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BIG SKY COUNTY WATER &  
SEWER DISTRICT NO. 363

FINANCIAL REPORT

June 30, 1994



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& COMPANY

81 WEST PARK STREET  
P.O. BOX 748 • BUTTE, MONTANA 59703  
406•782•0451 FAX 406•782•1819

Board of Trustees  
Big Sky County Water & Sewer  
District No. 363  
Big Sky, Montana 59716

We have compiled the accompanying balance sheet of Big Sky County Water & Sewer District No. 363 (a Montana nonprofit public corporation) as of June 30, 1994 and the related statements of revenues and expenses, changes in fund balance and cash flows for the nine months then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

*Anderson Zurmuehlen & Co., P.C.*

Butte, Montana  
August 2, 1994

**BIG SKY COUNTY SEWER & WATER  
DISTRICT NO. 363  
BALANCE SHEET  
June 30, 1994**

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 310,920
Accrued interest receivable	<u>1,800</u>
Total current assets	<u>312,720</u>

**INVESTMENTS**

Certificates of deposit	<u>104,000</u>
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**RESTRICTED CASH AND CASH EQUIVALENTS**

Proceeds restricted for construction	
- RID	364,445
- Boyne	363,378
Hookup/inspection - Seypar	<u>8,500</u>
	<u>736,323</u>

**PROPERTY AND EQUIPMENT, at cost**

Land	611,604
Sewer system and equipment	1,951,260
Rolling stock	<u>15,407</u>
	2,578,271
Less accumulated depreciation	<u>699,838</u>
	<u>1,878,433</u>

**OTHER ASSETS**

Accounts receivable, net of allowance for doubtful accounts of \$-0-	16,742
Deposit	<u>336</u>
	<u>17,078</u>
	<u>\$ 3,048,554</u>

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See Accountant's Report.

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

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**LIABILITIES AND FUND EQUITY**

**CURRENT LIABILITIES**

Accounts payable	\$ 10,241
Total current liabilities	<u>10,241</u>

DEFERRED LIABILITY - Boyne	<u>363,378</u>
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**COMMITMENTS AND CONTINGENCIES**

**FUND EQUITY**

Contributed capital -unrestricted	2,189,436
Contributed capital - restricted	372,945
Retained earnings - unrestricted	<u>112,554</u>
	<u>2,674,935</u>
	<u>\$ 3,048,554</u>

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**BIG SKY COUNTY WATER & SEWER  
DISTRICT NO. 363  
STATEMENT OF REVENUES AND EXPENSES  
For the Nine Months Ended June 30, 1994**

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Operating revenue	
Sewer services	\$ 222,769
Hook-up fees	<u>8,500</u>
Total operating revenue	<u>231,269</u>
Operating expenses	
Wages - office contribution	17,500 ✓
Sewer operator	13,600
Office administration	3,891 ✓
Travel	2,305 ✓
Supplies and chlorine	1,498
Legal services	58,171 ✓
Accounting and auditing	9,666 ✓
Maintenance and repairs	6,801
LMS-RID 305 contribution	24,500
Office expense	1,827 ✓
Analysis and well testing	- 12,153
Utilities	18,301
Insurance	831 ✓
Miscellaneous	2,649 ✓
Dues and subscriptions	407 ✓
Depreciation	<u>36,916</u>
Total operating expenses	<u>211,016</u>
Excess of operating revenues over expenses	<u>20,253</u>
Nonoperating revenues	
Resort taxes	38,687 ✓
Interest income	16,501 ✓
Rental and miscellaneous	<u>2,428</u> ✓
Total nonoperating revenues	<u>57,616</u>
Excess of revenues over expenses before adjustment for depreciation that reduces contributed capital	77,869
Add depreciation on fixed assets acquired by contribution that reduces contributed capital	<u>34,685</u>
Excess of revenues over expenses	<u>\$ 112,554</u>

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See Accountant's Report.

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

**BIG SKY COUNTY WATER & SEWER  
DISTRICT NO. 363  
STATEMENT OF CHANGES IN FUND EQUITY  
For the Nine Months Ended June 30, 1994**

	<u>Contributed Capital Unrestricted</u>	<u>Contributed Capital Restricted</u>	<u>Retained Earnings Unrestricted</u>	<u>Total</u>
Balance at October 1, 1993	\$ 2,597,066	\$ -	\$ -	\$ 2,597,066
Excess of revenues over expenses	-	-	77,869	77,869
Restricted construction	(372,945)	372,945	-	-
Depreciation on contributed capital	<u>(34,685)</u>	<u>-</u>	<u>34,685</u>	<u>-</u>
Balance at June 30, 1994	<u>\$ 2,189,436</u>	<u>\$ 372,945</u>	<u>\$ 112,554</u>	<u>\$ 2,674,935</u>

See Accountant's Report.

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



**BIG SKY COUNTY WATER & SEWER  
DISTRICT NO. 363  
STATEMENT OF CASH FLOWS  
For the Nine Months Ended June 30, 1994**

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**Cash Flows from Operating Activities:**

Excess revenue over expenses	\$ 112,554
Adjustments to reconcile excess revenue over expense to net cash provided by operating activities:	
Depreciation, net of \$34,685 transferred to contributed capital	2,230
(Increase) decrease in:	
Accounts receivable, trade	5,539
Accrued receivable, trade	69,240
Accrued interest receivable	6,023
Resort tax receivable	61,313
Increase (decrease) in:	
Accounts payable	(31,603)
Accrued expenses	(13,000)
Deferred liabilities	8,197
Net cash provided by operating activities	<u>220,493</u>

**Cash Flows from Capital Financing Activities:**

Payments for sewer engineering and construction	<u>(224,658)</u>
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**Cash Flows from Investing Activities:**

Contributed capital transfer from RID 305	1,022,124
Investment in restricted construction fund	133,619
Certificates of Deposit - purchased	<u>(104,335)</u>
Net cash from investing activities	<u>1,051,408</u>

Net increase (decrease) in cash and cash equivalents 1,047,243

Cash and cash equivalents at beginning of year -

Cash and cash equivalents at end of year \$ 1,047,243

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See Accountant's Report.

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

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**Cash and cash equivalents presented in the accompanying balance sheet under the following captions:**

Cash and cash equivalents	\$ 310,920
Restricted cash and cash equivalents	<u>736,323</u>
	<u>\$ 1,047,243</u>

**Supplemental disclosure of cash flow information:**

Cash paid for interest expense	<u>-</u>
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**Supplemental disclosure of non-cash investing activities:**

Effective October 1, 1993, non-cash assets and liabilities of \$2,014,465 and \$439,523, respectively, were transferred into the District from Rural Improvement District No. 363, a predecessor entity.

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**BIG SKY COUNTY WATER & SEWER DISTRICT 363**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 1994

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity:**

Big Sky County Water & Sewer District 363 (the District) was created by resolution by the Board of County Commissioners of Gallatin County, Montana and Madison County, Montana on August 3, 1993 and August 4, 1993, respectively. The District was created for the purpose of constructing, repairing, operating, managing, maintaining and acquiring a sanitary sewer facility on the West Fork of the West Gallatin River, Gallatin County, Montana. The District is governed by a Board of Directors. The daily affairs of the District are conducted under the supervision of the District's professional engineer.

Property owners are assessed sewer fees annually based on the number of single family equivalents. Annual sewer fees are billed by Gallatin and Madison counties along with the first half of the property tax assessment. The counties remit the collected sewer fees to the District.

**Fund Accounting:**

The activities of the District are reported as an enterprise fund. An enterprise fund is operated in a manner similar to private business enterprises, where (a) the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; and (b) the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Basis of Accounting:**

The fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Governmental grants are recognized when qualified expenditures are incurred.

**Cash and Cash Equivalents:**

Management considers all short-term high liquid investments with an original maturity of three months or less to be cash equivalents.

**Investments:**

Investments are stated at the lower of aggregate cost or market value.

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**BIG SKY COUNTY WATER & SEWER DISTRICT 363**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 1994

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

**Fixed Assets:**

Capital outlays for property, plant and equipment are recorded as capital assets when incurred. All purchased fixed assets are valued at historical cost. Fixed assets contributed are recorded at their estimated fair market values or historical cost if fair market value is not reasonably determinable. Depreciation of fixed assets is calculated using the straight-line method with estimated useful lives as follows:

Sewer system and equipment	7-40 years
Rolling stock	5 years

Maintenance and repair costs are expensed as incurred. Replacements which improve or extend the lives of fixed assets are capitalized. Proceeds received from government or other grantors, for the purchase or construction of fixed assets, are credited to contributed capital.

**User Fees and Accounts Receivable:**

The District doesn't provide an allowance for uncollectible user fees. Management of the District is of the opinion that all receivables are collectible.

**Contributed Capital:**

The amount of depreciation applicable to assets acquired through contributions and grants is closed to the related contributed capital account instead of retained earnings.

**Resort Taxes:**

Applications are reviewed by Big Sky Resort Tax Advisory Board of Trustees for recommendation to the county commissioners of both Gallatin and Madison counties. Final approval rests with the county commissioners after all budget requirements have been met.

**Tax Exempt Status:**

The District is a municipal corporation and, therefore, is not liable for federal and state income taxes pursuant to Internal Revenue Code §501(c)(1).

**Deferred Assessments:**

Deferred assessment income represents sewer district user fees collected in advance. Annual sewer district fees are generally received by December 31 of each year in connection with the November billing of the users property taxes by Madison and Gallatin Counties (Note 6).

**BIG SKY COUNTY WATER & SEWER DISTRICT 363**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 1994

**NOTE 2 CASH AND INVESTMENTS**

Under the District's investment policy, the District is restricted to investing funds in specific types of deposit and investment instruments.

The following is the type of permitted deposits and investments:

Interest bearing savings accounts, certificates of deposits and time deposits insured by the Federal Deposit Insurance Corporation or which are fully collateralized.

The District's deposits and investments are categorized below to give an indication of the level of risk assumed by the District. Category 1 includes deposits and investments which are insured, registered or held by the District or its agent in the District's name. Category 2 includes uninsured or unregistered deposits and investments that are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments that are held by the counter party, or by its trust department or agent but not in the District's name.

Deposits:	Category			Carrying Amount	Market Value
	1	2	3		
Cash, interest bearing checking and savings	\$ 170,287	\$ -	\$ -	\$ 170,287	\$ 170,287
Cash - Certificate of Deposits	207,267	-	-	207,267	207,267
Cash - non-interest bearing checking	45,866	-	-	45,866	45,866
Cash - interest bearing checking - restricted for construction	<u>727,823</u>	<u>-</u>	<u>-</u>	<u>727,823</u>	<u>727,823</u>
	<u>\$ 1,151,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,151,243</u>	<u>\$ 1,151,243</u>

**BIG SKY COUNTY WATER & SEWER DISTRICT 363**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 1994

**NOTE 3 SEGMENT INFORMATION**

Services provided by the District are financed by user charges. The key financial data for the period ending are as follows:

Operating revenue	\$ 231,269
Depreciation	36,916
Operating income	20,253
Excess of revenues over expenses	112,554
Current capital contribution less depreciation	2,189,436
Fixed asset additions	224,658
Net working capital	302,479
Total assets	3,048,554
Total equity	2,674,935

A reconciliation of contributed capital is as follows:

Transferred in	\$2,597,066
Depreciation	(34,685)
Transferred to restricted contributed capital	<u>(372,945)</u>
Ending balance	<u>\$2,189,436</u>

**NOTE 4 COMMITMENTS AND CONTINGENCIES**

**LMS Memo of Understanding:**

The District has an agreement with Lone Mountain Springs, Inc. (LMS), a water company, and Big Sky Owners Association (BSOA), a homeowner association, for funding the employment and administration of a joint LMS and District water/sewer system operator at Big Sky Montana. The District is required to pay \$42,000 per annum to fund the joint employer costs for supervision of the joint employee. The memo of understanding is in effect until superseded by a formal contract, or until modified or terminated by mutual agreement of the parties hereto.

**Service Contract with BSOA:**

The District has entered into a service contract with BSOA to fund the costs necessary to employ and administer working activities for the District in the amount of \$20,000 per annum.



**BIG SKY COUNTY WATER & SEWER DISTRICT 363**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 1994

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**NOTE 4 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Boyne Memo of Understanding:**

The District has an agreement with Boyne USA, Inc. (Boyne), BSOA and the District for the purpose of establishing funds necessary to design and construct a sewage treatment facility to remedy the moratorium restricting new hook-ups to the sewer system issued by the State of Montana. Under this agreement, the District and Boyne deposited \$350,000 each into a special suspense fund to be used for the design and construction of the sewage treatment facility.

**Boyne Litigation:**

Boyne USA, Inc. has filed a declaratory action suit to determine if the District and not Boyne is responsible for costs associated with constructing a sewer system that complies with State regulations. The District has been unsuccessful in settlement negotiations and management intends to defend and prosecute its claims to a verdict if required.

**Seypar, Inc. Litigation:**

A landowner within the District, Seypar, Inc., filed a declaratory judgement asking the Court for an order invalidating certain sewer hook-up fees it paid under protest and for reimbursement of fees. The risk to the District is the Court will order reimbursement of fee paid under protest by Seypar, Inc. and prohibit imposition of fees in the future. The suit is being vigorously defended by counsel.

**Compliance Order:**

The Montana Department of Health and Environmental Sciences issued a compliance order to the District and requires the District to upgrade the sewer facility to prevent seepage of sewage from the Big Sky sewer system treatment and disposal facility and resultant contamination of State ground waters. The District is required to comply with the requirements of the order or face penalties of up to \$25,000 for each day in which a violation occurs or a failure or refusal to comply continues. All required tasks of the compliance order must be completed by September 1, 1995. The District has met the State's compliance requirements through June 30, 1994.

**Obligation to Provide Future Sewer Services:**

The District is obligated to provide sewage collection and treatment services to existing property owners presently connected to the system. Additionally, the District has incurred certain obligations to provide future wastewater collection and treatment services to certain original subdivisions.

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**BIG SKY COUNTY WATER & SEWER DISTRICT 363**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 1994

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**NOTE 4 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Engineering Service Contract:**

The District has entered into a professional service agreement with an engineering firm for the planning, design and construction oversight of improvements to the District.

**Cash Deposit:**

At June 30, 1994, the District had cash deposits in excess of federally insured amounts totalling \$116,061.

**NOTE 5 RELATED PARTIES**

The District has two contracts with related parties in the normal course of business.

- 1) The District has a memorandum of understanding with Big Sky Owners' Association, Inc. (BSOA) for administration of the District's contract labor personnel. Dee Rothschilder is an employee of BSOA and serves on the District's Board of Directors.
- 2) The LMS (Lone Mountain Spring) and District consortium operations are administered by Bill Murdock in his capacity as executive administrator of BSOA. The District pays the consortium \$42,000 to fund the wages and benefits of a joint employee of, LMS and the District, (see Note 4).

**NOTE 6 REAL AND PERSONAL PROPERTY TAX ASSESSMENT**

The Madison and Gallatin County local governments assess and collect real and personal taxes and sewer district user fees. The sewer fees are collected on behalf of the District. Real property taxes are recorded on the first working day of December. Tax liens are filed in connection with real property that becomes three years delinquent.

Personal property taxes are assessed throughout the year with payments due approximately 30 days after assessment.

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**ANDERSON ZURMUEHLEN & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

SUITE 302 • TRANSWESTERN PLAZA II

490 NORTH 31ST STREET

P.O. BOX 7217 • BILLINGS, MONTANA 59103

406•248•1191 FAX 406•248•2931

81 WEST PARK STREET

P.O. BOX 748 • BUTTE, MONTANA 59703

406•782•0451 FAX 406•782•1819

POWER BLOCK BUILDING • 2ND FLOOR

6TH & LAST CHANCE GULCH

P.O. BOX 1147 • HELENA, MONTANA 59624

406•442•1040 FAX 406•442•6748