

ORIGINAL

**BIG SKY COUNTY WATER &  
SEWER DISTRICT NO. 363**

**FINANCIAL STATEMENTS**

**JUNE 30, 2000 and 1999**

***Knaub & Company, P.C.***

*Certified Public Accountants*

985 Technology Blvd. #102  
Bozeman, Montana 59718



**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

**JUNE 30, 2000**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Big Sky County Water & Sewer  
District No. 363

We have audited the accompanying financial statements of Big Sky County Water & Sewer District No. 363 as of and for the years ended June 30, 2000 and 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 audits.

We conducted our audits 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 audits provide 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 No. 363, as of June 30, 2000 and 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2000 on our consideration of the Big Sky County Water & Sewer District NO. 363's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

***Knaub & Company, P.C.***

August 16, 2000

**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363****BALANCE SHEETS****JUNE 30, 2000 AND 1999****ASSETS**

	<u>6-30-00</u>	<u>6-30-99</u>
<b>Current assets:</b>		
Cash and investments	\$ 1,346,695	757,148
Accounts receivable	417,944	372,720
Prepaid expenses	14,994	14,879
Accrued interest income	-	1,100
Boyne settlement - current portion	250,000	250,000
Notes receivable - current portion	1,136	122,800
<b>Total current assets</b>	<u>2,030,769</u>	<u>1,518,647</u>
<b>Restricted cash and cash equivalents:</b>		
Restricted for bond payments	337,154	801,267
Restricted for future capital improvements	2,520,130	1,390,926
Construction performance bonds	-	23,261
Retainage accounts	84,853	84,737
<b>Total restricted cash and cash equivalents</b>	<u>2,942,137</u>	<u>2,300,191</u>
<b>Property and equipment, at cost:</b>		
Land	616,604	616,604
Vehicles	92,293	92,293
Furniture and equipment	32,081	21,154
Computer equipment and software	38,164	36,661
Water and sewer system equipment and infrastructure	14,691,361	12,631,336
	15,470,503	13,398,048
Less: accumulated depreciation	(3,149,357)	(2,670,121)
<b>Total property and equipment</b>	<u>12,321,146</u>	<u>10,727,927</u>
<b>Other assets:</b>		
Lease deposits	494	1,612
Notes receivable	138,125	139,125
Less: current portion	(1,136)	(122,800)
Boyne settlement receivable	2,500,000	2,750,000
Less: current portion	(250,000)	(250,000)
Plant investment fees deferred	-	628,380
<b>Total other assets</b>	<u>2,387,483</u>	<u>3,146,317</u>
<b>TOTAL ASSETS</b>	<u>\$ 19,681,535</u>	<u>17,693,082</u>

(Continued)



**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

**BALANCE SHEETS (Continued)**

**JUNE 30, 2000 AND 1999**

**LIABILITIES AND FUND EQUITY**

	<u>6-30-00</u>	<u>6-30-99</u>
<b>Current liabilities:</b>		
Accounts payable	\$ 155,126	136,516
Accrued interest payable	-	175
Retainages payable	84,858	84,737
Private contractor bonds	-	23,261
Payroll taxes payable	6,275	7,881
Compensated absences payable	25,718	18,847
Accrued health insurance claims payable	18,512	10,187
Current portion of long-term debt	<u>339,402</u>	<u>330,467</u>
<b>Total current liabilities</b>	<u>629,891</u>	<u>612,071</u>
<b>Long-term liabilities:</b>		
Deferred revenue	2,639,438	3,517,505
Interkap loan	10,997	8,210
State revolving fund loans	4,887,000	5,184,000
Computer leases	7,668	5,619
Office building loan	199,832	-
Telemetry equipment	158,565	173,152
Less: current portion of long-term debt	<u>(339,402)</u>	<u>(330,467)</u>
<b>Total long-term liabilities</b>	<u>7,564,098</u>	<u>8,558,019</u>
<b>Fund equity:</b>		
Contributed capital - unrestricted	3,363,110	2,552,379
Contributed capital - RID assets	885,272	885,272
Retained earnings - unrestricted	<u>7,239,164</u>	<u>5,085,341</u>
<b>Total fund equity</b>	<u>11,487,546</u>	<u>8,522,992</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 19,681,535</u>	<u>17,693,082</u>

(Concluded)

**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

**STATEMENTS OF REVENUE AND EXPENSES**

**FOR THE YEARS ENDED JUNE 30, 2000 AND 1999**

	<u>6-30-00</u>	<u>6-30-99</u>
<b>OPERATING REVENUE:</b>		
Sewer services	\$ 885,127	1,080,647
Sewer plant investment fees	1,177,130	210,375
Water services	<u>660,166</u>	<u>375,077</u>
 Gross operating revenue	 <u>2,722,423</u>	 <u>1,666,099</u>
 <b>OPERATING EXPENSES:</b>		
General and administrative:		
Meetings	580	637
Salaries	128,059	125,888
Payroll taxes and benefits	37,248	38,427
Rent	11,129	13,706
Condo assoc. dues and property taxes	2,750	3,553
Utilities	2,555	997
Janitorial	2,209	1,216
Computer software	2,180	3,447
Office supplies and expense	8,066	6,562
Telephone	6,498	3,920
Postage and shipping	5,265	2,858
Printing	1,156	1,387
Advertising	759	1,358
Insurance	19,727	28,113
Dues and subscriptions	372	614
Election expenses	511	35
Vehicle expenses	4,102	3,421
Interest expense	2,274	1,646
Legal fees	25,092	32,852
Computer maintenance	1,151	1,116
Audit expense	4,700	4,500
Other consulting fees	-	2,820
Bank service charges	384	224
State annual filing fee	675	675
Miscellaneous	2,753	3,066
Personnel policy development	-	2,071
GIS mapping	4,664	10,418
Health and safety plan	<u>-</u>	<u>20,000</u>
 Total general and administrative	 <u>274,859</u>	 <u>315,527</u>

(Continued)







**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

**STATEMENTS OF REVENUE AND EXPENSES**

**FOR THE YEARS ENDED JUNE 30, 2000 AND 1999**

**OPERATING EXPENSES (Continued):**

	<u>6-30-00</u>	<u>6-30-99</u>
Sewer general and administrative:		
Salaries	55,706	74,468
Payroll taxes and employee benefits	16,856	27,739
Dues and subscriptions	306	177
Telephone	2,972	3,069
Postage and shipping	-	29
Printing	-	32
Office supplies	382	1,133
Publications	-	565
	<hr/>	<hr/>
<b>Total sewer general and administrative</b>	<b>76,222</b>	<b>107,212</b>
	<hr/>	<hr/>
Sewer Plant Expense:		
Gas and oil	3,242	3,836
Repair and maintenance	967	2,033
Insurance	615	1,356
Utilities	46,489	47,046
Chemicals	29,997	27,475
Lab fees	11,292	8,815
Lab testing equipment	-	354
Stream water quality monitoring	890	-
Equipment rental	-	2,587
Safety equipment	191	459
Repairs and maintenance	7,298	14,928
Backhoe rent	7,293	15,365
Maintenance	22,507	14,905
Tools	943	1,817
Jetting	7,335	6,163
Engineering	5,184	735
Miscellaneous	193	72
Computer software	-	3,540
Computer lease	-	5,386
Depreciation expense	354,184	287,440
Long-term compliance work plan	24,781	4,151
	<hr/>	<hr/>
<b>Total sewer plant expense</b>	<b>523,401</b>	<b>448,463</b>
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(Continued)



**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

**STATEMENTS OF REVENUE AND EXPENSES**

**FOR THE YEARS ENDED JUNE 30, 2000 AND 1999**

**OPERATING EXPENSES (Continued)**

	<u>6-30-00</u>	<u>6-30-99</u>
Water general and administrative:		
Salaries	57,040	40,882
Wages	4,325	2,703
Payroll taxes and employee benefits	18,147	15,828
Dues and subscriptions	519	780
Communications and telemetry equipment	2,418	1,499
Printing	-	51
Publications	136	699
Office supplies	503	188
Public water supply fees	<u>2,308</u>	<u>2,265</u>
<b>Total water general and administrative</b>	<u>85,396</u>	<u>64,895</u>
Water plant expense:		
Vehicle expenses	4,375	2,727
Utilities	54,719	38,176
Lab fees	2,947	5,071
Equipment rental	1,105	2,733
New water services	2,134	1,778
Safety equipment	265	-
Tools	-	356
Interest expense	9,759	14,080
Repairs and maintenance	41,713	58,580
Backhoe rent	7,068	-
Leak detection and engineering	4,285	5,551
Tank inspection	-	2,675
Water rights	1,395	2,232
Miscellaneous	1,686	3,643
Depreciation	135,941	113,770
DEQ Water quality study	9,028	2,886
Water well testing	7,198	-
Water facilities plan	<u>18,777</u>	<u>35,477</u>
<b>Total water plant expense</b>	<u>302,395</u>	<u>289,735</u>
<b>Total expenses</b>	<u>1,262,273</u>	<u>1,225,832</u>
<b>Operating income</b>	<u>1,460,150</u>	<u>440,267</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>		
Resort tax revenue - bond payment	500,000	550,000
Resort tax revenue - other	17,198	-
Other sewer non-operating revenue	5,000	-
Interest income	132,731	132,228
Interest expense	(207,754)	(212,582)
Boyne settlement payment	250,000	250,000
Loss on disposition of assets	<u>(3,502)</u>	<u>(16,621)</u>
<b>Total nonoperating revenue (expenses)</b>	<u>693,673</u>	<u>703,025</u>
<b>NET INCOME</b>	<u>\$ 2,153,823</u>	<u>1,143,292</u>

(Concluded)



**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

**STATEMENTS OF CHANGES IN FUND EQUITY**

**FOR THE YEAR ENDED JUNE 30, 2000 AND 1999**

	<b>Contributed Capital</b>		<b>Retained Earnings</b>	<b>Total</b>
	<b>Unrestricted</b>	<b>RID Assets</b>	<b>Unrestricted</b>	
<b>Beginning balances, July 1, 1998</b>	\$ 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>765,264</u>
<b>Ending balances, June 30, 1999</b>	\$ 2,552,379	885,272	5,085,341	8,522,992
Net income			2,153,823	2,153,823
Contributed capital	<u>810,731</u>			<u>810,731</u>
<b>Ending balances, June 30, 2000</b>	<u>\$ 3,363,110</u>	<u>885,272</u>	<u>7,239,164</u>	<u>11,487,546</u>





**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2000 AND 1999**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

	<u>6-30-00</u>	<u>6-30-99</u>
Operating income	\$ 1,460,150	440,267
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	490,125	401,210
Interest expense	12,033	15,726
Loss on disposition of assets	-	(16,621)
(Increase) decrease in current assets:		
Accounts receivable	(45,224)	376,567
Prepaid expenses	(115)	(4,254)
Accrued interest receivable	1,100	(1,100)
Increase (decrease) in current liabilities:		
Accounts payable	18,610	68,105
Retainages payable	121	(9,058)
Private contractor bonds	(23,261)	(2,158)
Payroll taxes payable	(1,606)	(262)
Compensated absences payable	6,871	(4,755)
Accrued health insurance claims payable	8,325	10,187
Deferred interest received	313	-
Accrued interest payable	(175)	(368)
	<u>467,117</u>	<u>833,219</u>
Net cash provided (used) by operating activities	<u>1,927,267</u>	<u>1,273,486</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Interest paid	(12,033)	(15,726)
Lease deposits refunded	<u>1,118</u>	<u>-</u>
Net cash provided (used) from noncapital financial activities	<u>(10,915)</u>	<u>(15,726)</u>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:**

Principal paid on long-term debt	(328,672)	(322,989)
Interest paid	(207,754)	(212,582)
Resort tax revenue	517,198	550,000
Landscaping reimbursement	5,000	-
Proceeds from sale of computer equipment	1,543	-
Acquisition of fixed assets	(1,277,657)	(1,303,343)
Payment received on notes receivable	1,000	-
Boyne settlement payment	250,000	250,000
Proceeds from long-term debt	<u>221,752</u>	<u>207,967</u>
Net cash flows provided (used) from capital financing activities	<u>(817,590)</u>	<u>(830,947)</u>

(Continued)



**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

**STATEMENTS OF CASH FLOWS (Continued)**

**FOR THE YEARS ENDED JUNE 30, 2000 AND 1999**

	<u>6-30-00</u>	<u>6-30-99</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income	<u>132,731</u>	<u>132,228</u>
Net cash provided (used) by investing activities	<u>132,731</u>	<u>132,228</u>
Net increase (decrease) in cash	1,231,493	559,041
Cash and cash equivalents, beginning of year	<u>3,057,339</u>	<u>2,498,298</u>
Cash and cash equivalents, end of year	\$ <u><u>4,288,832</u></u>	<u><u>3,057,339</u></u>
 Per balance sheet:		
Unrestricted cash and cash equivalents	\$ 1,346,695	757,148
Restricted cash and cash equivalents	<u>2,942,137</u>	<u>2,300,191</u>
	\$ <u><u>4,288,832</u></u>	<u><u>3,057,339</u></u>
 Non-cash transactions consist of the following:		
Contributed capital from developers	\$ <u><u>810,731</u></u>	\$ <u><u>765,264</u></u>
Boyne settlement receivable and related deferred revenue		\$ <u><u>2,750,000</u></u>



# **BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000 AND 1999**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

Big Sky County Water & Sewer District No. 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 elected by members of the District and establishes its own budget independent of any other government entity so it is therefore considered to be a primary government. The daily affairs of the District are conducted under the supervision of the District's general manager. The District serves approximately 1,900 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 NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 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. 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 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. Deposits in excess of the FDIC insurance limits were collateralized by pledged securities. Restricted amounts are detailed in Note 2. Investments are stated at the lower of aggregate cost or market value.

Investments in the State Short-Term Investment Pool (STIP) are carried at amortized cost. STIP is a 2a-7 like pool that is managed by the State of Montana and is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. GASB Statement No. 31 allows reporting of investments in such pools at amortized cost.

**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.



**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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



**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Risk Management (Continued)**

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.

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 2000 and 1999, \$500,000 of the resort tax revenue was used to pay principal and interest on the general obligation bonds; and \$50,000 was designated for repair of leaks to the water system in 1999.





**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**2. CASH AND INVESTMENTS**

The district began investing in the state short-term investment pool (STIP) in 2000. The following is a summary of cash and cash equivalents as of June 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Unrestricted	\$ 639,810	757,148
Restricted for bond payments	337,154	801,267
Restricted for capital improvements	2,520,130	1,390,926
Restricted - Retainage and construction performance bonds	<u>84,853</u>	<u>107,998</u>
	3,581,947	3,057,339
 Investment in STIP	 <u>706,885</u>	 <u>-</u>
 Total cash and investments	 \$ <u>4,288,832</u>	 <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>
2000 - Cash and cash equivalents \$	<u>204,773</u>	<u>-</u>	<u>3,377,174</u>	\$ <u>3,581,947</u>
1999 - Cash and cash equivalents \$	<u>1,003,084</u>	<u>-</u>	<u>2,054,255</u>	\$ <u>3,057,339</u>



**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**3. CHANGES IN FIXED ASSETS**

	Balance			Balance
	<u>7/1/99</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/00</u>
Land	\$ 616,604	-	-	616,604
Sewer plant assets	2,662,875	20,591	-	2,683,466
Sewer systems/extensions	661,738	238,171	-	899,909
Sewer outfall line	419,543	497,549	-	917,092
Storage ponds	2,412,702	672	-	2,413,374
Storage maintenance building	141,550	9,729	-	151,279
Irrigation system	1,741,759	672	-	1,742,431
Treatment plant	1,862,453	9,519	-	1,871,972
Snowmaking project	360,529	334,465	-	694,994
New office building	2,249	336,121	-	338,370
Vehicles	92,293	-	-	92,293
Furniture and fixtures	21,154	10,927	-	32,081
Computer equipment and software	36,660	17,438	(15,934)	38,164
Water plant contributions	125,522	-	-	125,522
Water plant structures and improvements	83,093	-	-	83,093
Wells and springs	754,217	600	-	754,817
Supply mains	52,997	-	-	52,997
Pumping equipment	53,093	10,997	-	64,090
Distribution reservoirs	126,775	-	-	126,775
Transmission and distribution	572,412	-	-	572,412
Meters and hydrants	39,344	-	-	39,344
Generator	23,028	15,298	-	38,326
Westfork water system	25,846	-	-	25,846
Telemetry equipment	204,110	-	-	204,110
Blue Grouse well	103,565	-	-	103,565
Yellowstone Condos water line	115,984	13,080	-	129,064
Water systems/extensions	85,953	572,560	-	658,513
Total	\$ <u>13,398,048</u>	<u>2,088,389</u>	<u>(15,934)</u>	<u>15,470,503</u>



**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**4. LEASE AGREEMENTS**

- a. The District rented its office space until its new building was completed in March, 2000. Payments made pursuant to the lease were \$11,129 in 2000 and \$13,706 in 1999.
- b. The District leases a backhoe for \$1,170 per month from Tractor & Equipment Company. This is a month-to-month lease.
- c. 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. This lease was replaced in 2000 by a lease to Conseco. This lease will be paid in 24 payments of \$368 each.
- d. 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.
- e. The District is leasing a computer server with an original cost of \$3,358 from Dell Financial Services. This is recorded as a capital lease dated November 25, 1999. Payments are \$127 per month for 36 months at an interest rate of 21%.





**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**4. LEASE AGREEMENTS (Continued)**

The following is a summary of the future minimum lease payments under capital leases to be paid during the succeeding fiscal years:

	Net Future Minimum <u>Lease Payment</u>	Total Future Minimum <u>Lease Payments</u>	Less - Amount Representing <u>Interest</u>
2001	\$ 25,711	38,213	12,502
2002	24,751	34,904	10,153
2003	24,685	32,745	8,060
2004	26,159	32,274	6,115
2005	24,485	28,560	4,075
Thereafter	<u>40,442</u>	<u>43,481</u>	<u>3,039</u>
	\$ <u>166,233</u>	<u>210,177</u>	<u>43,944</u>

**5. OUTSTANDING DEBT**

The following is a summary of long-term debt at June 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Variable rate InterCap loan dated May 3, 1996, payable to the Board of Investments of the State of Montana for the purchase of a 1995 GMC Suburban, payable in semi-annual payments of \$2,391.	\$ -	8,210
Variable rate InterCap loan dated October 29, 1999, payable to the Board of Investments of the State of Montana for the purchase of a generator; payable in semi-annual payments of approximately \$3,800 depending on the interest rate. Rate at June 30, 2000 was 5.6%.	\$ 10,997	-
Variable rate note payable to American Bank of Montana dated April 7, 2000 to finance the new office building, secured by the property. Payable in monthly installments of \$1,397 over 25 years. The rate at June 30, 2000 was 6.75%	\$ 199,832	-

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**5. OUTSTANDING DEBT (Continued)**

<b><u>General Obligation Bonds</u></b>	<b><u>2000</u></b>	<b><u>1999</u></b>
4% State Revolving Loan #1 dated May 28, 1996 for \$5,513,000 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.	\$ 4,524,000	4,799,000
4% State Resolving Loan #2 dated December 11, 1997 for \$417,000 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>363,000</u>	<u>385,000</u>
	5,097,829	5,192,210
Less: current portion	<u>(313,691)</u>	<u>(33,467)</u>
	\$ <u>4,784,138</u>	<u>5,158,743</u>



**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**5. OUTSTANDING DEBT (Continued)**

The general obligation bonds are to be repaid semi-annually through 2013 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.

June 30, 2000

	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>
State Revolving Loan #1	\$ 4,799,000	-	275,000	4,524,000
State Revolving Loan #2	<u>385,000</u>	<u>-</u>	<u>22,000</u>	<u>363,000</u>
	\$ <u>5,184,000</u>	<u>-</u>	<u>297,000</u>	<u>4,887,000</u>

June 30, 1999

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>

Annual principal payments on all long-term debt required until maturity are as follows:

2001	\$ 313,691
2002	328,070
2003	340,657
2004	351,101
2005	366,386
Thereafter	<u>3,397,924</u>
Total	\$ <u>5,097,829</u>

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**5. OUTSTANDING DEBT (Continued)**

**Sewer System General Obligation Bonds**

- e. The District must establish a debt service fund for money to be set aside to pay the debt of the SRF loan.
- f. 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, 2000 and 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.





**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**7. RETIREMENT PLANS (Continued)**

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 - 2000	6.8%	6.9%	.1%	13.8%
PERS - 1999	6.7%	6.8%	.1%	13.6%

The amounts contributed to the plan during the year ended June 30, 2000, 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>Covered Wages</u>	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
2000	234,171	15,924	16,158	32,082
1999	227,403	15,236	15,463	30,699
1998	182,985	12,260	12,443	24,703

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**8. COMMITMENTS AND CONTINGENCIES**

**Employee Health Insurance**

The District carries outside health insurance for its employees which pays 50% of covered medical expenses effective January 1, 2000 (60% prior). The District pays an additional 30% of covered expenses for each employee effective January 1, 2000. 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 years ended June 30, 2000 and 1999. The claims payable had the following activity:

	<u>Beginning Liability</u>	<u>Estimated Accrual</u>	<u>Claims Paid</u>	<u>Ending Liability</u>
1999	-	10,259	72	10,187
2000	10,187	8,672	347	18,512

**Compensated Absences**

Employees accrue vacation time at 10 hours per moth (increasing to 12 hours after 10 years up to 16 hours after 21 years) and sick leave at 8 hours per month. Upon termination, unused sick time is paid at 25%. Unused vacation may not be accrued beyond two times the annual amount. Excess time must be used within 90 days of the next calender year or be forfeited.

**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, 2000.



**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 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 \$2,500,000 at June 30, 2000 and \$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. This project is presently on hold pending the outcome of the Yellowstone Club agreement.

**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.

**Cronin Litigation**

A landowner with the District, Paul and Janet Cronin, together with Log Condominiums, Inc. (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. The Plaintiffs are attempting to certify this case as a class action. If they are successful, the potential damage award could cover all plant investment charges assessed which amount to over \$1.5 million. The lawsuits are being defended by Interstate Insurance on behalf of the District. However, the extent of indemnity coverage has yet to be determined. The pretrial conference is scheduled for October 3, 2000. Management will vigorously contest these lawsuits.

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 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 currently on hold while the District negotiates an agreement with the Yellowstone Mountain Club that would, in part, allow the District to dispose of treated wastewater through irrigation on real property owned by the Yellowstone Mountain Club. If an agreement can be reached, it will probably eliminate the District's need to discharge treated wastewater into the Gallatin River, making this lawsuit moot. If an agreement cannot be reached, the District will vigorously contest the Plaintiff's claims.

**Hall v. John Kircher, Boyne USA, Inc. and Big Sky County Water and Sewer District No. 363**

This declaratory judgment action was brought by the Plaintiff to dispute the imposition by WSD No. 363 of a surcharge of \$3,500 per SFE on Tract 4 pursuant to the July 25, 1997 Settlement Agreement signed by Boyne USA and WSD No. 363. The Complaint also alleges the following counts against Defendants Kircher and Boyne USA: breach of contract, negligent misrepresentation, fraud, unjust enrichment, punitive damages. Defendant WSD No. 363 filed a counterclaim for declaratory judgment against Plaintiff Sarah Hall and Defendant Boyne USA, Inc. Discovery is in its initial stages. WSD No. 363 vigorously contests Plaintiff Halls's claims.

**Neil Consultants, Inc. v. Big Sky County Water and Sewer District No. 363**

This action was brought by the Plaintiff to recover consultant's fees allegedly owed to Plaintiff by WSD No. 363. WSD No. 363 is in the process of filing its Answer to the Complaint, and answers to Plaintiff's first discovery responses. WSD No. 363 vigorously contests Plaintiff's claims.

**West Berlin Developers, LLC and Big Sky County Water and Sewer District No. 363**

The District entered into an easement and water use agreement with West Berlin Developers, LLC on October 14, 1999. The agreement provides a permanent easement to the District for a water main that crosses through a commercial tract of land in Phase IV of the Summit View Subdivision, located in the SW ¼ of Section 20, Township 6 South, Range 3 East in Madison County. In exchange for the easement, the District agrees to sell surplus water to West Berlin Developers for a maximum of 15.53 Single Family Equivalents.





**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2000 AND 1999**

**8. COMMITMENTS AND CONTINGENCIES (Continued)**

**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.



**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 NO. 363

We have audited the financial statements of Big Sky County Water & Sewer District NO. 363 as of and for the year ended June 30, 2000, and have issued our report thereon dated August 16, 2000. 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 NO. 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 16, 2000





**INDEPENDENT AUDITORS' REPORT ON**  
**SUMMARY OF PRIOR AUDIT FINDINGS**

NONE



