	-	22,420,331
Maintenance Equipment and Vehicles	956,966	-	-	956,966
Structures and Improvements	575,033	-	-	575,033
Office Furniture and Equipment	<u>138,738</u>	<u>-</u>	<u>-</u>	<u>138,738</u>
	\$ 23,612,132	\$ 724,897	\$ -	\$ 24,337,029
Accumulated Depreciation	<u>(10,563,905)</u>	<u>(757,995)</u>	<u>-</u>	<u>(11,321,900)</u>
Net Capital Assets	<u>\$ 13,048,227</u>	<u>\$ (33,098)</u>	<u>\$ -</u>	<u>\$ 13,015,129</u>

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2022</u>
Land	\$ 245,961	\$ -	\$ -	\$ 245,961
Water Distribution System	21,150,003	545,431	-	21,695,434
Maintenance Equipment and Vehicles	944,036	12,930	-	956,966
Structures and Improvements	575,033	-	-	575,033
Office Furniture and Equipment	<u>138,738</u>	<u>6,236</u>	<u>-</u>	<u>138,738</u>
	\$ 23,053,771	\$ 558,361	\$ -	\$ 23,612,132
Accumulated Depreciation	<u>(9,762,309)</u>	<u>(801,596)</u>	<u>-</u>	<u>(10,563,905)</u>
Net Capital Assets	<u>\$ 13,291,462</u>	<u>\$ (243,235)</u>	<u>\$ -</u>	<u>\$ 13,048,227</u>

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS
Notes to Financial Statements
June 30, 2023 and 2022

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-nine (59) 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, 2023 and 2022 fiscal year with a surplus of \$749,678 and \$565,257, respectively.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2023 and 2022

4. INVESTMENTS (Continued)

The balance of investments restricted for capital asset additions and improvements as of June 30, 2023 and 2022 consisted of the following:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Federally Insured Certificates of Deposit and Treasury Bills -		
Various CD's and T-Bills with yields		
ranging from 0.20% to 4.95% and varying		
maturities as of June 30, 2023 ranging		
from July 15, 2023 to November 2, 2026:		
Face Value	\$ 6,509,502	\$ 5,356,348
Cash Fund with a yield of .15%		
as of June 30, 2023	273,595	1,264,561
Accrued Interest Receivable	44,593	17,657
Unamortized Premiums (Discounts)	<u>(36,282)</u>	<u>12,994</u>
	<u>\$ 6,791,408</u>	<u>\$ 6,651,560</u>

5. PLEDGED ASSETS AND LONG-TERM DEBT

Long-Term debt at June 30, 2023 and 2022 is as follows:

	<u>June 30, 2023</u>	<u>June 30, 2022</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)	\$ 243,000	\$ 271,000
 \$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	2,035,000	2,172,000
 \$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>1,651,000</u>	<u>1,748,000</u>
	\$ 3,929,000	\$ 4,191,000
Less Current Maturities	<u>(262,000)</u>	<u>(262,000)</u>
Total Long-Term Debt	<u>\$ 3,667,000</u>	<u>\$ 3,929,000</u>

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2023 and 2022

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:

2024	\$ 262,000
2025	271,000
2026	277,000
2027	283,000
2028	290,000
Thereafter	<u>2,546,000</u>
Total	<u>\$ 3,929,000</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, 2023 and 2022

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, 2023 and 2022 was \$2,827,107 and \$2,811,601, respectively. The amount payable for purchased water reflected in accounts payable in the accompanying statements of net position is \$255,345 and \$198,999 as of June 30, 2023 and 2022, respectively. (Also, see below for additional information relating to the contingency.)

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 59 years old and the District must provide for new infrastructure because 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.

During the year ended June 30, 2023, the District became involved in a lawsuit regarding a former board member. The parties in the case have responded and discovery is complete. The outcome of this litigation cannot be determined at this time. No contingent liability has been accrued in the accompanying financial statements at June 30, 2023.

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.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2023 and 2022

7. RETIREMENT PLAN (Continued)

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, 2023 and 2022. Total retirement plan contributions for the years ended June 30, 2023 and 2022 amounted to \$48,680 and \$54,629, 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).

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, 2023, the District's uninsured balances totaled \$496,611.

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.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2023 and 2022

10. WATER RATES

The minimum water rate charged per month varies from \$22.04 per gallon to \$168.23 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 \$4.48 per 1,000 gallons up to 20,000 gallons. The rate on the next 30,000 gallons is \$5.38 per 1,000 gallons. For usage in excess of 50,000 gallons, the rate is \$6.48 per 1,000 gallons. The number of meters billed for the month of June 2023 was 5,897.

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, 2023, 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	2,276,884
Equipment	274,690
Personal Property	258,000
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 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, 2023 and 2022

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, 2023 and 2022 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. PRIOR PERIOD ADJUSTMENT

In the fall of 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.

The District, in consultation with legal counsel, determined it would owe approximately \$550,000 and had accrued a liability as of June 30, 2018 for that amount with a charge to water purchased. On April 13, 2022, the District Board approved a settlement for \$2,936,252, which the District paid on April 19, 2022. The additional liability was accrued as of June 30, 2021 and a prior period adjustment to net position was recorded for that year.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS

Notes to Financial Statements

June 30, 2023 and 2022

14. SUBSEQUENT EVENTS

Management has evaluated and is unaware of any subsequent events requiring disclosure through November 10, 2023, the date on which the financial statements were available to be issued.

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

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, 2023 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 10, 2023.

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:

#2023-1 - 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 #2023-1 is a repeat finding of #2022-1 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 #2023-1 identified in our audit is described in the accompanying Schedule of Findings and Responses on Page 29. 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.

Summers, McNea & Company, P.C.

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

November 10, 2023

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS
Schedule of Findings and Responses
For the Years Ended June 30, 2023 and 2022

Finding #2023-1 – 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, 2023 and 2022

Finding

#2022-1 Segregation of Duties and
Financial Statement Preparation

Resolution

Repeat Finding. (See current year
finding #2023-1)

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**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH BOND RESOLUTION**

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

We have audited the financial statements of County Water District of Billings Heights (the District), as of and for the year ended June 30, 2023, and have issued our report thereon dated November 10, 2023.

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

November 10, 2023