



ORIGINAL

**BIG SKY COUNTY
WATER & SEWER DISTRICT #363**

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 1997

**Joseph Eve & Company
Certified Public Accountants**

**Big Sky County Water & Sewer District #363
Big Sky, Montana**

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**Joseph Eve & Company
Management Consultants &
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INDEPENDENT AUDITORS' REPORT

**To the Board of Directors
Big Sky County Water & Sewer
District #363**

We have audited the accompanying financial statements of Big Sky County Water & Sewer District #363 as of and for the year ended June 30, 1997, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Sky County Water & Sewer District #363, as of June 30, 1997, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 1997, on our consideration of the Big Sky County Water & Sewer District #363 internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

**Big Sky County Water & Sewer
District #363
Independent Auditors' Report
Page 2**

Our audit was performed for the purpose of forming an opinion on the accompanying financial statements of Big Sky County Water & Sewer District #363, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Joseph Eve & Company

**Billings, Montana
September 5, 1997**

BIG SKY COUNTY WATER & SEWER DISTRICT #363

BALANCE SHEET

JUNE 30, 1997

ASSETS

Current Assets:

Cash and cash equivalents	\$833,911
Accounts receivable	208,558
Resort tax receivable	41,723
Prepaid expenses	7,585
Inventory	4,298
Total Current Assets	<u>1,096,075</u>

Restricted Cash and Cash Equivalents:

Proceeds restricted for construction:	
RID	419,419
Construction performance bonds	14,377
Retainages payable	274,351
Total Restricted Cash and Cash Equivalents	<u>708,147</u>

Property and Equipment, at cost:

Land	611,604
Vehicles	64,243
Furniture and equipment	12,245
Computer software	46,500
Sewer system equipment	2,619,355
Construction in progress	4,158,455
	<u>7,512,402</u>
Less: Accumulated depreciation	<u>(978,907)</u>
Total Property and Equipment	<u>6,533,495</u>

Other Assets:

Lease deposits	<u>1,057</u>
Total Other Assets	<u>1,057</u>
Total Assets	<u>\$8,338,774</u>

See Independent Auditors' Report and Notes to the Financial Statements.

BIG SKY COUNTY WATER & SEWER DISTRICT #363

BALANCE SHEET

JUNE 30, 1997

LIABILITIES AND FUND EQUITY

Current Liabilities:

Accounts payable	\$316,142
Retainages payable	282,898
Private contractor bonds	14,377
Payroll taxes payable	4,353
Compensated absences payable	21,657
Current portion of long-term debt	180,469
Total Current Liabilities	819,896

Long-term Liabilities:

Intercap loan	19,394
State revolving loan	3,748,558
Deferred liability - Seypar	35,000
Total Long-term Liabilities	3,802,952

Fund Equity:

Contributed capital - unrestricted	1,787,115
Contributed capital - restricted - RID assets	929,175
Retained earnings - unrestricted	999,636
Total Fund Equity	3,715,926
Total Liabilities and Fund Equity	<u>\$8,338,774</u>

See Independent Auditors' Report and Notes to the Financial Statements.

BIG SKY COUNTY WATER & SEWER DISTRICT #363

**STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 1997**

OPERATING REVENUE:

Sewer services	\$793,563
Less: Sewer fees returned	<u>11,559</u>
Gross Operating Revenue	<u>782,004</u>

OPERATING EXPENSES:

Accounting and audit fees	21,525
Bank charges	74
Chlorine and operating supplies	24,101
Depreciation	110,270
Dues	1,001
Engineering	1,936
Insurance	14,238
Interest expense	39,664
Lease payments	4,241
Legal	61,162
Maintenance and general repairs	62,232
Office supplies	12,648
Payroll taxes and benefits	58,659
Postage and miscellaneous	5,965
Rent	24,616
Salaries and wages	194,181
Travel and related expenses	2,121
Utilities	30,928
Special projects	7,157
Snow making project	<u>48,081</u>
Total Operating Expenses	<u>724,800</u>
Operating Income (Loss)	<u>57,204</u>

NON-OPERATING REVENUE (EXPENSES):

Resort tax revenue	474,778
Interest income	62,543
Miscellaneous revenue	212
Infiltration and in-flow repairs	<u>(210,008)</u>
Total Non-Operating Revenue	<u>327,525</u>
Net Income	<u><u>\$384,729</u></u>

See Independent Auditors' Report and Notes to the Financial Statements.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
STATEMENT OF CHANGES IN FUND EQUITY
FOR THE YEAR ENDED JUNE 30, 1997

	Contributed Capital			Retained Earnings	Total
	Unrestricted	Restricted Boyne	Restricted RID Assets	Unrestricted	
Beginning balances, July 1, 1996	\$1,342,825	\$444,290	\$973,078	\$88,141	\$2,848,334
Net income				384,729	384,729
Transfer depreciation on contributed assets			(43,903)	43,903	0
Boyne - deferred liability	444,290	(444,290)			0
Prior period adjustments (see Note 8)				482,863	482,863
Ending balances, June 30, 1997	<u>\$1,787,115</u>	<u>\$0</u>	<u>\$929,175</u>	<u>\$999,636</u>	<u>\$3,715,926</u>

See Independent Auditors' Report and Notes to the Financial Statements.

BIG SKY COUNTY WATER & SEWER DISTRICT #363

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 1997**

CASH FLOWS FROM OPERATING ACTIVITIES:

Excess of operating expense over operating revenue	\$57,204
Adjustments to reconcile operating loss to net cash provided:	
Depreciation	110,270
Prior period adjustments	482,863
(Increase) decrease in current and other assets:	
Accounts receivable	(52,578)
Resort tax receivable	141,693
Prepaid expenses	(4,298)
Inventory	(7,585)
Lease deposits	350
Increase (decrease) in liabilities:	
Accounts payable	198,043
Retainages payable	282,898
Private contractor bonds	14,377
Payroll taxes payable	(2,620)
Compensated absences payable	11,108
Accrued interest - Intercap loan	393
Deferred liabilities	(447,637)
Net cash provided by operating activities	<u>784,481</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Resort tax revenue	474,778
Infiltration and in-flow repair expenses paid by resort tax revenue	(210,008)
Miscellaneous revenue	<u>212</u>
Net cash provided by non-operating financing activities	<u>264,982</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Principal paid on the Intercap loan	(2,391)
Proceeds from state revolving loan fund	4,048,544
Principal paid on state revolving loan fund	<u>(124,986)</u>
Net cash provided by capital financing activities	<u>3,921,167</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	62,543
Purchase of office furniture and equipment	(6,783)
Cash paid for construction in progress	(4,158,455)
Vehicle purchases	(22,327)
Addition in deferred liability to Boyne-interest	<u>38,347</u>
Net cash used by investing activities	<u>(4,086,675)</u>

Net increase in cash	883,955
Cash and cash equivalents, beginning of year	<u>658,103</u>
Cash and cash equivalents, end of year	<u>\$1,542,058</u>

Supplemental Information

Cash paid for interest	<u>\$818</u>
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See Independent Auditors' Report and Notes to the Financial Statements.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Financial Statements
For the Year Ended June 30, 1997

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 general manager.

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 revenue 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. Revenue is recognized when it is earned and expenses are recognized when they are incurred.

Property owners are assessed sewer fees quarterly based on the number of single family equivalent units. Beginning July 1, 1995, owners are billed quarterly in arrears by the district. Prior to that, annual sewer fees were billed by Gallatin and Madison counties along with the first half of the property tax assessment. The counties then remitted the collected sewer fees to the District. The fees were billed by the county on a calendar year basis, but recorded as revenue in the fiscal year received by the District. In prior years, the difference between the calendar year and fiscal year was not material.

Cash and Investments

Under the District's investment policy, the District is restricted to investing funds in specific types of deposit and investment instruments. All cash and investments held by the District that have a maturity of one year or less are presented as cash equivalents in the Statement of Cash Flows. The following are the types of permitted deposits and investments: Interest bearing savings accounts, certificates of deposit and time deposits insured by the Federal Deposit Insurance Corporation or which are fully collateralized. Investments are stated at the lower of aggregate cost or market value. Deposits in excess of the FDIC insurance limits were partially collateralized by pledged securities. Restricted amounts are detailed in Note 2.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Financial Statements
For the Year Ended June 30, 1997

Note 1 - Summary of Significant Accounting Policies - (Cont'd)

Inventory

Inventory is stated at cost. Cost was determined by the most recent invoice of the goods purchased.

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
Vehicles	5 years
Computer equipment and software	3 - 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. All interest costs associated with new construction are capitalized.

User Fees and Accounts Receivable

No provision has been provided for uncollectible accounts, because the District believes that all accounts will be collected as they turn over their delinquent accounts to Gallatin County for collection on the tax rolls as provided in the Montana Code Annotated, Section 7-13-2301.

Application of FASB Documents Issued After 11/30/89 to Proprietary Funds

In September, 1993, GASB issued Statement No. 20 which requires proprietary activities to apply all applicable GASB pronouncements as well as FASB pronouncements, APB opinions and Accounting Research Bulletins on or before 11/30/89, unless these conflict with or contradict GASB pronouncements. Governments have an option of whether or not to apply FASB pronouncements issued after that date to their proprietary activities. In accordance with GASB No. 20, management has elected not to apply FASB pronouncements issued after 11/30/89.

Resort Taxes

Applications requesting awarded funds from resort taxes are reviewed by the Big Sky Resort Tax Advisory Board of Trustees who in turn make recommendations to the county commissions of both Gallatin and Madison counties. Final disbursement rests with the county commissioners.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Financial Statements
For the Year Ended June 30, 1997

Note 1 - Summary of Significant Accounting Policies - (Cont'd)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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).

Risk Management

The District faces a considerable number of risks of loss, including:

- a. damage to and loss of property and contents
- b. environmental damage
- c. workers' compensation; i.e., employee injuries
- d. potential liability created under the Memorandum of Understanding with Boyne, USA, Inc.

A variety of methods is used to provide insurance for these risks. Commercial insurance policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage. The District has Director and Officers liability insurance up to \$5,000,000 to cover some of these risks.

Workers' compensation insurance coverage is provided through the State fund.

Given the lack of coverage available, the District has no coverage for potential losses due to environmental damages. The amounts of any potential future losses are unknown. At the present time, the District is unaware of any potential future loss due to environmental damages.

Economic Dependency

Big Sky County Water and Sewer District receives a vast majority of its revenue from resort tax revenue collected by Gallatin County, Montana, and the user fees charged to the property owners. During fiscal year 1997, \$250,000 of the resort tax revenue is designated for project construction debt service and \$216,291 is designated for infiltration and in-flow repairs to system and water sampling and testing. In the following years, resort tax has committed revenue of up to \$500,000 annually to the District which is to be used to pay principal and interest on the general obligation bonds. (See Note 5).

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Financial Statements
For the Year Ended June 30, 1997

Note 2 - Cash and Cash Equivalents

Management considers all cash and certificates of deposit to be cash and cash equivalents. The following is a summary of cash and cash equivalents as of June 30, 1997:

Unrestricted	\$ 833,911
Restricted - RID	419,419
Restricted - Retainage and construction performance bonds	<u>288,728</u>
Total	<u>\$1,542,058</u>

The district's deposits are categorized below by the level of credit risk. Category 1 includes deposits insured or collateralized with securities held by the District or by the County Treasurer in the District's name. Category 2 includes deposits collateralized with securities held by the financial institution's trust department or agency in the District's name. Category 3 are deposits that are uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name. The Category 3 total is uninsured.

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash and Investments	<u>\$439,034</u>	<u>\$900,000</u>	<u>\$203,024</u>	<u>\$1,542,058</u>

Note 3 - Changes in Fixed Assets

	<u>Beginning Balance 7/1/96</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance 6/30/97</u>
Land	\$ 611,604				\$611,604
Plant Assets	2,551,239	\$ 5,357		\$ 62,759	2,619,355
Perimeter Fence	62,759			(62,759)	- 0 -
Rolling Stock Vehicles	41,917	22,326			64,243
Furniture and Fixtures	46,515	1,427		(35,697)	12,245
Computer Software	10,803			35,697	46,500
Construction in Progress		<u>4,158,455</u>			<u>4,158,455</u>
	<u>\$3,324,837</u>	<u>\$4,187,565</u>	<u>\$ -0-</u>	<u>\$ - 0 -</u>	<u>\$7,512,402</u>

Total interest and administrative costs capitalized during the period were \$100,014.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Financial Statements
For the Year Ended June 30, 1997

Note 4 - Lease Agreements

The District entered into a five year lease agreement for office space effective May 24, 1994, commencing upon substantial completion of the premises and terminating five years thereafter. The District moved into the new space in September, 1994, and pays \$1,125 monthly to be adjusted annually by the previous calendar year Consumer Price Index, or 3%, whichever is greater. The District has the option to extend the lease for a second five year term.

The following is a summary of lease commitments to be paid during the succeeding fiscal years based on the minimum annual 3% increase:

1998	\$14,500
1999	14,935
2000	15,383

Payments made pursuant to the lease during 1997 were \$14,206.

The District entered into an agreement to lease a storage trailer from Montana Ready Mix, Ltd. The lease commenced on June 10, 1996, and has no specified expiration date. The lease calls for payments of \$60 per month. Payments made pursuant to the lease during 1997 were \$720.

The District terminated an operating lease agreement to lease a 1995 Ford Ranger from Ford Motor Credit Company during fiscal year 1997. The lease deposit of \$350 was refunded. Payments made pursuant to the lease during 1997 were \$4,241. The lease qualified as an operating lease.

Note 5 - Outstanding Debt

a. Intercap Loan

On May 31, 1996, the District borrowed \$26,754 from the Montana Department of Commerce Board of Investments for the purchase of a 1995 GMC Suburban. Note payments are due on August 15th and February 15th. The first principal payment made was \$2,391 on August 15, 1996. That amount will increase with each payment until the final payment of \$2,977 on August 15, 2001. The interest rate shall equal the interest rate on the Board's bonds plus up to 1½% per annum as is necessary to pay the borrower's share of program expenses. The original interest rate was 4.85%. The note is collateralized by the Suburban.

The annual principal payments required until maturity are as follows:

1998	\$ 4,969
1999	5,213
2000	5,468
2001	5,737
2002	2,976
	<u>\$ 24,363</u>

Interest payments have not been included because the interest rate is variable, and those payments may fluctuate over the term of the loan.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Financial Statements
For the Year Ended June 30, 1997

Note 5 - Outstanding Debt - (Cont'd)

b. General Obligation Bonds

On May 28, 1996, the District entered into an agreement with the Department of Natural Resources and Conservation of the State of Montana under the Wastewater Treatment Works Revolving Fund Program. The bond agreement calls for loaning \$5,513,000 to the District. The loan will be paid out as progress is made on the District's project to acquire land for the design, construction, and installation of mandated improvements to the District's wastewater treatment system, satisfying the Interim Action Work Plan mandated by the Montana Water Quality Bureau. The maximum interest and carrying charge on the loan is 4% per annum. Total up-front program costs were \$86,830 consisting of an origination fee of \$55,130 and an administrative fee of \$31,700.

Per the bond agreement, the District will make semi-annual installments, which commenced January 1, 1997, paying interest and loan administration expenses. Upon completion of the project, the payments will also apply to principal. The general obligation bonds are to be repaid over the next 16 years with resort tax revenue appropriated to the District by the counties. The appropriation will not exceed the lesser of \$500,000, or 50% of the total amount of the annual resort tax revenue collected in any fiscal year.

	Beginning Balance <u>7/1/96</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>6/30/97</u>
State Revolving Loan	<u>\$ - 0 -</u>	<u>\$4,048,544</u>	<u>\$124,986</u>	<u>\$3,923,558</u>

Upon completion of the project a final repayment schedule will be calculated and the debt service requirements to maturity will be known.

Note 6 - Fund Equity

Contributed capital consists of all capital that existed before the District was formed in September of 1993. The \$929,175 restricted amount of contributed capital is related to the RID assets currently owned and depreciated by the District.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Financial Statements
For the Year Ended June 30, 1997

Note 7 - Retirement Plans

The District participates in a state-wide, cost-sharing multiple employer defined benefit retirement plan (Public Employees Retirement System (PERS)), which covers all employees, except certain part-time employees. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plan. Those reports may be obtained from the following:

Public Employees Retirement System
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
(406) 444-3154

Contribution rates for the plan are required and determined by State law. The PERS rates for both employee and employers were increased from 6.55% to 6.70% effective July 1, 1993, and were increased from 6.70% to 6.80% effective July 1, 1997. The contribution rates for 1997, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
PERS	6.70%	6.70%	13.40%

The amounts contributed to the plan during the years ended June 30, 1996, and 1997, were equal to the required contribution for each year. The amounts contributed by both the District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>1996</u>	<u>1997</u>
PERS	<u>\$15,705</u>	<u>\$22,950</u>

Note 8 - Prior Period Adjustments

In the current year, an adjustment of \$226 was required to reconcile the contributed capital and retained earnings account. Additionally, an adjustment of \$482,637 was made in order to properly reflect the settlement of the Boyne litigation (see Note 9). In prior years, a cumulative total of \$482,637 had been recorded as a liability in anticipation of a final payment settlement with Boyne. The final settlement reached releases Boyne's right to any of these funds, as such the previously recorded liability is removed.

BIG SKY COUNTY WATER & SEWER DISTRICT #363

Big Sky, Montana

Notes to the Financial Statements

For the Year Ended June 30, 1997

Note 9 - Commitments and Contingencies

Compliance Order

On July 13, 1993, the Montana Water Quality Bureau issued a compliance order to the District imposing a moratorium restricting new hook-ups to the sewer system and requiring 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 groundwaters. 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. Under an amendment dated August 31, 1995, required tasks of the amended compliance order must be completed by September 1, 2000. The District has met the State's compliance requirements through June 30, 1997.

Boyne Memo of Understanding

The District has an agreement, dated March 16, 1993, with Boyne USA, Inc. (Boyne), owner of Big Sky Ski & Summer Resort and Big Sky Owner's Association (BSOA) for the purpose of establishing funds necessary to design and construct a sewage treatment facility. 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. As noted below, the District has settled its lawsuit against Boyne and under the terms of the Settlement Agreement, Boyne's portion of the suspense fund (principal and interest) has been surrendered to the District. The District has recorded a deferred liability of \$482,637, which includes the original deposit amount of \$350,000 plus accrued interest of \$132,637.

Boyne Litigation and Related Complaint Action

The District entered into a Settlement Agreement, dated July 25, 1997, with Boyne USA, Inc. (Boyne), owner of the Big Sky Ski & Summer Resort and the Big Sky Owner's Association (BSOA). The parties agreed to settle the litigation between the parties regarding the actions of the parties related to the short and long term development of the sewer system for the Big Sky area. This case had been pending since 1991 in the Eighteenth Judicial District, Gallatin County, Montana. The District Court signed an order to dismiss the case on November 18, 1997.

The District also filed a related claim against the State of Montana asserting that as a result of State action, the expansion of the sewage treatment facilities has been wrongfully delayed, thereby exposing the State to liability for a share of the cost of the expansion.

Seypar, Inc. Litigation

A landowner with the District, Seypar, Inc., filed a declaratory judgment asking the District Court for an order invalidating certain sewer hook-up fees it paid under protest and requesting reimbursement of the fees. The case was heard by Eighteenth Judicial District, Gallatin County, Montana which ruled in favor of the District. The case was subsequently appealed to the Montana Supreme Court. The risk to the District is that the Court could order partial reimbursement of fees paid under protest by Seypar, Inc. and prohibit imposition of any such fees in the future. The District has accrued a liability of \$35,000.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Financial Statements
For the Year Ended June 30, 1997

Note 9 - Commitments and Contingencies - (Cont'd)

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 obligations to provide future wastewater collection and treatment services to certain of the original subdivisions of Big Sky as well as other commitments entered into either by agreement or legally mandated and recognized legal obligations of the District.

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 1997

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass- through Grantor Number	Program Award Amount	Amount to be Drawn Down 7/1/96	Receipts	Disbursements	Amount to be Drawn Down 6/30/97
<u>Environmental Protection Agency</u>							
Passed-through Montana Department of Natural Resources and Conservation:							
Wastewater Treatment Works Revolving Fund Program	66.458	C302025-01	\$5,513,000	\$0	\$4,048,544	\$4,328,453	(\$279,909)
Total Federal Awards				\$0	\$4,048,544	\$4,328,453	(\$279,909)

BIG SKY COUNTY WATER & SEWER DISTRICT #363
Big Sky, Montana

Notes to the Schedule of Expenditures of Federal Awards
June 30, 1997

Note 1 - Basis of Accounting

The supplementary schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources.

Note 2 - Reporting Entity

The District, for purposes of the supplementary schedule of expenditures of federal awards, included all the funds of the primary government and its component unit as defined by GASB Statement 14, *The Financial Reporting Entity*.

Note 3 - Type of Award

The major program listed on the Schedule of Federal Awards is a loan and not a grant. The percentage of these funds considered federal awards is 83.3. The remaining funds were provided by the State of Montana.



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

**To the Board of Directors
Big Sky County Water & Sewer
District #363
Big Sky, Montana**

We have audited the financial statements of Big Sky County Water & Sewer District #363 as of and for the year ended June 30, 1997, and have issued our report thereon dated September 5, 1997. We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, as detailed in the accompanying schedule of findings and questioned costs as item 97-5.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-1, 97-2, 97-3, 97-4, and 97-6.

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**Big Sky County Water & Sewer
District #363
Independent Auditors' Report on Compliance and
on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*
Page 2**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

This report is intended for the information of the Board of Directors, management, the Environmental Protection Agency, and the State of Montana. However, this report is a matter of public record and its distribution is not limited.

Joseph Eve & Company

**Billings, Montana
September 5, 1997**



**Joseph Eve & Company
Management Consultants &
Certified Public Accountants**

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

**To the Board of Directors
Big Sky County Water & Sewer
District #363
Big Sky, Montana**

Compliance

We have audited the compliance of Big Sky County Water & Sewer District #363 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 1997. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1997.

**Big Sky County Water & Sewer
District #363
Independent Auditors' Report on Compliance
with Requirements Applicable to each Major
Program and Internal Control over Compliance
in Accordance with OMB Circular A-133
Page 2**

Internal Control over Compliance

The management of Big Sky County Water & Sewer District #363 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-1 and 97-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Directors, management, the Environmental Protection Agency, and the State of Montana. However, this report is a matter of public record and its distribution is not limited.

Joseph Eve & Company
Billings, Montana
September 5, 1997

BIG SKY COUNTY WATER & SEWER DISTRICT #363

Schedule of Findings and Questioned Costs
June 30, 1997

1. Summary of Auditors' Results

- a. An unqualified opinion was issued on accounting procedures in the Independent Auditors' Report.
- b. Reportable conditions are disclosed in relation to the financial statements.
- c. There was no material noncompliance in relation to the financial statements.
- d. There were reportable internal control conditions for major programs.
- e. An unqualified opinion was issued on the report on compliance for major programs.
- f. The audit disclosed audit findings.
- g. Major program: Environmental Protection Agency, Passed-through Montana Department of Natural Resources and Conservation: Wastewater Treatment Works Revolving Fund Program.
- h. \$300,000 was the threshold for Type A programs.
- i. The auditee did not qualify as a low risk auditee.
- j. There were no instances where results of audit follow-up procedures disclosed that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

BIG SKY COUNTY WATER & SEWER DISTRICT #363

Schedule of Findings and Questioned Costs

June 30, 1997

2. Audit Findings in Relation to the Financial Statements and Federal Awards

**Reference
Number**

Finding

97-1

Accounting Procedures

During our audit, we noted instances in which generally accepted accounting procedures were not followed. The District double posted all receipts and disbursements regarding the State revolving fund loan. Receipts were recorded as revenue and as notes payable. Disbursements were recorded as expenses and capitalized as construction-in-progress. The District posted deposits received on accounts receivable in July to the June trial balance and these deposits were listed as outstanding on the June bank reconciliation. The District also posted checks written in July to the June trial balance, and these checks were listed as outstanding on the June bank reconciliation.

Recommendation

We recommend that receipts and disbursements regarding the State revolving fund loan not be recorded as revenue and expenses. These amounts should be recorded on a separate spread sheet for analysis by the Board of Directors. Additionally, transactions should be posted in the period in which they occur, with appropriate receivable and payable accounts being established. This will reduce the amount of reconciling items that need to be considered at year end.

97-2

941 Reports

During our testing and review of payroll, we noted that line 6A, taxable Social Security wages, and line 7A, Medicare wages and tips, were not entered on one of the four quarterly Form 941 reports filed.

Recommendation

All correspondence and reports to the Federal government should be filed completely and accurately.

BIG SKY COUNTY WATER & SEWER DISTRICT #363

Schedule of Findings and Questioned Costs

June 30, 1997

2. Audit Findings in Relation to the Financial Statements and Federal Awards - (Cont'd)

**Reference
Number**

Finding

97-3

Payroll

During our testing of payroll, we noted that one timesheet was not properly approved by a Supervisor.

Recommendation

We recommend that all timesheets be approved by the Supervisor before checks are processed.

97-4

Segregation of Duties

Small organizations often have internal control weaknesses in the area of segregation of duties because of limited personnel. Big Sky County Water & Sewer District #363 has only two office employees and, as such, has limitations on improvements that can be made. However, management can weigh the cost/benefit of the following recommendations.

Recommendations

* Cash Receipts - Incoming mail should be opened by a person having no other cash receipt posting duties in order to establish internal control over cash receipts. The initial listing of cash receipts should later be compared to cash receipt records and deposit slips by an employee having no access to cash.

Complaints on customer statements should be investigated by an employee who is independent of the preparer of the daily cash receipts list and the accounts receivable records.

BIG SKY COUNTY WATER & SEWER DISTRICT #363

Schedule of Findings and Questioned Costs

June 30, 1997

2. Audit Findings in Relation to the Financial Statements and Federal Awards - (Cont'd)

**Reference
Number**

Finding

97-4

Recommendations - (Cont'd)

* Adjustments of cash accounts should be approved by an appropriate person.

Extensions and footings should be checked when processing invoices, with an initial to indicate who performed the procedure.

* Certificates of Deposit - Certificates of deposit should be adequately protected, preferably in a safe deposit box or on deposit with a corporate trustee.

* Property and Equipment - Written policies should document the District's capitalization policy, in order for accounting personnel to consistently differentiate between capital and expense items.

97-5

Compensated Absences

We noted that liabilities for accrued sick leave were accrued at 100% of the amount calculated. Per MCA 2-18-618(5), only 25% of pay attributed to the accumulated sick leave is payable upon termination, so only this amount should be accrued as a payable.

Recommendation

We recommend that the District accrue compensated absences in accordance with State law.

97-6

New Bank Accounts

The Board of Directors did not approve the opening of new bank accounts.

Recommendation

We recommend that the Board of Directors authorize the opening and closing of all bank accounts, in order to ensure that no accounts exist or are closed without their knowledge.



BIG SKY COUNTY WATER & SEWER DISTRICT No. 363

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CORRECTIVE ACTION PLAN

June 30, 1997

Finding 97-1 Accounting Procedures

The board wanted the debit and credit entries on the Income Statement. We will keep track of them on a separate ledger other than on the Income Statement.

Finding 97-2 941 Reports

Response – We are now completing the 941 reports directly from the computer, so this should not occur again.

Finding 97-3 Payroll

Response – We will be more careful in the future.

Finding 97-4 Segregation of Duties

▸ Cash Receipts

We are not able to implement with our limited number of personnel.

▸ Adjustments of cash accounts

The Board currently authorizes adjustments to accounts other than errors. We will reflect this in the board minutes or have a board member sign off on the adjustments.

▸ Extensions & Footings

We have been doing that but not initialing them. We will initial the footings in the future.

▸ Certificates of Deposit

We will keep our CD's in Safekeeping at the institution.

▸ Property & Equipment

Management will recommend a policy statement for the board to adopt. We have been using \$500.00 as a threshold guideline.

Finding 97-5 Compensated Balances

Response – Sick leave will be adjusted to reflect state code

Finding 97-6 New Bank Accounts

The board knew that these accounts existed. We will have the accounts authorized in the board minutes, and any opening or closing of bank account in the future will be authorized by the board.

The Corrective Action Plan will be implemented immediately by the appropriate personnel.

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363

W. K. Dutton,
Financial Officer

Date 11-19-97



BIG SKY COUNTY WATER & SEWER DISTRICT No. 363

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Summary Schedule of Prior Year Audit Findings June 30, 1997

Below summarized the District's June 30, 1997, audit findings (including corresponding page numbers) and the follow-up action taken.

- ▶ Segregation of Duties (Page 17 and 18)
 - ** Cash Receipts – Not able to implement with our limited number of staff.
 - ** Cash Disbursements – Partially implemented
 - ** Petty Cash – Corrective action taken
 - ** Certificates of Deposit – Not implemented
 - ** Personnel Records – Corrective action taken
 - ** Property and equipment capitalization policy – Not implemented
- ▶ 941 Reports (page 18) – Not implemented
- ▶ Disbursement Approval (page 18) – Corrective action taken

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363

W. K. Dutton,
Financial Officer

Date 11-19-97

