

**COUNTY WATER DISTRICT OF  
BILLINGS HEIGHTS**

**FINANCIAL REPORT**

**June 30, 2021**

DRAFT



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## INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of County Water District of Billings Heights (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year 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 3 through 7 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 [REDACTED], 2022, 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 24 through 26 of this financial report.

Billings, Montana  
[REDACTED], 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

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COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2021

**MANAGEMENT'S 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 year ended June 30, 2021. 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 \$747,226 or 4.15% as a result of this year's operations as compared to an increase of approximately \$53,289 or .30% for the year ended June 30, 2020.
- Total revenues increased by \$1,090,631 or 23.99%. Water usage revenue increased \$803,104, service line fees increased by \$14,297, system buy-in fees increased \$279,966 and miscellaneous operating revenues increased by \$26,953. The increase in water usage revenue was primarily due to the increase in water usage as a result of a dryer spring in the area in 2021.
- Operating expenses for the year increased by \$396,694 or 8.83%. Water purchased increased by \$369,674 or 15.90%. Most other expenses remained relatively stable over the prior year; inflationary costs affected most expense categories.
- The District invested \$773,846 in capital assets during the year ended June 30, 2021. The increase was primarily attributable to purchases of meters, office furniture, and a transmission main.
- Due to investments maturing during 2021, the board designated capital improvement funds decreased by approximately \$249,497 or 2.69%.
- 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 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.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2021

**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, 2020 to June 30, 2021 by \$747,226. The increase mainly related to an increase in service area and buy-in fees for the year. The increase in the prior year from June 30, 2019 to June 30, 2020 was \$53,289. Our analysis focuses on the District's net position (Table 1) and changes in net position (Table 2) during the years.



COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2021

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**TABLE 1**

	<u>2021</u>	<u>2020</u>	<u>Change</u>
<b>ASSETS</b>			
Current	\$ 1,745,506	\$ 1,247,639	\$ 497,867
Capital assets, net	13,291,462	13,298,112	(6,650)
Investments and other assets	<u>9,265,056</u>	<u>9,288,768</u>	<u>(23,712)</u>
Total assets	<u>\$24,302,024</u>	<u>\$23,834,519</u>	<u>\$ 467,505</u>
<b>LIABILITIES</b>			
Current	\$ 3,517,502	\$ 1,157,901	\$ 2,359,601
Customer deposits	225,785	221,855	3,930
Long-term debt	<u>4,191,000</u>	<u>4,448,000</u>	<u>(257,000)</u>
Total liabilities	<u>7,934,287</u>	<u>5,827,756</u>	<u>2,106,531</u>
<b>NET POSITION</b>			
Net investment in capital assets	8,843,462	8,600,112	243,350
Investment funds, Board			
Designated and restricted	6,653,019	9,288,768	(2,635,749)
Unrestricted	686,873	(66,500)	753,373
Restricted - loan reserve account	<u>184,383</u>	<u>184,383</u>	<u>-</u>
Total net position	<u>16,367,737</u>	<u>18,006,763</u>	<u>(1,639,026)</u>
Total liabilities and net position	<u>\$24,302,024</u>	<u>\$23,834,519</u>	<u>\$ 467,505</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).

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2021

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**TABLE 2**

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Water sales	\$ 4,879,852	\$ 4,076,748	\$ 803,104
Other operating revenue	605,871	284,655	321,216
Non-operating revenue	<u>150,503</u>	<u>184,192</u>	<u>(33,689)</u>
Total revenues	<u>5,636,226</u>	<u>4,545,595</u>	<u>1,090,631</u>
Operating expenses	<u>4,889,000</u>	<u>4,492,306</u>	<u>396,694</u>
Change in net position	747,226	53,289	693,937
Net position, beginning of year	18,006,763	17,953,474	53,289
Prior period adjustment	<u>(2,386,252)</u>	<u>-</u>	<u>(2,386,252)</u>
Net position, end of year	<u>\$16,367,737</u>	<u>\$18,006,763</u>	<u>\$ (1,639,026)</u>

Total revenues reflect an increase of 23.99% from 2020 to 2021 as a result of an increase in service line fees along with an increase in water usage revenues and an increase in system buy-in fees. The revenues reflected a decrease of 7.9% from 2019 to 2020 as a result of a decrease in service line fees along with an increase in water usage revenues and reduced system buy-in fees. The District also changed their rate system and went to a 3-tier conservation system in 2017.

Operating expenses increased by 8.83% from 2020 to 2021. The cost for water accounted for most of the increase. Operating expenses increased by approximately 5.8% from 2019 to 2020. 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.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2021

**CAPITAL ASSETS**

As of June 30, 2021, the District had \$23,053,771 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 an increase of \$780,082, or 3.5% over the prior year. During the year ended June 30, 2020, capital assets increased by \$362,528. That increase was primarily attributable to capital improvements for a water reservoir to aid in the water delivery system.

**ECONOMIC FACTORS AND FUTURE RATES**

The number of services billed for the June 2021 billing cycle (5,888) was up by 65 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 2019, 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.

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 in the accompanying financial statements. On April 13, 2022, the District Board approved a settlement for \$2,936,252 with the City of Billings, which the District paid on April 19, 2022. The additional liability of \$2,386,252 was recorded as a prior period adjustment to net position as of June 30, 2021.

**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.

FINANCIAL STATEMENTS

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COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
STATEMENT OF NET POSITION  
June 30, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents - unrestricted	\$ 699,966
Accounts receivable - customers	827,014
Materials and supplies inventory	151,898
Prepaid expenses	<u>66,628</u>
Total current assets	<u>1,745,506</u>

CAPITAL ASSETS

Land	245,961
Water distribution system	21,150,003
Maintenance equipment and vehicles	944,036
Structures and improvements	575,033
Office furniture and equipment	<u>138,738</u>
Total capital assets	23,053,771
Accumulated depreciation	<u>(9,762,309)</u>
Net capital assets	<u>13,291,462</u>

NON-CURRENT ASSETS

Restricted assets:	
Cash and cash equivalents	225,785
Investments	<u>9,039,271</u>
Total non-current assets	<u>9,265,056</u>
Total assets	<u>\$ 24,302,024</u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
STATEMENT OF NET POSITION (CONTINUED)  
June 30, 2021

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 3,229,357
Accrued liabilities	31,145
Current portion of long-term debt	257,000
Customer deposits	<u>225,785</u>
Total current liabilities	3,743,287

LONG-TERM LIABILITIES

Long-term debt, net of current portion	<u>4,191,000</u>
Total liabilities	<u>7,934,287</u>

NET POSITION

Unrestricted net position:	
Unrestricted	686,873
Net investment in capital assets	8,843,462
Board designated:	
Capital improvement funds	6,653,019
Restricted net position:	
Loan reserve account	<u>184,383</u>
Total net position	<u>16,367,737</u>
Total liabilities and net position	<u>\$24,302,024</u>

The Notes to Financial Statements are an integral part of this statement.

**COUNTY WATER DISTRICT OF BILLINGS HEIGHTS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
 Year Ended June 30, 2021

**OPERATING REVENUE**

Water usage	\$ 4,879,852
System buy-in fees	299,928
Service line fees	162,896
Other operating revenue	<u>143,047</u>
Total operating revenue	<u>5,485,723</u>

**OPERATING EXPENSES**

Water purchased	2,694,434
Depreciation	786,732
Salaries and wages	502,125
Employee benefits	274,579
Payroll taxes	46,490
Bad debt	1,531
Director fees	15,850
Gas, fuel and oil	8,336
Insurance	12,813
Interest	130,729
Miscellaneous	16,031
Office	63,481
Postage	23,171
Professional fees	134,651
Repairs and maintenance - distribution system	110,891
Repairs and maintenance - other	364
Subscriptions and legal notices	67
Supplies - operations	9,611
Taxes	4,076
Telephone and communication	6,081
Travel and training	366
Utilities	<u>46,591</u>
Total operating expenses	<u>4,889,000</u>
Operating income	596,723

**NONOPERATING REVENUE**

Investment income	<u>150,503</u>
Change in net position	<u>747,226</u>
Net position, beginning of year	18,006,763
Prior period adjustment	<u>(2,386,252)</u>
Net position, beginning of year, restated	<u>15,620,511</u>
Net position, end of year	<u>\$ 16,367,737</u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 5,094,663
Payments to suppliers	(3,571,976)
Payments to employees	<u>(560,013)</u>
Net cash flows from operating activities	<u>962,674</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	(250,000)
Purchases of capital assets	<u>(780,082)</u>
Net cash flows from capital and related financing activities	<u>(1,030,082)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	4,468,000
Purchase of investments	(4,218,503)
Investment income	<u>150,503</u>
Net cash flows from investing activities	<u>400,000</u>
Net change in cash and cash equivalents	332,592
Cash and cash equivalents, beginning of year	<u>593,159</u>
Cash and cash equivalents, end of year	<u>\$ 925,751</u>
ON THE STATEMENT OF NET POSITION AS:	
Cash and cash equivalent - unrestricted	\$ 699,966
Cash and cash equivalent - restricted	<u>225,785</u>
Total cash and cash equivalents	<u>\$ 925,751</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 596,723
Depreciation	786,732
Adjustments to reconcile operating loss to net cash flows from operating activities	
Changes in operating assets and liabilities:	
Accounts receivable	(338,683)
Materials and supplies	(50,002)
Prepaid expenses	(2,375)
Accounts payable	24,237
Accrued liabilities	(57,888)
Customer deposits	<u>3,930</u>
Net cash flows from operating activities	<u>\$ 962,674</u>
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid for interest	<u>\$ 130,729</u>

The Notes to Financial Statements are an integral part of this statement.



COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021

**NOTE 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.

**Reporting Entity**

The District is a primary government, meeting the criteria embodied in Governmental Accounting Standards Board (GASB) Statement No. 14 “The Financial Reporting Entity,” of a separately elected governing body, having a separate legal standing and being fiscally independent. There are no component units for which the District’s board is financially accountable.

**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.

**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. From time to time, certain bank accounts that are subject to limited FDIC coverage exceed their insured limits. At June 30, 2021, the District’s bank balance exceeded these insured limits by \$516,691.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Accounts Receivable**

Users of the system are charged a flat rate per month for their use. Uncollected fees at year-end are accrued. An allowance for uncollectible accounts is not maintained by the District as Montana law allows local Districts to collect unpaid debt each fiscal year by submitting the amount in arrears for collection on the County tax rolls and the collected amount is paid to the District when that customer pays his property taxes. If bad debts were to occur, they would be expensed using the direct write-off method. Although this method is not in accordance with GAAP, the difference in reporting uncollectible amounts between the direct charge-off method and using an allowance method is immaterial.

**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.

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.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (Continued)**

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

	<u>Estimated Life</u>
Main lines, reservoirs and services lines	25 to 50
Meters	5 to 15
Maintenance equipment and vehicles	5 to 10
Buildings and improvements	5 to 39
Office furniture and equipment	5 to 10

**Investments**

Investments are stated at fair 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, 2021, the cost of investments approximated their fair 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.

**Net Position**

Net position represents the difference between assets and liabilities. In the basic financial statements, net position is classified into the following categories:

*Net investment in capital assets* – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position (Continued)**

*Restricted net position* – presents external restrictions imposed by creditors, grantors, or contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provision or enabling legislation. Additionally, this category represents restrictions placed on the categories of capital projects and debt service established by the Board of Directors.

*Unrestricted net position* – represents the net position of the District that is not restricted for any project or other purpose.

**Measurement Focus**

The basic financial statements of the District are reported using the economic resources measurement focus under the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

**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.

**Estimates**

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

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2021

**NOTE 2. CASH AND CASH EQUIVALENTS**

As of June 30, 2021, cash and equivalents consisted of the following:

Unrestricted		
Petty cash	\$	250
Non-interest bearing accounts		
Unrestricted		448,820
Restricted - customer deposits		225,785
Interest bearing accounts:		
Unrestricted		250,896
Total cash and cash equivalents (a)	\$	<u>925,751</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. For June 30, 2021 the minimum required reserve was \$184,383.

**NOTE 3. CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2021 was as follows:

	Balance 7/1/2020	Additions	Deletions	Balance 6/30/2021
Capital assets:				
Land	\$ 245,961	\$ -	\$ -	\$ 245,961
Water distribution system	20,376,157	773,846	-	21,150,003
Maintenance equipment and vehicles	944,036	-	-	944,036
Structures and improvements	575,033	-	-	575,033
Office furniture and equipment	<u>132,502</u>	<u>6,236</u>	-	<u>138,738</u>
Total capital assets	22,273,689	780,082	-	23,053,771
Accumulated depreciation	<u>(8,975,577)</u>	<u>(786,732)</u>	-	<u>(9,762,309)</u>
Capital assets, net	<u>\$ 13,298,112</u>	<u>\$ (6,650)</u>	<u>\$ -</u>	<u>\$ 13,291,462</u>

**NOTE 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.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2021

**NOTE 4. INVESTMENTS (CONTINUED)**

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-six (56) 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 undesignated 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, 2021 was a surplus of \$686,873.

The balance of investments restricted for capital asset additions and improvements as of June 30, 2021 consisted of the following:

Federally insured certificates of deposit and Treasury	
Bills with yields ranging from .05% to 3.25% and varying maturities from August 2021 to November 2024, face value	\$ 8,606,267
Cash fund with a yield of .01%	363,171
Accrued interest receivable	24,282
Unamortized premiums	45,551
	\$ 9,039,271

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2021

**NOTE 5. PLEDGED ASSETS AND LONG-TERM DEBT**

Long-term debt at June 30, 2021 is as follows:

Note payable to Department of Natural Resources and Conservation (Loan B), due in semi-annual installments including interest of 3%, through January 2031, secured by a revenue bond (see note below).	\$ 299,000
Note payable to Department of Natural Resources and Conservation, due in semi-annual installments including interest of 2.5%, through January 2036, secured by a revenue bond.	2,306,000
Note payable to Department of Natural Resources and Conservation, due in semi-annual installments including interest of 2.5%, through January 2036, secured by a revenue bond.	<u>1,843,000</u>
	4,448,000
Less current portion	<u>(257,000)</u>
Total long-term debt	<u><u>\$ 4,191,000</u></u>

Note: 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 year ending June 30, 2021 are as follows:

2022	\$ 257,000
2023	262,000
2024	271,000
2025	277,000
2026	283,000
Thereafter	<u>3,098,000</u>
Total	<u><u>\$ 4,448,000</u></u>

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2021

**NOTE 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.

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 year ended June 30, 2021 was \$2,694,434. The amount payable for purchased water reflected in accounts payable in the accompanying statements of net position is \$3,221,360 as of June 30, 2021 (Also, see Note 13 for additional information relating to the prior period adjustment 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 56 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.

**NOTE 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, 2021. Total retirement plan contributions for the years ended June 30, 2021 amounted to \$56,296. 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 (CONTINUED)  
June 30, 2021

**NOTE 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.

**NOTE 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, 2021, the District's uninsured balances totaled \$516,691.

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.

**NOTE 10. WATER RATES**

The minimum water rate charged per month varies from \$19.61 per gallon to \$157.87 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 \$4.27 per 1,000 gallons up to 20,000 gallons. The rate on the next 30,000 gallons is \$5.12 per 1,000 gallons. For usage in excess of 50,000 gallons, the rate is \$5.86 per 1,000 gallons. The number of meters billed for the month of June 2021 was 5,888.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2021

**NOTE 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, 2021, 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 and 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.

**NOTE 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.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2021

**NOTE 12. FAIR VALUE MEASUREMENTS (CONTINUED)**

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, 2021 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.

**NOTE 13. PRIOR PERIOD ADJUSTMENT AND SUBSEQUENT EVENTS**

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 in the accompanying financial statements. 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.

The District has evaluated events and transactions that have occurred from the date of the financial statements through [REDACTED], 2022, which is the date that the financial statements were available for issue.

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

To The Board of Directors  
County Water District of Billings Heights  
Gallatin Gateway, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the County Water District of Billings Heights (the District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated [REDACTED], 2022.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as item 2021-001, 2021-002 and 2021-003 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **County Water District of Billings Heights Response to Finding**

County Water District of Billings Heights' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Billings, Montana

, 2022

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2021

**Finding #2021-001 – 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.

*Management Response:* There is no disagreement with the finding and management and those charged with governance are aware of the significant deficiency and will continue to provide the appropriate oversight to mitigate the risk.

**Finding #2021-002 – Preparation of Annual Budget**

*Criteria:* County Water District of Billings Heights is not required by law to prepare an annual budget, but an appropriate internal control policy would require management to prepare and submit a budget to the Board of Directors each year for approval and then compare actual results to the budget each month and report that to the general manager and the Board.

*Condition:* Even though the District has reported in its audited financial statements that it prepares a budget each year, we were not able to obtain a copy during our audit, nor did we find a comparison of actual results to the budget in the Board packets.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended June 30, 2021

**Finding #2021-002 – Preparation of Annual Budget (Continued)**

*Cause:* Unknown

*Effect:* This significant deficiency could result in limiting Board and management oversight to mitigate possible fraud or a material misstatement to the financial statements

*Recommendation:* We recommend management prepare an annual budget, including capital expenditures, for approval by the Board of Directors each year and then prepare budget to actual comparison reports for management and the Board oversight each month. This will help management make better and quicker decisions on expenditures that have prior approval by the Board through the budget process. Salary and compensation adjustments to personnel should be approved by the Board with the budget.

*Management Response:* There is no disagreement with the finding and management and those charged with governance are aware of the significant deficiency and will continue to provide the appropriate oversight to mitigate the risk.

**Finding #2021-003 – Investment Policy and Excess Cash**

*Criteria:* County Water District of Billings Heights is not required by law to adopt an investment policy, but an appropriate internal control procedure would be for the District to adopt an investment policy approved by the Board of Directors.

*Condition:* The District has significant investments, however, it does not have a formal investment policy. The District should develop and adopt a written investment policy, which should address the following:

- The investment objectives (that is, increase earnings, provide specific returns, or maintain accessible cash reserves).
- The person authorized and responsible for investments.
- The maximum amounts for investments and the approval criteria.
- The types of authorized investments.
- The desired mix of products (especially those considered to create risk).
- A goal for the amount of return expected.
- Approved vendors of investment products.
- The maximum length of time cash can be committed.

COUNTY WATER DISTRICT OF BILLINGS HEIGHTS  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
Year Ended June 30, 2021

**Finding #2021-003 – Investment Policy and Excess Cash (continued)**

- The criteria for investments versus debt repayment.
- The handling of emergency cash needs.

*Cause:* Unknown

*Effect:* This significant deficiency could result in limiting Board and management oversight which could cause a material misstatement to the financial statements and limit investment returns.

*Recommendation:* We recommend management prepare and the Board adopt an investment policy. We also recommend that the District investigate the possibility of investing some of its excess cash in higher yielding products approved by state law.

*Management Response:* There is no disagreement with the finding and management and those charged with governance are aware of the significant deficiency and will continue to provide the appropriate oversight to mitigate the risk.

**Status of Corrective Action on Prior Findings**

**Finding #2020-001**

Repeat finding (see current year finding #2021-001).



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

To The Board of Directors  
County Water District of Billings Heights  
Gallatin Gateway, 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, 2021, and have issued our report thereon dated           , 2022.

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.

Billings, Montana  
          , 2022