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

FINANCIAL STATEMENTS

JUNE 30, 1999

Knaub & Company, P.C.

Certified Public Accountants

985 Technology Blvd. #102
Bozeman, Montana 59718

BIG SKY COUNTY WATER & SEWER DISTRICT #363

JUNE 30, 1999

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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, 1999, as list 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, 1999, 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 11, 1999, 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.

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.

Knaub & Company, P.C.

August 11, 1999

BIG SKY COUNTY WATER & SEWER DISTRICT #363

BALANCE SHEET

JUNE 30, 1999

ASSETS

Current assets:

| | | |
|------------------------------------|----|----------------|
| Cash and cash equivalents | \$ | 757,148 |
| Accounts receivable | | 372,720 |
| Prepaid expenses | | 14,879 |
| Accrued interest income | | 1,100 |
| Boyne settlement - current portion | | 250,000 |
| Notes receivable - current portion | | <u>122,800</u> |

Total current assets \$ 1,518,647

Restricted cash and cash equivalents:

| | |
|--|---------------|
| Restricted for bond payments | 801,267 |
| Restricted for future capital improvements | 1,390,926 |
| Construction performance bonds | 23,261 |
| Retainage accounts | <u>84,737</u> |

Total restricted cash and cash equivalents 2,300,191

Property and equipment, at cost:

| | |
|---|--------------------|
| Land | 616,604 |
| Vehicles | 92,293 |
| Furniture and equipment | 21,154 |
| Computer equipment and software | 36,661 |
| Water and sewer system equipment and infrastructure | <u>12,631,336</u> |
| | 13,398,048 |
| Less: accumulated depreciation | <u>(2,670,121)</u> |

Total property and equipment 10,727,927

Other assets:

| | |
|--------------------------------|----------------|
| Lease deposits | 1,612 |
| Notes receivable | 139,125 |
| Less: current portion | (122,800) |
| Boyne settlement receivable | 2,750,000 |
| Less: current portion | (250,000) |
| Plant investment fees deferred | <u>628,380</u> |

Total other assets 3,146,317

TOTAL ASSETS \$ 17,693,082

(Continued)

BIG SKY COUNTY WATER & SEWER DISTRICT #363

BALANCE SHEET (Continued)

JUNE 30, 1999

LIABILITIES AND FUND EQUITY

Current liabilities:

| | | |
|---|----|----------------|
| Accounts payable | \$ | 136,516 |
| Accrued interest payable | | 175 |
| Retainages payable | | 84,737 |
| Private contractor bonds | | 23,261 |
| Payroll taxes payable | | 7,881 |
| Compensated absences payable | | 18,847 |
| Accrued health insurance claims payable | | 10,187 |
| Current portion of long-term debt | | <u>330,467</u> |

Total current liabilities

612,071

Long-term liabilities:

| | |
|---|------------------|
| Deferred revenue | 3,517,505 |
| Interkap loan | 8,210 |
| State revolving fund loans | 5,184,000 |
| Green Tree computer lease | 5,619 |
| Telemetry leases | 173,152 |
| Less: current portion of long-term debt | <u>(330,467)</u> |

Total long-term liabilities

8,558,019

Fund equity:

| | |
|------------------------------------|------------------|
| Contributed capital - unrestricted | 2,552,379 |
| Contributed capital - RID assets | 885,272 |
| Retained earnings - unrestricted | <u>5,085,341</u> |

Total fund equity

8,522,992

TOTAL LIABILITIES AND FUND EQUITY

\$ 17,693,082

(Concluded)

BIG SKY COUNTY WATER & SEWER DISTRICT #363

STATEMENT OF REVENUE AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 1999

OPERATING REVENUE:

| | |
|-----------------------------|----------------|
| Sewer services | \$ 1,080,647 |
| Sewer plant investment fees | 210,375 |
| Water services | <u>375,077</u> |

| | |
|-------------------------|------------------|
| Gross operating revenue | <u>1,666,099</u> |
|-------------------------|------------------|

OPERATING EXPENSES:

General and administrative:

| | |
|-------------------------------------|---------------|
| Meetings | 637 |
| Salaries | 125,888 |
| Payroll taxes and benefits | 38,427 |
| Rent | 13,706 |
| Condo assoc dues and property taxes | 3,553 |
| Utilities | 997 |
| Computer software | 3,447 |
| Janitorial | 1,216 |
| Office supplies and expense | 6,562 |
| Telephone | 3,920 |
| Postage and shipping | 2,858 |
| Printing | 1,387 |
| Advertising | 1,358 |
| Insurance | 28,113 |
| Dues and subscriptions | 614 |
| Election expenses | 35 |
| Vehicle expenses | 3,421 |
| Interest expense | 1,646 |
| Legal fees | 32,852 |
| Computer maintenance | 1,116 |
| Audit expense | 4,500 |
| Other consulting fees | 2,820 |
| Bank service charges | 224 |
| State annual filing fee | 675 |
| Miscellaneous | 3,066 |
| Personnel policy development | 2,071 |
| GIS mapping | 10,418 |
| Health and safety plan | <u>20,000</u> |

| | |
|----------------------------------|---------|
| Total general and administrative | 315,527 |
|----------------------------------|---------|

(Continued)

BIG SKY COUNTY WATER & SEWER DISTRICT #363

STATEMENT OF REVENUE AND EXPENSES (Continued)

FOR THE YEAR ENDED JUNE 30, 1999

Sewer general and administrative:

| | |
|-------------------------------------|--------|
| Salaries | 74,468 |
| Payroll taxes and employee benefits | 27,739 |
| Dues and subscriptions | 177 |
| Telephone | 3,069 |
| Postage and shipping | 29 |
| Printing | 32 |
| Office supplies | 1,133 |
| Publications | 565 |

Total general and administrative - sewer

107,212

Sewer Plant Expense:

| | |
|--------------------------------|---------|
| Gas and oil | 3,836 |
| Repair and maintenance | 2,033 |
| Insurance | 1,356 |
| Utilities | 47,046 |
| Chemicals | 27,475 |
| Lab fees | 8,815 |
| Lab testing equipment | 354 |
| Equipment rental | 2,587 |
| Safety equipment | 459 |
| Repairs and maintenance | 14,928 |
| Backhoe rent | 15,365 |
| Maintenance | 14,905 |
| Tools | 1,817 |
| Jetting | 6,163 |
| Engineering | 735 |
| Miscellaneous | 72 |
| Computer software | 3,540 |
| Computer lease | 5,386 |
| Depreciation expense | 287,440 |
| Long-term compliance work plan | 4,151 |

Total sewer plant expense

448,463

(Continued)

BIG SKY COUNTY WATER & SEWER DISTRICT #363

STATEMENT OF REVENUE AND EXPENSES (Continued)

FOR THE YEAR ENDED JUNE 30, 1999

Water general and administrative:

| | |
|--|--------------|
| Salaries | 40,882 |
| Wages | 2,703 |
| Payroll taxes and employee benefits | 15,828 |
| Dues and subscriptions | 780 |
| Communications and telemetry equipment | 1,499 |
| Printing | 51 |
| Publications | 699 |
| Office supplies | 188 |
| Public water supply fees | <u>2,265</u> |

| | |
|---|---------------|
| Total water general and administrative | 64,895 |
|---|---------------|

Water plant expense:

| | |
|-------------------------|---------------|
| Vehicle expenses | 2,727 |
| Utilities | 38,176 |
| Lab fees | 5,071 |
| Equipment rental | 2,733 |
| New water services | 1,778 |
| Tools | 356 |
| Interest expense | 14,080 |
| Repairs | 58,580 |
| Leak detection | 5,551 |
| Tank inspection | 2,675 |
| Water rights | 2,232 |
| Miscellaneous | 3,643 |
| Depreciation | 113,770 |
| DEQ Water quality study | 2,886 |
| Water facilities plan | <u>35,477</u> |

| | |
|----------------------------------|-----------------------|
| Total water plant expense | <u>289,735</u> |
|----------------------------------|-----------------------|

| | |
|-----------------------|-------------------------|
| Total expenses | <u>1,225,832</u> |
|-----------------------|-------------------------|

| | |
|-------------------------|-----------------------|
| Operating income | <u>440,267</u> |
|-------------------------|-----------------------|

NONOPERATING REVENUE (EXPENSES):

| | |
|-------------------------------|-----------------|
| Resort tax revenue | 550,000 |
| Interest income | 132,228 |
| Interest expense | (212,582) |
| Boyne settlement payment | 250,000 |
| Loss on disposition of assets | <u>(16,621)</u> |

| | |
|--|-----------------------|
| Total nonoperating revenue (expenses) | <u>703,025</u> |
|--|-----------------------|

| | |
|-------------------|----------------------------|
| NET INCOME | <u>\$ 1,143,292</u> |
|-------------------|----------------------------|

(Concluded)

BIG SKY COUNTY WATER & SEWER DISTRICT #363

STATEMENT OF CHANGES IN FUND EQUITY

FOR THE YEAR ENDED JUNE 30, 1999

| | <u>Contributed Capital</u> | | <u>Retained</u> <u>Earnings</u> | <u>Total</u> |
|----------------------------------|----------------------------|-------------------|------------------------------------|------------------|
| | <u>Unrestricted</u> | <u>RID Assets</u> | <u>Unrestricted</u> | |
| Beginning balances, July 1, 1998 | \$ 1,787,115 | 885,272 | 3,942,049 | 6,614,436 |
| Net income | - | - | 1,143,292 | 1,143,292 |
| Contributed capital | <u>765,264</u> | <u>-</u> | <u>-</u> | <u>765,264</u> |
| Ending balances, June 30, 1999 | <u>\$ 2,552,379</u> | <u>885,272</u> | <u>5,085,341</u> | <u>8,522,992</u> |

BIG SKY COUNTY WATER & SEWER DISTRICT #363

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 1999

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | | |
|--|----------|----|----------------|
| Operating income | | \$ | 440,267 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation | 401,210 | | |
| Loss on disposition of assets | (16,621) | | |
| (Increase) decrease in current assets: | | | |
| Accounts receivable | 376,567 | | |
| Prepaid expenses | (4,254) | | |
| Accrued interest receivable | (1,100) | | |
| Increase (decrease) in current liabilities: | | | |
| Accounts payable | 68,105 | | |
| Retainages payable | (9,058) | | |
| Private contractor bonds | (2,158) | | |
| Payroll taxes payable | (262) | | |
| Compensated absences payable | (4,755) | | |
| Accrued health insurance claims payable | 10,187 | | |
| Accrued interest payable | (368) | | |
| | | | <u>817,493</u> |
| Net cash provided (used) by operating activities | | | 1,257,760 |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

| | | | |
|---|----------------|--|---------|
| Resort tax revenue | 550,000 | | |
| Boyne settlement payment | <u>250,000</u> | | |
| Net cash provided (used) from noncapital financial activities | | | 800,000 |

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

| | | | |
|--|----------------|--|-----------|
| Principal paid on long-term debt | (322,989) | | |
| Interest paid | (212,582) | | |
| Proceeds from State revolving loan fund | <u>207,967</u> | | |
| Net cash flows provided (used) from capital financing activities | | | (327,604) |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | | |
|--|--------------------|--|--------------------|
| Interest income | 132,228 | | |
| Acquisition of fixed assets | <u>(1,303,343)</u> | | |
| Net cash provided (used) by investing activities | | | <u>(1,171,115)</u> |

| | |
|---------------------------------|---------|
| Net increase (decrease) in cash | 559,041 |
|---------------------------------|---------|

| | |
|--|------------------|
| Cash and cash equivalents, beginning of year | <u>2,498,298</u> |
|--|------------------|

| | |
|--|----------------------------|
| Cash and cash equivalents, end of year | \$ <u><u>3,057,339</u></u> |
|--|----------------------------|

Per balance sheet:

| | | |
|--|----|-------------------------|
| Unrestricted cash and cash equivalents | \$ | 757,148 |
| Restricted cash and cash equivalents | | <u>2,300,191</u> |
| | \$ | <u><u>3,057,339</u></u> |

BIG SKY COUNTY WATER & SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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, operation, 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. The District serves 1,453 customers.

Basis of Accounting

The District is considered a proprietary governmental unit. As such, its activities are similar to those found in the private sector where determination of net income is necessary or useful to sound financial administration. Goods and services are provided to outside parties therefore making it an enterprise activity. As a proprietary/enterprise entity, the activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary/enterprise operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized by the District. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Pursuant to GASB Statement 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", the District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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

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. No allowance has been made for uncollectible accounts because the District believes that all accounts will be collected. The District may turn over any delinquent accounts to the County Treasurer for collection.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resort Taxes

Applications requesting budget funds from resort taxes are reviewed by the Big Sky Resort Tax Advisory Board. Expenses paid from the resort tax proceeds are included in operating expenses in the Statement of Revenue and Expenses.

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.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management (Continued)

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

The District has limited insurance 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.

The District has the following coverage under its insurance policies:

| | |
|-----------------------------|--------------|
| General liability | \$ 2,000,000 |
| Personal injury | 1,000,000 |
| Employer benefits liability | 1,000,000 |
| Failure to supply | 1,000,000 |
| Limited pollution | 1,000,000 |
| Umbrella liability | 4,000,000 |
| Building and contents | 3,276,000 |
| Public officials liability | 5,000,000 |
| Earthquake | 15,000,000 |

Economic Dependency

Big Sky County Water & Sewer District receives a vast majority of its revenue from resort tax revenue collected by the Resort Tax District, and the user fees charged to the property owners. During fiscal year 1999, \$500,000 of the resort tax revenue was used to pay principal and interest on the general obligation bonds; and \$50,000 is designated for repair of leaks to the water system.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

2. CASH AND CASH EQUIVALENTS

Management considers all cash and certificates of deposit to be cash and cash equivalents. This differs from generally accepted accounting principles which requires a three-month maturity; however, the difference is not material. The following is a summary of cash and cash equivalents as of June 30, 1999:

| | |
|---|---------------------|
| Unrestricted | \$ 757,148 |
| Restricted for bond payments | 801,267 |
| Restricted for capital improvements | 1,390,926 |
| Restricted - Retainage and construction performance bonds | <u>107,998</u> |
| Total | \$ <u>3,057,339</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 collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the District's name.

| | <u>Category</u> | | | |
|---------------------------|---------------------|----------|------------------|---------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>Total</u> |
| Cash and cash equivalents | \$ <u>1,003,084</u> | <u>-</u> | <u>2,054,255</u> | \$ <u>3,057,339</u> |

Cash Flow Information

Cash paid during the year for interest expense was \$227,892. Non-cash transactions consist of the following:

| | |
|--|---------------------|
| Contributed capital from developers | \$ <u>765,264</u> |
| Boyne settlement receivable and related deferred revenue | \$ <u>2,750,000</u> |

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

3. CHANGES IN FIXED ASSETS

| | Balance 7/1/98 | Additions | Deletions | Transfers | Balance 6/30/99 |
|---|----------------------|------------------|-----------------|--------------------|--------------------|
| Land | \$ 616,604 | | | | 616,604 |
| Sewer plant assets | 2,650,400 | 13,870 | | (1,395) | 2,662,875 |
| Sewer systems/extensions | | 661,738 | | | 661,738 |
| Sewer outfall line | 30,867 | 388,676 | | | 419,543 |
| Storage ponds | | 144,722 | | 2,267,980 | 2,412,702 |
| Storage maintenance building | | 141,550 | | | 141,550 |
| Irrigation system | | | | 1,741,579 | 1,741,759 |
| Treatment plant | | 1,105 | | 1,861,348 | 1,862,453 |
| Snowmaking project | | 360,529 | | | 360,529 |
| New office building | | 2,249 | | | 2,249 |
| Vehicles | 68,057 | 24,236 | | | 92,293 |
| Furniture and fixtures | 18,063 | 3,091 | | | 21,154 |
| Computer equipment and software | 33,731 | 2,929 | | | 36,660 |
| Water plant contributions | 125,522 | | | | 125,522 |
| Water plant structures and improvements | 80,629 | 2,464 | | | 83,093 |
| Wells and springs | 857,782 | | | (103,565) | 754,217 |
| Supply mains | 52,997 | | | | 52,997 |
| Pumping equipment | 66,514 | 4,991 | | (18,412) | 53,093 |
| Distribution reservoirs | 126,775 | | | | 126,775 |
| Transmission and distribution | 572,412 | | | | 572,412 |
| Meters and hydrants | 39,344 | | | | 39,344 |
| Radios | 16,621 | | (16,621) | | 0 |
| Generator | | 3,220 | | 19,808 | 23,028 |
| Westfork water system | 25,000 | 846 | | | 25,846 |
| Telemetry equipment | 204,110 | | | | 204,110 |
| Blue Grouse well | | | | 103,565 | 103,565 |
| Yellowstone Condos water line | | 115,984 | | | 115,984 |
| Water systems/extensions | | 85,953 | | | 85,953 |
| Construction-in-progress | <u>5,744,013</u> | <u>127,075</u> | | <u>(5,871,088)</u> | <u>0</u> |
| Total | \$ <u>11,329,441</u> | <u>2,085,228</u> | <u>(16,621)</u> | <u>0</u> | <u>13,398,048</u> |

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

4. LEASE AGREEMENTS

1. 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 space in September, 1994, and originally paid \$1,125 monthly to be adjusted annually by the previous calendar year Consumer Price Index, or 3%, whichever is greater. The District is renting on a month-to-month basis as of September, 1999.

Payments made pursuant to the lease during 1999 were \$13,706.

- 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, 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 1999 were \$1,672.
- c. The District leases a backhoe for \$1,170 per month from Tractor & Equipment Company. This is a month-to-month lease.
- 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 payment of \$554 per month. The lease qualified as a capital lease. Payments made pursuant to the lease during 1999 were \$6,652, of which \$1,230 represents interest.

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

| | |
|------|----------|
| 2000 | \$ 5,619 |
|------|----------|

- e. The District acquired two capital leases for \$204,110 for telemetry equipment 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 payment of \$1,857 and \$6,212 per month.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

4. LEASE AGREEMENTS (Continued)

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

| | |
|------------|-------------------|
| 2000 | \$ 19,638 |
| 2001 | 21,198 |
| 2002 | 22,882 |
| 2003 | 24,701 |
| 2004 | 26,664 |
| Thereafter | <u>58,069</u> |
| | \$ <u>173,152</u> |

5. OUTSTANDING DEBT

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 note was paid in full in August, 1999.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

5. OUTSTANDING DEBT (Continued)

General Obligation Bonds

| | <u>Current</u> | <u>Long-term</u> |
|--|-------------------|------------------|
| 4% State Revolving Loan #1 dated May 28, 1996 with the Department of Natural Resources and Conservation of the State of Montana under the Wastewater Treatment Works Revolving Fund Program; 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. Payable in 33 semi-annual installments of approximately \$232,000 until January 1, 2013. | \$ 275,000 | 4,524,000 |
| 4% State Resolving Loan #2 dated December 11, 1997 with the Department of Natural Resources and Conservation of the State of Montana under the Wastewater Treatment Works Revolving Fund Program; for wastewater treatment system; payable in 30 semi-annual installments of approximately \$19,000 until January 1, 2013. | <u>22,000</u> | <u>363,000</u> |
| | \$ <u>297,000</u> | <u>4,887,000</u> |

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>7/1/98</u> | <u>Additions</u> | <u>Reductions</u> | Ending Balance <u>6/30/99</u> |
|-------------------------|---------------------------------------|------------------|-------------------|-------------------------------------|
| State Revolving Loan #1 | \$5,065,188 | | 266,188 | 4,799,000 |
| State Revolving Loan #2 | <u>199,034</u> | <u>207,966</u> | <u>22,000</u> | <u>385,000</u> |
| | <u>\$5,264,222</u> | <u>207,966</u> | <u>288,188</u> | <u>5,184,000</u> |

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

5. OUTSTANDING DEBT (Continued)

General Obligation Bonds (Continued)

Annual principal payments required until maturity are as follows:

| | |
|------------|---------------------|
| 2000 | \$ 297,000 |
| 2001 | 307,000 |
| 2002 | 321,000 |
| 2003 | 333,000 |
| 2004 | 347,000 |
| Thereafter | <u>3,579,000</u> |
| Total | \$ <u>5,184,000</u> |

Sewer System General Obligation Bonds

- a. The District must establish a debt service fund for money to be set aside to pay the debt of the SRF loan.
- b. Liability insurance must be carried.
- c. All fund properties, buildings, equipment, and fixtures must be adequately insured with a reputable carrier.
- d. The District must maintain adequate accounting records.
- e. The District may invest money in securities which are fully and unconditionally guaranteed by the U.S. Government.
- f. The Sewer Fund must be audited on an annual basis.
- g. The District was in compliance with the bond covenants at June 30, 1999.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

6. FUND EQUITY

Contributed capital consists of \$885,272 transferred from the RID, which operated before the District was formed in September of 1993, plus additional contributions by developers for new hook-ups. All assets are currently owned and depreciated by the District.

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
PO 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 employees and employers expressed as a percentage of covered payroll, were as follows:

| | <u>Employer</u> | <u>Employee</u> | <u>State of Montana</u> | <u>Total</u> |
|------|-----------------|-----------------|-----------------------------|--------------|
| PERS | 6.7% | 6.8% | .1% | 13.6% |

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

7. RETIREMENT PLANS (Continued)

The amounts contributed to the plan during the year ended June 30, 1999, were equal to the required contribution. 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>Employer</u> | <u>Employee</u> | <u>Total</u> |
|------|-----------------|-----------------|--------------|
| 1999 | \$ 18,241.52 | 16,606.51 | 34,848.03 |
| 1998 | N/A | N/A | 24,703.00 |
| 1997 | N/A | N/A | 22,950.00 |

8. COMMITMENTS AND CONTINGENCIES

Employee Health Insurance

The District carries outside health insurance for its employees which pays 60% of covered medical expenses. The District pays an additional 20% of covered expenses for each employee effective November 30, 1998. The maximum risk the District faces is \$4,000 per employee, for a total of \$24,000. The District recorded estimated claims payable of \$10,187 for the year ended June 30, 1999. The claims payable had the following activity for the year:

| <u>Beginning Liability</u> | <u>Estimated Accrual</u> | <u>Claims Paid</u> | <u>Ending Liability</u> |
|--------------------------------|------------------------------|------------------------|-----------------------------|
| - 0 - | 10,259 | 72 | 10,187 |

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 13, 1999, required tasks of the amended compliance order must be completed by December 1, 2002. The District has met the State's compliance requirements through June 30, 1999.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

8. COMMITMENTS AND CONTINGENCIES (Continued)

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. Boyne agreed to pay the District \$250,000 per year for a period of 13 years beginning April 1, 1998. The remaining amount due of \$2,750,000 at June 30, 1999 is offset by deferred revenue of the same amount. The District is also required to complete the Mountain Village snowmaking project by December 1, 2000. They have entered into a contract with MSE-HKM Engineering for design and construction inspection services, not to exceed \$568,915.

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 in 1998. 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 Supreme Court ruled in favor of the District on June 11, 1998.

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. The District's insurance carrier is defending the claim. A pre-trial conference will be held on December 6, 1999.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

8. COMMITMENTS AND CONTINGENCIES (Continued)

Greater Yellowstone Coalition, et al. v. Montana Department of Environmental Quality, Mark Simonich, Big Sky Water & Sewer District No. 363

This action was brought by the Plaintiffs challenging the approval process of the permit allowing WSD No. 363 to discharge treated wastewater into the Gallatin River and to enjoin WSD No. 363 from discharging treated wastewater into the Gallatin River. This case is in the early stages of prosecution and WSD No. 363 intends to vigorously contest the Plaintiffs' claims.

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.

9. YEAR 2000 COMPLIANCE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. For many years, programmers eliminated the first two digits from a year when writing programs. Unfortunately, many programs (if not corrected) will not be able to distinguish between the year 2000 and the year 1900. Another factor that may cause problems is the leap-year calculations because some programs are unable to detect the year 2000 as a leap year. These two problems may cause the programs to process data inaccurately or to stop processing data altogether.

The following stages have been identified as necessary to implement a Year 2000-compliant system:

Awareness Stage - Encompasses establishing a budget and project plan for dealing with the Year 2000 issue.

Assessment Stage - When the organization begins the process of identifying all of its systems and individual components of the systems to check for compliance.

Remediation Stage - When the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems or switching to compliant systems.

BIG SKY COUNTY WATER AND SEWER DISTRICT #363

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 1999

9. YEAR 2000 COMPLIANCE (Continued)

Validation/Testing Stage - When the organization validates and tests the changes made during the conversion process.

The Water District has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conduct the District's operations. The vendor that provides the District's billing system is responsible for remedying these systems and has assumed responsibility for any costs associated with this project. Blackmountain Software has been tested and is Year 2000 compliant as well as the District's computer that runs the software. Quickbooks Pro, which is the software for the general ledger accounting, maintains they are also Year 2000 compliant.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remedying efforts will not be fully determined until the Year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that remedying efforts will be successful in whole or in part, or that the parties with whom the District does business will be Year 2000 ready.

BIG SKY COUNTY WATER & SEWER DISTRICT #363

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 1999

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Pass- through Grantor Number | Program Award Amount | Amount to be Drawn Down 7/1/98 | Receipts | Disbursements | Amount to be Drawn Down 6/30/99 |
|---|------------------------------------|---|-------------------------------------|---|-----------------|----------------------|--|
| <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 | 0 | 0 | 0 |
| Wastewater Treatment Works Revolving Fund Program | 66.458 | C302025-01 | 417,000 | 0 | 207,966 | 207,966 | 0 |
| Total Federal Awards | | | \$ 5,930,000 | 0 | 207,966 | 207,966 | 0 |

BIG SKY COUNTY WATER & SEWER DISTRICT #363

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 1999

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.

2. LOANS OUTSTANDING

The District had outstanding loan balances with the Montana Department of Natural Resources and Conservation at June 30, 1999. 83.3% of the loans are funds passed-through the Environmental Protection Agency.

| <u>Loan</u> | <u>Amount Outstanding</u> | <u>1999 Drawdowns</u> | <u>1999 Federal Funds</u> |
|-------------|-------------------------------|---------------------------|-------------------------------|
| SRF Loan #1 | \$ 4,799,000 | 0 | - |
| SRF Loan #2 | <u>385,000</u> | <u>207,966</u> | <u>173,236</u> |
| Total | \$ <u>5,184,000</u> | <u>207,966</u> | <u>173,236</u> |

3. SUBRECIPIENTS

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

**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

We have audited the financial statements of Big Sky County Water & Sewer District #363 as of and for the year ended June 30, 1999, and have issued our report thereon dated August 11, 1999. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors of Big Sky County Water & Sewer District #363, management, the Montana Department of Commerce, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Knaub & Company, P.C.

August 11, 1999

**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

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, 1999. 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, 1999.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses.

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. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Board of Directors of Big Sky County Water & Sewer District #363, management, the Montana Department of Commerce, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Knaub & Company, P.C.

August 11, 1999

BIG SKY COUNTY WATER & SEWER DISTRICT #363
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999

SECTION I - Summary of Auditors' Results

Financial Statements

| | |
|--|---------------|
| Type of auditors' report issued: | unqualified |
| Internal control over financial reporting: | |
| Material weakness identified? | no |
| Reportable conditions identified not considered to be material weaknesses? | none reported |
| Noncompliance material to financial statements noted? | no |

Federal Awards

| | |
|---|---------------|
| Internal Control over major programs: | |
| Material weakness identified? | no |
| Reportable condition identified not considered to be material weaknesses? | 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 Circular A-133, Section .510(a)? | no |

Identification of major programs:

CFDA NUMBER

NAME OF FEDERAL PROGRAM

| | |
|--------|----------------------|
| 66.458 | State Revolving Fund |
|--------|----------------------|

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

| | |
|--|-----|
| Auditee qualified as low-risk auditee? | yes |
|--|-----|

SECTION II - Financial Statement Findings

None

SECTION III - Federal Award Findings and Questioned Costs

None

INDEPENDENT AUDITORS' REPORT ON SUMMARY OF PRIOR AUDIT FINDINGS

To the Board of Directors

Big Sky County Water & Sewer District #363

In connection with our audit of the financial statements of the **BIG SKY COUNTY WATER & SEWER DISTRICT #363** as of and for the year ended June 30, 1999, we are required to report on action taken by the District to correct any deficiencies or implement any recommendations contained in the prior audit report.

Prior Finding

Status

| | |
|--|-------------------------------------|
| 98-1) Payroll - Approval of time sheets | Implemented |
| 98-2) New Bank Accounts - should be approved by Directors | Implemented |
| 98-3) Journal Entries - need adequate supporting documentation | Implemented |
| 98-4) Segregation of Duties | Implemented - To extent possible |
| 98-5) Excess Deposits - not adequately secured by pledged collateral | Implemented |

This report is intended solely for the information and use of the Board of Directors, management, the Montana Department of Commerce, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Knaub & Company, P.C.

August 11, 1999

