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

AUDITED FINANCIAL STATEMENTS

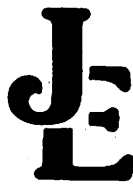
JUNE 30, 1998

**Joseph Eve & Company
Certified Public Accountants**

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	3
<u>Financial Statements</u>	
Combined Balance Sheet	5
Statement of Revenue and Expenses – Enterprise Fund	7
Statement of Changes in Net Assets – Investment Trust Fund	8
Statement of Changes in Fund Equity	9
Combined Statement of Cash Flows	10
Notes to Financial Statements	12
<u>Supplemental Schedules</u>	
Schedule of Expenditures of Federal Awards	22
Notes to the Schedule of Expenditures of Federal Awards	23
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	26
Schedule of Findings and Questioned Costs	28
Corrective Action Plan	31
Summary Schedule of Prior Year Audit Findings	32



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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, 1998, 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, 1998, 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 August 7, 1998, on our consideration of the Big Sky County Water & Sewer District #363's 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
Certified Public Accountants

**Billings, Montana
August 7, 1998**

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

Combined Balance Sheet
June 30, 1998

	Enterprise Fund	Investment Trust Fund	Total (Memorandum Only)
ASSETS			
Current assets:			
Cash and cash equivalents	\$1,622,643		\$1,622,643
Accounts receivable	749,287		749,287
Prepaid expenses	10,625		10,625
Notes receivable	10,125		10,125
Total Current Assets	2,392,680	\$0	2,392,680
Restricted cash and cash equivalents:			
Proceeds restricted for construction:			
RID	756,441		756,441
Construction performance bonds	25,419		25,419
Retainage account		93,795	93,795
Total Restricted Cash and Cash Equivalents	781,860	93,795	875,655
Property and equipment, at cost:			
Land	616,604		616,604
Vehicles	68,057		68,057
Furniture and equipment	18,063		18,063
Computer equipment and software	33,731		33,731
Sewer system equipment	2,681,267		2,681,267
Water system equipment	2,167,706		2,167,706
Construction-in-progress	5,744,013		5,744,013
	11,329,441	0	11,329,441
Less: accumulated depreciation	(2,268,911)		(2,268,911)
Total Property and Equipment	9,060,530	0	9,060,530
Other assets:			
Lease deposits	1,612		1,612
Notes receivable	139,000		139,000
Accounts receivable - deferred	628,380		628,380
Total Other Assets	768,992	0	768,992
Total Assets	\$13,004,062	\$93,795	\$13,097,857

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

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

Combined Balance Sheet
June 30, 1998

LIABILITIES AND FUND EQUITY

Current liabilities:

	Enterprise Fund	Investment Trust Fund	Total (Memorandum Only)
Accounts payable	\$65,573		\$65,573
Retainages payable		\$93,795	93,795
Private contractor bonds	25,419		25,419
Payroll taxes payable	8,143		8,143
Compensated absences payable	23,602		23,602
Accrued legal expense	2,838		2,838
Current portion of long-term debt	168,278		168,278
Total Current Liabilities	293,853	93,795	387,648

Long-term liabilities:

Deferred revenue	777,505		777,505
Interkap loan	14,182		14,182
State revolving loan	5,120,222		5,120,222
Green Tree computer lease	6,032		6,032
Telemetry leases	177,832		177,832
Total Long-term Liabilities	6,095,773	0	6,095,773

Fund equity:

Contributed capital - unrestricted	1,787,115		1,787,115
Contributed capital - restricted - RID assets	885,272		885,272
Retained earnings - unrestricted	3,942,049		3,942,049
Total Fund Equity	6,614,436	0	6,614,436
Total Liabilities and Fund Equity	\$13,004,062	\$93,795	\$13,097,857

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

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

Statement of Revenue and Expenses
Enterprise Fund
Year Ended June 30, 1998

OPERATING REVENUE

Sewer services	\$1,934,175
Water services	178,593
	<hr/>
Gross Operating Revenue	2,112,768

OPERATING EXPENSES

Accounting and audit fees	6,034
Bank charges	147
Chlorine and operating supplies	46,618
Depreciation	155,227
Dues	928
Engineering	44,085
Insurance	21,689
Interest expense	15,391
Legal	45,709
Maintenance and general repairs	91,263
Office supplies	12,164
Payroll taxes and benefits	54,099
Postage and miscellaneous	11,454
Rent	37,928
Salaries and wages	196,730
Travel and related expenses	2,966
Utilities	56,131
Special projects	28,133
Snow making project	10,487
	<hr/>
Total Operating Expenses	837,183
	<hr/>
Operating Income	1,275,585

NON-OPERATING REVENUE (EXPENSES)

Resort tax revenue	565,000
Interest income	87,734
Miscellaneous revenue	667
Boyne settlement payment	250,000
Loss on disposition of assets	(13,601)
	<hr/>
Total Non-operating Revenue (Expenses)	889,800
	<hr/>
Net Income	\$2,165,385

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

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

Statement of Changes in Net Assets
Investment Trust Fund
Year Ended June 30, 1998

Additions

Interest	\$8,068
Amounts deposited in retainage account	117,876
Decrease in retainage payable	<u>180,556</u>
Total Additions	<u>306,500</u>

Deductions

Payments to contractors	<u>(306,500)</u>
Total Deductions	<u>(306,500)</u>

Change in net assets	0
Net assets, beginning of period	<u>0</u>
Net assets, end of period	<u><u>\$0</u></u>

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

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

**Statement of Changes in Fund Equity
Enterprise Fund
Year Ended June 30, 1998**

	<u>Contributed Capital</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted RID Assets</u>	<u>Unrestricted</u>	
Beginning balances, July 1, 1997	\$1,787,115	\$929,175	\$999,636	\$3,715,926
Net income			2,165,385	2,165,385
Transfer depreciation on contributed assets		(43,903)	43,903	0
Transfer of water district from Lone Mountain Springs			695,037	695,037
Prior period adjustment (See Note 8)			38,088	38,088
Ending balances, June 30, 1998	\$1,787,115	\$885,272	\$3,942,049	\$6,614,436

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

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

Combined Statement of Cash Flows
Year Ended June 30, 1998

	Enterprise Fund	Investment Trust Fund	Total (Memorandum Only)
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Operating income	\$1,275,585		\$1,275,585
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:			
Depreciation	155,227		155,227
Loss on disposition of assets	(13,601)		(13,601)
(Increase) decrease in current and other assets:			
Accounts receivable	(1,171,132)		(1,171,132)
Resort tax receivable	41,723		41,723
Prepaid expenses	(3,040)		(3,040)
Inventory	4,298		4,298
Lease deposits	(555)		(555)
Notes receivable	(149,125)		(149,125)
Increase (decrease) in liabilities:			
Accounts payable	(250,570)		(250,570)
Retainages payable		(\$180,556)	(180,556)
Private contractor bonds	11,043		11,043
Payroll taxes payable	3,790		3,790
Compensated absences payable	1,945		1,945
Accrued interest - InterCap loan	40		40
Deferred liabilities	2,838		2,838
Deferred revenue	777,505		777,505
Net Cash Provided/(Used) by Operating Activities	685,971	(180,556)	505,415
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u>			
Resort tax revenue	565,000		565,000
Boyne settlement payment	250,000		250,000
Miscellaneous revenue	667		667
Beginning cash - Lone Mountain Springs	22,121		22,121
Net Cash Provided from Non-capital Financing Activities	837,788	0	837,788
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</u>			
Principal paid on the InterCap loan	(4,969)		(4,969)
Proceeds from state revolving loan fund	1,673,490		1,673,490
Principal paid on state revolving loan fund	(332,826)		(332,826)
Principal paid on Green Tree computer lease	(4,893)		(4,893)
Principal paid on Telemetry lease	(12,763)		(12,763)
Net Cash Flows Provided from Capital Financing Activities	1,318,039	0	1,318,039
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Interest income	87,734		87,734
Acquisition of fixed assets	(207,178)		(207,178)
Cash paid for construction-in-progress	(1,585,558)		(1,585,558)
Net Cash Used by Investing Activities	(1,705,002)	0	(1,705,002)
Net Increase (Decrease) in Cash	1,138,796	(180,556)	956,240
Cash and cash equivalents, beginning of year	1,267,707	274,351	1,542,058
Cash and Cash Equivalents, End of Year	\$2,404,503	\$93,795	\$2,498,298

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

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

Combined Statement of Cash Flows
Year Ended June 30, 1998

**Supplemental Schedule of Non-cash Investing and
and Financing Activities:**

Big Sky County Water & Sewer District acquired Lone Mountain Springs,
water company, as part of the settlement with Boyne USA.

Cash received	\$22,121
Fixed assets acquired	2,054,869
Less: accumulated depreciation	(1,167,674)
Accounts receivable and other assets	16,611
Financed by capital lease obligation	(204,110)
Liabilities assumed	<u>(26,780)</u>
Increase in Retained Earnings	<u>\$695,037</u>

Supplemental Information
Cash paid for interest

\$15,391

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, 1998

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 acquired Lone Mountain Springs, water district, as part of a settlement agreement reached with Boyne USA on July 25, 1997. 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 in an enterprise fund and an investment trust 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.

The District's investment trust fund is an individual investment account. An individual investment account is an investment service provided by a governmental entity for other legally separate entities that are not part of the same reporting entity. With individual investment accounts, specific investments are acquired for individual entities and the income from and changes in the value of those investments affect only the entity for which they were acquired.

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 and water fees annually based on the number of single family equivalent units. On January 1, 1998, the District began billing for water fees after acquiring Lone Mountain Springs. Beginning July 1, 1996, 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.

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

Notes to the Financial Statements
For the Year Ended June 30, 1998

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

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.

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:

Water and 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 made for uncollectible accounts, because the District believes that all accounts will be collected. Even though the District took over the billing of accounts receivable from the County, they may still turn over any delinquent accounts to the County for collection.

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 budget 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 approval rests with the county commissioners after all budget requirements have been met.

Expenses paid from the resort tax proceeds are included in operating expenses in the Statement of Revenue and Expenses.

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

Notes to the Financial Statements
For the Year Ended June 30, 1998

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

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.

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 1998, \$500,000 of the resort tax revenue was used to pay principal and interest on the general obligation bonds; \$20,000 is designated for an engineering evaluation of a water study; and, \$45,000 is for low-income housing projects.

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

Notes to the Financial Statements
For the Year Ended June 30, 1998

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, 1998:

Unrestricted	\$1,622,643
Restricted - RID	756,441
Restricted - Retainage and construction performance bonds	<u>119,214</u>
Total	<u>\$2,498,298</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. 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 cash equivalents	<u>\$200,000</u>	<u>\$1,517,374</u>	<u>\$780,924</u>	<u>\$2,498,298</u>

Note 3 - Changes in Fixed Assets

	Beginning Balance <u>7/1/97</u>	Additions	Deletions	Ending Balance <u>6/30/98</u>
Land	\$ 611,604	\$ 5,000		\$ 616,604
Sewer plant assets	2,619,355	31,045		2,650,400
Sewer outfall line	0	30,867		30,867
Rolling stock vehicles	64,243	3,814		68,057
Furniture and fixtures	12,245	5,818		18,063
Computer software	46,500	15,410	\$46,501	15,409
Computer hardware		18,322		18,322
Water plant contributions		125,522		125,522
Water plant structures and improvements		80,629		80,629
Wells and springs		857,782		857,782
Supply mains		52,997		52,997
Pumping equipment		66,514		66,514
Distribution reservoirs		126,775		126,775
Transmission and distribution		572,412		572,412
Meter and hydrants		39,344		39,344
Radios		16,621		16,621
Westfork water system		25,000		25,000
Telemetry equipment		204,110		204,110
Construction in progress	<u>4,158,455</u>	<u>1,585,558</u>		<u>5,744,013</u>
	<u>\$7,512,402</u>	<u>\$3,863,540</u>	<u>\$46,501</u>	<u>\$11,329,441</u>

Total interest and administrative costs capitalized during the period were \$198,742.

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

Notes to the Financial Statements
For the Year Ended June 30, 1998

Note 4 - Lease Agreements

- a. 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:

1999	\$14,989
2000	15,439
<u>2001</u>	<u>15,902</u>

Payments made pursuant to the lease during 1998 were \$14,552.

- b. The District entered into two agreements to lease storage trailers from Montana Ready Mix, Ltd. The leases commenced on June 10, 1996 and August 8, 1996, and they have no specified expiration date. The leases call for payments of \$60 per month and \$90 per month. Payments made pursuant to the leases during 1998 were \$7,800.
- c. The District entered into an agreement to lease a storage unit from Storage Big Sky. The lease commenced on February 1, 1998, for one year. After one year, the District can continue to rent on a month-to-month basis. The lease called for one payment of \$441 made during 1998.
- d. The District entered into a three year lease agreement for six computers from Green Tree Corporation for \$15,934 on July 23, 1997. The lease calls for payments of \$554 per month. The lease qualified as a capital lease.

Payments made pursuant to the lease during 1998 were \$4,893.

The following is a summary of lease commitments to be paid during the succeeding fiscal years:

1999	\$ 5,010
2000	<u>6,032</u>
	<u>\$11,042</u>

- e. The District acquired two capital leases for \$204,110 with the acquisition of Lone Mountain Springs. The leases are for a period of ten (10) years, expiring in 2004 and 2007. The leases call for payments of \$1,857 and \$6,212 per month.

The following is a summary of lease commitments to be paid during the succeeding fiscal years:

1999	\$ 13,514
2000	19,267
2001	20,797
2002	22,448
2003	24,233
Thereafter	<u>91,087</u>
Total	<u>\$191,346</u>

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

Notes to the Financial Statements
For the Year Ended June 30, 1998

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 was for \$2,391 on August 15, 1996, and 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:

1999	\$ 5,213
2000	5,468
2001	5,737
2002	<u>2,977</u>
	<u>\$19,395</u>

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

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.

On December 11, 1997, the District entered into a second 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 an additional \$417,000 to the District. The loan will also be paid out as progress is made on the District's project for the wastewater treatment system. The maximum interest and carrying charge on the loan is 4% per annum. Total up-front program costs were \$6,568, consisting of an origination fee of \$4,170 and an administrative fee of \$2,398.

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

Notes to the Financial Statements
For the Year Ended June 30, 1998

Note 5 - Outstanding Debt - (Cont'd)

b. General Obligation Bonds - (Cont'd)

Per the bond agreements, 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>7/1/97</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>6/30/98</u>
State Revolving Loan #1	\$3,923,558	\$1,464,456	\$322,826	\$5,065,188
State Revolving Loan #2		209,034	10,000	199,034

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

Resolution Sewer System General Obligation Bonds

1. The District was to establish a construction fund and debt service fund for money to be set aside to pay the debt of the SRF loan.
2. Liability insurance must be carried.
3. All fund properties, buildings, equipment, and fixtures must be adequately insured with a reputable carrier.
4. The District must maintain adequate accounting records.
5. The District may invest money in securities which are fully and unconditionally guaranteed by the U.S. Government.
6. The Sewer Fund must be audited on an annual basis.

Note 6 - Fund Equity

Contributed capital consists of all capital that existed before the District was formed in September of 1993. The \$885,272 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, 1998

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 which 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 1998, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
PERS	6.80% 6.7	6.80%	13.60%

The amounts contributed to the plan during the years ended June 30, 1997, and 1998, 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>1998</u>	<u>1997</u>
PERS	<u>\$24,703</u>	<u>\$22,950</u>

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

Notes to the Financial Statements
For the Year Ended June 30, 1998

Note 8 - Prior Period Adjustments

The following adjustments were made to beginning retained earnings during the period under audit:

To adjust accounts receivable to actual	\$ 2,023
Reconcile retained earnings account	977
To adjust retainage payable to actual	8,546
To correct for 1997 adjustment to depreciation expense posted in 1998	(8,458)
To reflect settlement of Seypar, Inc. litigation. (In prior years, a cumulative total of \$35,000 had been recorded as a liability in anticipation of a final payment with Seypar. The final settlement reached releases Seypar's right to any of these funds; as such the previously recorded liability is removed.)	<u>35,000</u>
Total	<u>\$38,088</u>

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 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. 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, 1998.

Boyne Litigation and Related Complaint Action

The District entered into a Settlement Agreement, dated July 25, 1997, with Boyne USA (Boyne), owner of the Big Sky Ski & Summer Resort and the Big Sky Owner's Association (BSOA). They agreed to settle the litigation 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 has 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.

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

Notes to the Financial Statements
For the Year Ended June 30, 1998

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

Acquisition of Lone Mountain Springs (LMS)

Part of the Settlement Agreement between the District and Boyne USA, Inc. was the transfer of the assets and certain liabilities of LMS to the District. The District's water operation is the former Lone Mountain Springs.

Seypar, Inc. Litigation

A landowner with the District, Seypar, Inc., filed a declaratory judgment asking the Court for an order invalidating certain sewer hook-up fees it paid under protest and requesting reimbursement of the fees. 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 had accrued a liability of \$35,000. The court had awarded in favor of the District; however, Seypar filed an appeal. The Appellate Court upheld the original decision in favor of the District. As a result, the District removed the accrued liability it had recorded. (See Note 8)

Cronin Litigation

A landowner with the District, Paul and Janet Cronin, filed a suit seeking to declare one of the District's ordinances invalid and unconstitutional because it imposes impact fees and grants certain exemptions to those impact fees. Any potential liability of the District is unknown. Therefore, nothing has been recorded in the accompanying financial statements.

Obligation to Provide Future Sewer and Water Services

The District is obligated to provide water, 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 as well as other commitments entered into either by agreement or legally mandated.

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

Schedule of Expenditures of Federal Awards
Year Ended June 30, 1998

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass- through Grantor Number	Program Award Amount	Amount to be Drawn Down 7/1/97	Receipts	Disbursements	Amount to be Drawn Down 6/30/98
<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	(\$279,909)	\$1,464,456	\$1,184,547	\$0
Wastewater Treatment Works Revolving Fund Program	66.458	C302025-01	\$417,000	0	209,034	209,034	0
Total Federal Awards				(\$279,909)	\$1,673,490	\$1,393,581	\$0

See Independent Auditors' Report.

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

Notes to the Schedule of Expenditures of Federal Awards
June 30, 1998

Note 1 – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Big Sky County Water & Sewer District #363 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Loans Outstanding

The District had outstanding loan balances with the Montana Department of Natural Resources and Conservation at June 30, 1998. 83.3% of the loans are funds passed-through the Environmental Protection Agency.

<u>Loan</u>	<u>Amount Outstanding</u>	<u>1998 Drawdowns</u>	<u>1998 Federal Funds</u>
SRF Loan #1	\$5,065,188	\$1,464,456	\$1,219,892
SRF Loan #2	<u>199,034</u>	<u>209,034</u>	<u>174,125</u>
Total	<u>\$5,264,222</u>	<u>\$1,673,490</u>	<u>\$1,394,017</u>

Note 3 –Subrecipients

Of the federal expenditures presented in the schedule, the District provided no federal awards to subrecipients.



**Joseph Eve & Company
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**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, 1998, and have issued our report thereon dated August 7, 1998. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 98-1, 98-2, 98-3, 98-4, and 98-5.

**Big Sky County Water & Sewer
District #363
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 described above is a material weakness.

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

Joseph Eve & Company
Certified Public Accountants

**Billings, Montana
August 7, 1998**



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Management Consultants &
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**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, 1998. The District's major federal program is identified in the summary of auditor's 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, 1998.

**Big Sky County Water & Sewer
District #363
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 a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 98-4.

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 the reportable condition described above is not a material weakness.

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

*Joseph Eve & Company
Certified Public Accountants*

**Billings, Montana
August 7, 1998**

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

Schedule of Findings and Questioned Costs
June 30, 1998

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? X Yes _____ None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? X Yes _____ None reported

Type of auditors' report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes _____ No

Identification of Major Programs

CFDA Number(s)

66.458

Federal Program or Cluster

Wastewater Treatment Works

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

- Auditee qualified as low-risk auditee? X Yes _____ 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? _____ Yes X No

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

Schedule of Findings and Questioned Costs
June 30, 1998

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

98-1 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.

98-2 New Bank Accounts

We noted that 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, to ensure that no accounts exist without their knowledge.

98-3 Journal Entries

During our audit, we noted that some general journal entries did not have adequate supporting documentation to enable us to understand the need for each entry.

Recommendation

All journal entries should be accompanied by the proper supporting documentation, which would provide a better accounting trail.

98-4 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 costs/benefits of the following recommendations.

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

Schedule of Findings and Questioned Costs
June 30, 1998

98-4

Segregation of Duties – (Cont'd)

Recommendation

- Cash receipts – In order to establish internal control over cash receipts, incoming mail should be opened by a person having no other cash receipt posting duties. 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 preparing of the daily cash receipts list and the accounts receivable records.

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

98-5

Excess Deposits

Big Sky County Water & Sewer District has \$697,819 of excess deposits that were not covered by FDIC insurance or pledged collateral.

Recommendation

We recommend that Big Sky County Water & Sewer District follow their own company policy which requires all cash and investments to be fully collateralized.



BIG SKY COUNTY WATER & SEWER DISTRICT No. 363

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CORRECTIVE ACTION PLAN June 30, 1998

Finding 98-1 Payroll

Response – We will be more careful in the future.

Finding 98-2 New Bank Accounts

The board has been authorizing the opening and closing of bank accounts since 7-1-98.

Finding 98-3 Journal Entries

More documentation and descriptions will be entered on the journal entries in the future.

Finding 98-4 Segregation of Duties

► Cash Receipts

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

► Extensions & Footings

We have been checking and initialing the extensions & footings all year. A few must have been missed. Our procedure is to check and initial extensions and footings.

► Excess Deposits

Our excess was due to a large amount of cash coming into our bank accounts in a very short period of time and our local bank not being willing to collateralize the additional excess deposits. Our cash accounts have now been invested to be 100% covered by FDIC insurance and/or collateralized with securities. We will be opening another deposit account at another institution to avoid excess deposits beyond insurance and/or collateralization.

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 10-21-98



BIG SKY COUNTY WATER & SEWER DISTRICT No. 363


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

Summary Schedule of Prior Year Audit Findings Fiscal Year Ended June 30, 1998

Below summarizes Big Sky County Water & Sewer District #363 June 30, 1997 audit findings (including corresponding page number) and the follow-up action taken:

- Accounting procedures (page 26) – implemented
- 941 reports (page 26) – implemented
- Payroll (page 27) – not implemented
- Segregation of duties (page 27) – partially implemented
- Compensated absences (page 28) – implemented
- New bank accounts (page 28) – not implemented


General Manager

October 28, 1998
Date

