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ORIGINAL

FINANCIAL
STATEMENTS

FINANCIAL STATEMENTS

BIG SKY COUNTY WATER & SEWER DISTRICT

Holmes & Turner

JUNE 30, 2010 and 2009

holmes & turner
Certified Public Accountants

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big Sky County Water and Sewer District No. 363
Big Sky, Montana

We have audited the accompanying financial statements of the business-type activities and major fund of Big Sky County Water and Sewer District No. 363 as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Big Sky County Water and Sewer District No. 363's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of Big Sky County Water and Sewer District No. 363 as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010, on our consideration of the Big Sky County Water and Sewer District No. 363's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Big Sky County Water and Sewer District No. 363's financial statements 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. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Holmes & Turner

December 21, 2010



BIG SKY COUNTY WATER & SEWER DISTRICT No. 363

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Management Discussion and Analysis Fiscal Year 7/1/2009 - 6/30/2010

The Big Sky County Water & Sewer District 363 is accounted for as a governmental enterprise. As a result, the accounting is much the same as a for profit organization with the exception of state and federal income tax. The District is tax exempt. The basic financial statements produced by the District include the Statement of Net Assets, Statement of Revenue, Expenses, and Changes in Fund Net Assets and Statement of Cash Flows. Each statement contains vital financial information regarding the District's financial position and overall financial stability. The statement of net assets contains the assets, liabilities, and fund equity. The statement of revenue, expenses, and changes in fund net assets contain the detail of revenue sources and the detail of where the revenue was expended to provide the water and sewer services to the District as well as the beginning net assets and end of year net assets total. The statement of cash flows provides the detail of cash sources and uses for operating activities, capital and related financing activities, and investing activities.

Assets/Liabilities

The total assets of the District increased 7.11% as a result of both sewer and water system upgrades and capital contributions for the Spanish Peaks Resort sewer system. The total liabilities of the District decreased 1.26% as a result of debt service principal payments and a reduction in deferred revenue. The final payment on the Boyne Settlement agreement of \$250,000 was received on April 1, 2010 which reduced deferred revenue. The sewer capital assets of the District increased from \$31,996,003 to \$34,691,820. The Spanish Peaks Resort conveyed \$2,290,378 of sewer line extensions to the District. The water capital assets increased from \$17,118,290 to \$18,101,907. The District completed work on the water lines for the Silverbow Condominium complex as well as connecting the two new water wells in the meadow to the water system. The District's other asset category remained at \$97,800 which is a note receivable from Farmhouse Partners for Plant Investment Fees.

The total long-term liabilities associated with the existing State Revolving Fund Loans of both systems decreased from \$16,275,233 to \$16,242,153 (excluding current portion of debt). The District uses low interest rate (3.75%-4.00%) loans from the State Revolving Loan Fund Program to finance both water and sewer projects. The sewer projects were substantially completed in 2004. The District continued sewer work on the pond liner cover using the balance remaining on the sewer system State Revolving Fund Loan as well as funds from the Boyne Settlement agreement. The water system improvements are continuing with the State Revolving Loan of \$5,000,000. At June 30, 2010 the loan balance available for use on water projects was \$302,438. The current liabilities of the District increased from \$2,500,656 to \$2,528,577 which includes an increase in accounts payable of \$18,197 to \$542,512, a decrease in performance bonds and retainage payable from \$705,510 to \$683,828 and an increase in the current portion of long-term debt of \$67,801.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
2005-2006	\$45,022,077	4.20%	\$18,212,904	-4.08%
2006-2007	\$47,593,123	5.70%	\$18,406,905	1.07%
2007-2008	\$51,395,601	7.99%	\$19,987,097	8.58%
2008-2009	\$51,949,681	1.08%	\$19,193,305	-3.97%
2009-2010	\$55,644,784	7.11%	\$18,950,880	-1.26%



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Operating Revenue/Non-Operating Revenue

The total operating revenues of the District increased to \$2,397,265 from \$2,330,721. The total sewer operating revenue increased to \$1,322,715 up \$93,731. The total water operating revenue decreased to \$1,074,550 down \$27,187. The increase in sewer revenues is a result of the second phase of the rate increase passed in July of 2008. Sewer usage over the fiscal year was down 6.6% but the increase in both the base charge and usage charge offset the decrease in usage. The water revenue decrease was due to a 12.48% decrease in usage which was not offset by the second phase of the rate increase passed in July of 2008. In addition, water usage was adversely affected by the wet spring weather. The District has a plant investment charge on the sewer plant but no plant investment charge on the water system. The total non-operating revenue which includes plant investment charges, interest income, tax receipts for bond payments and Resort Tax allocations was \$2,345,754 as of June 30, 2010. The total non-operating revenue, net of interest expenses and other non-operating expenses of the District increased to \$1,628,628 from \$1,258,878. The increase is primarily due to the gain on disposal of assets of \$310,369. The disposed assets included approximately three acres of land adjacent to the sewer plant that was sold to Northwestern Energy for an electric transfer station. The District's collection of plant investment charges decreased slightly from \$352,445 to \$352,285. The District received \$500,000 from the Big Sky Resort Tax Board for paying interest and principal on two of the State Revolving Fund loans for the sewer filter building and another \$50,000 for the State Revolving Fund Loans for the sewer treatment plant and Hidden Village water tank projects. The Big Sky Resort Tax Board also provided an additional \$33,351 for the Aerial Photo Project. The District received \$5,000 for the Canyon Study Project from both Yellowstone Mountain Club and Spanish Peaks Resort. The District contributed \$5,000 as well for a total of \$15,000 for the Canyon Study/Snowmaking Pilot Project. The District received \$250,000 from Boyne on their annual payment agreement which is under the plant investment charges category. This was the last payment due on the agreement signed in 1997 between Boyne and the District. The District also collected \$971,602 in general obligation bond tax receipts for payments on the State Revolving Fund Loans used to finance the water tank, water meters, the new water projects and sewer treatment plant. The increase in tax receipts is a result of a higher mill levy. The Big Sky Area Resort Tax Board did not allocate as much funding for debt service for the District as in the prior year because of lower resort tax receipts.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
2005-2006	\$4,755,185	38.47%	\$2,899,112	14.63%
2006-2007	\$4,924,499	3.56%	\$2,689,600	-7.23%
2007-2008	\$4,316,041	-12.36%	\$2,898,150	7.20%
2008-2009	\$4,338,448	0.52%	\$3,116,370	7.53%
2009-2010	\$4,743,019	9.33%	\$3,095,868	-0.66%

Operating Expenses/Non-Operating Expenses

The total operating expense for the District increased to \$2,378,743 from \$2,246,848. The total general and administrative expense increased to \$401,135 from \$394,568. The total sewer general and administrative expense increased to \$201,818 from \$191,911. Total sewer operation expense decreased to \$948,558 from \$974,509. The total water general and administrative expense increased to \$198,531 from \$190,040. The total water operating expense increased to \$628,701 from \$616,493. The total operating expense increased at a rate of 0.47%. In the non-operating expense category the main item is



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the interest expense on the State Revolving Fund Loans. In fiscal 2009-2010 the District made principal payments in the amount of \$1,281,000 with total payments amounting to \$1,957,051. The District paid \$676,051 in interest on those loans. The other item in the non-operating expense category was the Canyon Study Project. The expenses associated with that project were off set in their entirety by contributions and grants to pay for the study.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
2005-2006	\$1,843,098	6.98%	\$2,215,545	20.50%
2006-2007	\$2,042,536	10.82%	\$2,042,785	-7.80%
2007-2008	\$2,031,491	-0.54%	\$2,246,848	9.90%
2008-2009	\$2,330,721	14.73%	\$2,367,521	5.37%
2009-2010	\$2,397,265	2.86%	\$2,378,743	0.47%

Capital Assets

The District received \$2,290,378 in donated capital assets. The donated capital assets are the water and sewer extensions as well as other infrastructure required to install and complete new construction projects and subdivisions within the District. All these assets are acquired by the District through formal transfer agreements recorded at the appropriate county office. The District is also given a one-year warranty on these assets in most cases, with a 10% of asset cost deposit made by the developer as warranty security. The contributed assets are then recorded as either water or sewer assets on the books of the District and depreciated accordingly. The recorded value of the asset is recognized as income in the year of acceptance.

The District's total net assets at June 30, 2010 were \$36,693,905. The total amount includes \$25,875,219 invested in capital assets, net of related debt, \$9,366,613 in unrestricted assets which includes cash, and \$1,452,073 restricted cash for debt service. The total represents an increase of \$3,937,529 over the prior fiscal year total. The amount invested in capital assets, net of related debt increased by \$3,107,583 due to asset additions, contributions and debt reduction. The unrestricted portion increased by \$1,003,590. The restricted for debt service decreased to \$1,452,073 from \$1,625,717 due to debt service payments.

Summary

The District's overall financial position remains stable with sufficient reserves and financing sources available to fund both the operating and non-operating activities of the District. However, the District's sewer operating revenue was again insufficient to cover all the sewer operating expenses in fiscal 2009-2010. The District adopted new rates with the increase split over a two-year period effective July 1, 2008 and July 1, 2009. The first increase in the sewer rate effective July 1, 2008 cut the operating loss on the sewer department from \$223,822 to \$134,720. The second phase of the rate increase reduced the operating loss to \$28,229 from \$134,720. The District believes that the current sewer rate should be sufficient at this point, but will closely monitor the sewer operations to achieve operating expense savings where possible. The District's water department operating revenue was sufficient to cover operating expenses in fiscal 2009-2010. The net operating revenue for the water department decreased from \$97,920 to \$46,751. The District continues to believe that both regulatory and other operating costs will increase for the District's water department over the next few years.



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The following is a table, which shows the history of the base rates, usage and growth rates for water and sewer:

Rates Fiscal Year	Water Base	Growth Rate	Water Usage	Growth Rate	Sewer Base	Growth Rate	Sewer Usage	Growth Rate
2005-2006	\$14.25	0%	\$2.35	0%	\$22.04	0%	\$3.85	0%
2006-2007	\$14.25	0%	\$2.35	0%	\$22.04	0%	\$3.85	0%
2007-2008	\$14.25	0%	\$2.35	0%	\$22.04	0%	\$3.85	0%
2008-2009	\$14.89	4.49%	\$2.42*	2.98%	\$23.03	4.49%	\$4.81	24.94%
2009-2010	\$15.46	3.83%	\$2.49*	2.89%	\$23.91	3.82%	\$5.82	21.00%

*Beginning in July of 2008 the water usage rates were tiered, 0-60,000 gallons, 60,000 to 90,000 gallons and 90,000 gallons and above.

2008-2009 \$2.42, \$3.63, \$4.84

2009-2010 \$2.49, \$3.74, \$4.99

Water and sewer usage charges are for each thousand gallons metered or fraction of a thousand gallons. The base charges are for one month of service for water and sewer.

The budget for fiscal 2009-10 at year-end had few significant variations. The overall operating gain of \$18,522 was all the water department's. As noted above the sewer department loss of \$28,229 was completely offset by the water department's net operating income. The sewer department was budgeted to earn \$1,941; however, \$28,229 was needed to balance the sewer budget. The sewer department's budgeted revenue came in 4.70% below the amount budgeted. As a result, even though both sewer administration and sewer operations were under budget the shortfall in revenue caused an overall loss in the sewer department. The water department remained in positive operating position. The budget estimated a \$9,023 net income for the water department but the actual was \$46,751. Administrative expenses for general administration, water administration and sewer administration all came in under budget. The sewer operations expense and water operations expense were within acceptable variance of plus or minus 5.0%. Sewer operation expenses came in under budget estimates by 1.89% and water operation expenses came in under budget estimates by 3.40%.

Non-operating revenue budget variance was positive 8.62% which was due to the gain on disposal of assets and contractor contributions. The District again refunded sewer tax receipts on parcels in Gallatin County. Gallatin County included properties in the taxing area that should have been exempt. The funds were refunded to the property owners that were charged erroneously and subsequently paid the tax. In the category of donated capital assets (sewer and water extensions) the District estimated donations of \$250,000; however, donations totaled \$2,290,378 due to a conveyance of sewer mains and extensions from the Spanish Peaks Resort. Overall, the District met the budget targets despite slower construction growth and the continuing Great Recession.



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The District has a total of seven State Revolving Fund Loans with an outstanding balance at fiscal year-end of \$17,544,391 including the current portion of the long-term debt. The District services the debt through bi-annual payments funded through several sources. The three main sources are The Big Sky Area Resort Tax, Plant Investment Fees (sewer only) and ad-velorem tax. The District currently has a commitment from the Big Sky Area Resort Tax for two of the seven loans, \$500,000 annually. For the other five loans the District applies annually for funding of the State Revolving Fund Loans to the Big Sky Area Resort Tax. For fiscal 2010-2011 the District secured \$32,648 for the water debt service from the Resort Tax. The amount funded by the Big Sky Area Resort Tax for fiscal 2008-2009 for debt service was \$300,000 and for fiscal 2009-2010 \$50,000. As a result, the District had to increase the mill levies in the last two fiscal years. To service the debt in the next fiscal year the District will increase the mills levied on water debt service from 24.72 mills to 25.37 mills and increase the mills levied on sewer from 23.52 mills to 26.88 mills.

The District made six additional draws on the existing sewer State Revolving Fund loan in the amount of \$437,463. These funds were used for the Pond Liner Cover Project. The open loan has a remaining commitment of approximately \$273,138 to expand the sewer system at fiscal year end. The District intends on using the remaining funds for a pond aeration project. The Pond Liner Project will be completed using Plant Investment funds. The District continues to make bi-annual payments on the open sewer loan. As a result, the District increased the principal on this loan by \$162,463. The District's State Revolving Fund Loan for water system upgrades in the amount of \$5,000,000 was used to complete the Silverbow Condominium complex water lines and connect the new water wells to the Meadow water system. The District drew a total of \$878,258 for water system projects during fiscal 2009-2010. The remaining balance for use on water projects on the water State Revolving Fund loan was \$302,438 at fiscal year end. The District intends on using the remaining funds to complete the water system upgrades. Based on the current funding and expected future funding sources, the existing State Revolving Fund Loans will not impact planned future capital outlays.

The District's current financial position is stable. There are no significant facts, decisions or conditions that are expected to have a significant effect on the financial position of the District or results of water and sewer operations.

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

ASSETS

Current assets:

Cash and cash equivalents	\$ 9,940,049
Investments	1,633
Accounts receivable	693,146
Water meter inventory	<u>40,473</u>

Total current assets	<u>10,675,301</u>
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Restricted cash and cash equivalents:

Debt service fund	<u>1,452,073</u>
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Capital assets, net of accumulated depreciation, where applicable	<u>43,419,610</u>
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Other assets:

Notes receivable	<u>97,800</u>
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Total other assets	<u>97,800</u>
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Total assets	<u><u>\$ 55,644,784</u></u>
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LIABILITIES AND FUND EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$ 542,511
Performance bonds and retainage payable	683,828
Current portion of long-term debt	<u>1,302,238</u>

Total current liabilities	<u>2,528,577</u>
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Long-term liabilities:

Deferred revenue	97,800
Compensated absences payable	82,349
General obligation bonds	17,544,391
Less: current portion of long-term debt	<u>(1,302,238)</u>

Total long-term liabilities	<u>16,422,302</u>
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Total liabilities	<u>18,950,879</u>
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Net assets:

Invested in capital assets, net of related debt	25,875,219
Unrestricted	9,366,613
Restricted for debt service	<u>1,452,073</u>

Total fund equity	<u>36,693,905</u>
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Total liabilities and fund equity	<u>\$ 55,644,784</u>
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See accompanying notes to financial statements

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

Operating revenues:	
Sewer services	\$ 1,322,715
Water services	<u>1,074,550</u>
Total operating revenue	<u>2,397,265</u>
Operating expenses:	
General and administrative:	
Meetings	1,682
Directors' expense	331
Salaries	211,398
Payroll taxes and benefits	31,210
Utilities	7,802
Janitorial and carpet services	5,004
Office supplies and expense	8,594
Telephone	6,837
Printing	5
Postage and shipping	10,158
Advertising	318
Insurance	79,644
Dues and subscriptions	1,842
Vehicle expense	2,694
Legal fees	4,286
Computer maintenance	6,202
Audit expense	8,850
Bank service charges	32
State annual filing fee	890
Miscellaneous	1,242
Office building repair & maintenance	3,174
Education expenses	5,033
Election fees	<u>3,907</u>
Total general and administrative	<u>401,135</u>

(continued)

See accompanying notes to financial statements

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

Operating expenses (Continued):

Sewer general and administrative:

Salaries and wages	139,289
Workers' compensation insurance	33,965
Payroll taxes and benefits	20,790
Dues and subscriptions	255
Telephone	5,399
Office supplies	1,030
Education expense	1,090
	<hr/>
Total sewer general and administrative	201,818

Sewer plant expense:

Fuel - equipment and vehicles	11,793
Vehicle repair and maintenance	11,340
Vehicle insurance	1,382
Utilities	138,039
Chemicals	33,283
Stream water quality monitoring	1,240
Waste water monitoring	14,912
Lab testing equipment	162
Lab fees	260
Compost supplies	5,595
Safety equipment	643
Discharge permit fees	1,687
Welding & welding supplies	89
Sewer repairs and maintenance	34,846
Treatment plant repairs and maintenance	11,818
Maintenance and repairs - building and grounds	35,257
Tools	2,471
Equipment rental	245
Jetting - sewer lines	17,122
Miscellaneous	1,907
Depreciation expense	624,467
	<hr/>
Total sewer plant expense	948,558

(continued)

See accompanying notes to financial statements

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

Operating expenses (Continued):

Water general and administrative:

Salaries and wages	133,581
Workers' compensation insurance	31,647
Payroll taxes and benefits	20,499
Dues and subscriptions	1,300
Telephone	5,865
Office supplies	558
Education expense	1,291
Public water supply fees	3,790

Total water general and administrative	198,531
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Water plant expense:

Fuel - equipment and vehicles	7,370
Vehicle repair and maintenance	7,768
Vehicle insurance	1,382
Utilities	116,483
Chemicals	358
Lab fees	1,981
Lab testing equipment	645
Safety equipment	507
Repairs and maintenance	91,971
Tools	8,329
Equipment rental	2,233
Special projects	40,035
Professional services	8,891
Miscellaneous	1,291
Depreciation expense	339,457

Total water plant expense	628,701
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Total operating expenses	2,378,743
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Operating income	18,522
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(continued)
See accompanying notes to financial statements

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2010

Nonoperating revenues (expenses):	
Other nonoperating expenses	(41,074)
Other nonoperating revenue	15,000
Interest income	113,147
Tax receipts for bond payments	971,602
Plant investment charges	352,285
Resort tax revenue	583,351
Interest expense	(676,051)
Net gain on disposal of assets	310,369
	<hr/>
Total nonoperating revenues (expenses)	1,628,629
	<hr/>
Income before contributions	1,647,151
	<hr/>
Contributed capital	2,290,378
	<hr/>
Increase in net assets	3,937,529
	<hr/>
Net assets, beginning of year	32,756,376
	<hr/>
Net assets, end of year	<u><u>\$ 36,693,905</u></u>

See accompanying notes to financial statements

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

Increase in cash and cash equivalents:

Cash flows from operating activities:

Receipts from customers	\$ 2,306,656
Payments to suppliers	(1,162,105)
Payments to employees	(471,535)
	<hr/>
Net cash provided by operating activities	673,016

Cash flows from capital and related financing activities:

Proceeds from capital debt	1,315,721
Principal paid on capital debt	(1,281,000)
Purchases of capital assets	(1,445,507)
Proceeds from the sale of land	375,000
Interest paid on capital debt	(673,711)
Taxes collected for bond payments	971,602
Resort taxes received for bond payments	583,351
Other receipts (payments)	326,211
	<hr/>
Net cash provided by capital and related financing activities	171,667

Cash flows from investing activities:

Interest and dividends received	121,860
Refunds of performance bonds and fees	(47,413)
Proceeds from performance bonds and fees	17,013
	<hr/>
Net cash provided by investing activities	91,460

Net increase in cash and cash equivalents	936,143
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Cash and cash equivalents - beginning of the year	<hr/> 10,455,979
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Cash and cash equivalents - end of the year	<hr/> <hr/> \$ 11,392,122
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Cash and cash equivalents as presented on the statement of net assets:

Cash and cash equivalents	\$ 9,940,049
Restricted cash and cash equivalents	1,452,073
	<hr/> <hr/> \$ 11,392,122

Reconciliation of operating income to net cash provided by operating activities:

Operating income	<u>\$ 18,522</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	963,924
(Increase) decrease in current assets:	
Accounts receivable	(90,610)
Inventory	(13,309)
(Increase) decrease in current liabilities:	
Accounts payable and accrued expenses	(218,244)
Compensated absences payable	12,733
	<u>654,494</u>
Net cash provided by operating activities	<u>\$ 673,016</u>

Supplemental Schedule of Non-cash Investing and Financing Activities:

During the fiscal year ended June 30, 2010, developers contributed water and sewer extensions valued at \$2,290,378 to the District.

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Big Sky County Water & Sewer District No. 363 (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

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 2,400 customers.

B. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the District's operating statements. The District is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported and equity is reported as net assets.

The term basis of accounting is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Big Sky County Water and Sewer District No. 363 has elected, as allowed in paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, not to follow Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989. Therefore, the District follows all GASB pronouncements and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are water and wastewater user charges. Revenue from user charges and sales of services is recognized as the related service is provided. Refunds to customers are charged to income in the period in which those refunds are paid. Operating expenses include the costs associated with the conveyance of water and wastewater, treatment of wastewater, administrative expenses, and depreciation of capital assets.

All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

D. Water and Wastewater User Charges

Property owners are assessed sewer and water fees annually based on the number of single-family equivalent units. Most of the accounts have been converted to a metering system. No allowance has been made for uncollectible accounts because the District submits any delinquent accounts to the County Treasurer for collection.

E. Cash and Investments

The District is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP).

To minimize custodial credit risk in relation to the District's deposits, it is the District's policy to have uninsured deposits covered by collateral held by the pledging bank's agent in the District's name.

The District does not have a policy regarding concentration of credit risk in relation to its investments.

For the purpose of the cash flow statement, cash and cash equivalents are considered to be cash on hand, deposits in demand accounts and money market accounts.

F. Restricted Cash

According to a bond resolution, cash in the amount of \$725,768 is restricted; this is the amount that has accumulated in the Debt Service Fund. Cash in the amount of \$726,305 is restricted as the result of a legally binding agreement. Both of these restrictions are for debt repayment.

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory

Inventory is recorded at lower of cost or market and consists of operating materials and meters.

H. Internal Balances

Internal receivable and payable balances have been eliminated in the Statement of Net Assets.

I. Capital Assets

The District's capital assets are capitalized at historical cost or estimated historical cost. Contributions of capital assets are recorded at fair market value when received. Depreciation of capital assets is calculated using the straight-line method with estimated useful lives as follows:

Office building	39 years
Water and sewer system and equipment	7-75 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 life of a fixed asset, are capitalized. Proceeds received from government or other grantors, for the purchase or construction of fixed assets, are credited to income. All interest costs associated with new construction are capitalized.

J. Compensated Absences

Employees accrue vacation time at 10 hours per month (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 calendar year or be forfeited.

K. Net Assets

For the fiscal year ended June 30, 2004, the District adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all states and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

It requires the classification of net assets into three components as described below:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets (continued)

- Restricted – This component of net assets consists of restrictions placed on net assets as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

L. Tax Revenue

Property tax levies are set by the Counties according to the rates approved by the voters and are based on taxable values listed as of January 1 for all real property located in the District. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable one half by November 30 and one half by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month from the time of delinquency until paid plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is seized and sold after the taxes become delinquent.

M. Budget

The District is not legally required to adopt a budget; therefore management has decided not to present the budget in the financial statements.

N. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. 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).

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. CASH AND INVESTMENTS

As of June 30, 2010, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$11,391,917 and the bank balance was \$11,502,614. Of the bank balance, \$750,000 was covered by federal depository insurance and \$10,752,614 was covered by collateral held by the pledging bank's agent in the District's name.

At June 30, 2010, the District's only investment was in the Montana Short-Term Investment Pool (STIP). STIP was created by the State of Montana Board of Investments to allow qualifying funds, per sections 17-6-201, 202 and 204, MCA, to participate in a diversified pool. The carrying amount of this investment as of June 30, 2010 was \$1,633.

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2010:

GASB 31

According to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests on the participant's behalf in an investment portfolio. STIP is also classified as a "2a7-like" pool. A 2a7-like pool is an external investment pool that is not registered with the Security and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair market value to report net assets and to compute unit values. The Board of Investments has adopted a policy to treat STIP as a 2a7-like pool and to utilize an amortized cost unit value rather than fair value to report net assets.

GASB 40

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – *Deposit and Investment Risk Disclosures*. The unaudited financial statements as of June 30, 2010 and 2009 have disclosures pertaining to STIP's exposure to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and legal and credit risk.

Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

Security Lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year 2010 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2010 financial statements is available online at [www.investmentmt.com/Programs/STIP Program](http://www.investmentmt.com/Programs/STIP%20Program).

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

3. CHANGES IN CAPITAL ASSETS

	Balance <u>7/1/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance <u>6/30/10</u>
Capital assets not being depreciated:					
Land	\$ 1,063,038	\$ -	\$ (48,349)	\$ -	\$ 1,014,689
Land easements	58,117	-	-	-	58,117
Sewer construction in progress	155,781	-	-	(96,516)	59,265
Water construction in progress	<u>4,700,158</u>	<u>-</u>	<u>-</u>	<u>(4,586,841)</u>	<u>113,317</u>
Total capital assets not being depreciated	<u>5,977,094</u>	<u>-</u>	<u>(48,349)</u>	<u>(4,683,357)</u>	<u>1,245,388</u>
Capital assets being depreciated:					
Office building	473,449	44,810	-		518,259
Sewer infrastructure	30,303,737	2,770,889	(71,535)	96,516	33,099,607
Water infrastructure	<u>12,360,013</u>	<u>1,110,394</u>	<u>(126,775)</u>	<u>4,586,841</u>	<u>17,930,473</u>
Total capital assets being depreciated	43,137,199	3,926,093	(198,310)	4,683,357	51,548,339
Accumulated depreciation	<u>(8,599,720)</u>	<u>(963,929)</u>	<u>189,532</u>	<u>-</u>	<u>(9,374,117)</u>
Net depreciable capital assets	<u>34,537,479</u>	<u>2,962,164</u>	<u>(8,778)</u>	<u>4,683,357</u>	<u>42,174,222</u>
Total capital assets	<u>\$40,514,573</u>	<u>\$2,962,164</u>	<u>\$ (57,127)</u>	<u>\$ -</u>	<u>\$43,419,610</u>

As of June 30, 2010, approximately \$1,313,204 of interest has been capitalized as capital assets.

4. OUTSTANDING DEBT

The following is a summary of long-term debt at June 30, 2010:

General obligation bonds

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.

\$ 1,297,000

(continued)

BIG SKY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4. OUTSTANDING DEBT (Continued)

4% State Revolving 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. \$ 105,000

4% State Revolving Fund (DNRC Revolving Loan Program) Series 2002 dated September 24, 2002 for \$7,000,000 for the purpose of constructing a wastewater treatment plant. Payable in 40 semi-annual installments of approximately \$256,000 until July 1, 2023. 5,299,000

4% State Revolving Fund (DNRC Drinking Water Revolving Loan Program) Series 2002 dated September 24, 2002 for \$534,000 for the purchase and installation of water meters. Payable in 42 semi-annual installments of approximately \$20,000 until July 1, 2023. 404,000

3.75% State of Montana General Obligation Bonds, Wastewater Revolving Fund Program totaling \$6,500,000, dated October 1, 2003 to finance construction of the water treatment plant. Payable in 40 installments of approximately \$232,000 until July 1, 2023. Amount advanced at June 30, 2010 was \$6,226,862. 4,614,862

4% State Revolving Fund (DNRC Drinking Water Revolving Loan Program) Series 2003 dated May 20, 2003 for the construction of a water tank. Total loan commitment of \$1,966,000. Payable in 42 semi-annual installments of approximately \$72,000 until July 1, 2024. 1,569,000

3.75% State Revolving Fund (DNRC Drinking Water Revolving Loan Program) Series 2007 dated August 17, 2007 for improvements to the District's water system. Total possible loan commitment of \$5,000,000; amount advanced as of June 30, 2010 was \$4,697,529. Payable in 40 semi-annual installments of approximately \$171,000 until January 1, 2028. 4,255,529

Total \$ 17,544,391

BIG SKY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4. OUTSTANDING DEBT (Continued)

The general obligation bonds are to be repaid semi-annually through 2024 with resort tax revenue appropriated to the District, a mill levy approved in 2004, District plant investment charges, and operating revenue and reserves. 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.

	<u>Balance</u> <u>6/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/10</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
Bonds payable:					
State Revolving Loan #1	\$ 1,697,000	\$ -	\$ (400,000)	\$ 1,297,000	\$ 415,000
State Revolving Loan #2	137,000	-	(32,000)	105,000	34,000
SRF Treatment Plant	5,590,000	-	(291,000)	5,299,000	303,000
SRF Water Meters	426,000	-	(22,000)	404,000	23,000
SRF Water Tank	1,648,000	-	(79,000)	1,569,000	81,000
GO Bonds Treatment Plant	4,452,399	437,463	(275,000)	4,614,862	268,842
SRF Water System Improvements	<u>3,559,271</u>	<u>878,258</u>	<u>(182,000)</u>	<u>4,255,529</u>	<u>177,396</u>
Total bonds payable	17,509,670	1,315,721	(1,281,000)	17,544,391	1,302,238
Compensated absences	<u>69,616</u>	<u>12,733</u>	<u>-</u>	<u>82,349</u>	<u>-</u>
Total long-term liabilities	<u>\$17,579,286</u>	<u>\$1,328,454</u>	<u>\$(1,385,537)</u>	<u>\$17,626,740</u>	<u>\$1,302,238</u>

Debt service requirements at June 30, 2010, were as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,302,238	\$ 664,642
2012	1,352,776	615,526
2013	1,405,217	562,045
2014	955,319	511,484
2015	992,105	474,178
2016-2020	5,576,171	1,757,959
2021-2025	5,171,266	608,548
2026-2028	<u>789,299</u>	<u>44,947</u>
Total	<u>\$ 17,544,391</u>	<u>\$ 5,239,329</u>

(continued)

BIG SKY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4. OUTSTANDING DEBT (Continued)

Sewer System General Obligation Bonds – Debt Restrictions

- 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.
- f. The Sewer Fund must be audited on an annual basis.

The District was in compliance with the bond covenants at June 30, 2010.

5. DEFERRED REVENUE

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 final payment of \$250,000 was paid during fiscal year ended June 30, 2010.

On October 6, 1997, the District entered into an agreement with Farmhouse Partners – Big Sky Limited Partnership to defer the payment of plant investment charges. Interest is paid at a rate of 1-4% annually until December 31, 2012 at which time the principal will be paid. The principal balance of this note is offset by deferred revenue.

Changes in deferred revenue were as follows:

	Balance <u>6/30/09</u>	<u>Additions</u>	Revenue <u>Recognized</u>	Balance <u>6/30/10</u>
Boyne settlement	\$ 250,000	\$ -	\$ (250,000)	\$ -
Farmhouse	<u>97,800</u>	<u>-</u>	<u>-</u>	<u>97,800</u>
	<u>\$ 347,800</u>	<u>\$ -</u>	<u>\$ (250,000)</u>	<u>\$ 97,800</u>

6. NET ASSETS – RESTRICTED

Net assets are restricted as follows:

Restricted for debt service \$ 1,452,073

BIG SKY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7. EMPLOYEE BENEFIT PLANS

Public Employees' Retirement System (PERS)

All District employees are provided pension benefits by this multi-employer plan. Funding is provided by participating units of government and their covered employees. As of July 1, 2009, the District is required to contribute 7.07% of members' compensation, which was \$35,342 for the fiscal year ended June 30, 2010. As of July 1, 2007, the District was required to contribute 6.935% of members' compensation, which was \$40,145 and \$30,610 for the years ended June 30, 2009 and 2008, respectively. Plan members are required to contribute 6.9% of their compensation, which was \$34,492, \$39,943, and \$30,455 for the years ended June 30, 2010, 2009, and 2008, respectively. The State is required to contribute .1% of members' compensation, which was \$500, \$579, and \$441 for the years ended June 30, 2010, 2009, and 2008, respectively. One hundred percent of required contributions were made for all three years.

All full-time District employees participate in one of two statewide cost-sharing multiple-employer retirement benefit plans administered by the Public Employees Retirement Division (PERD). Contributions to the two plans are as required by State statute. Financial information for the two plans is reported in the Public Employees' Retirement Board's published Comprehensive Annual Financial Report for the fiscal year end. It is available from PERD at 100 North Park Avenue, Suite 220, P.O. Box 200131, Helena, MT 59620-0131. The authority to establish, amend and provide cost of living adjustments to the plans is assigned to the State legislature. The authority to establish and amend contribution rates to the plans is also assigned to the State legislature.

Defined Benefit Retirement Plan (DBRP) – Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 year of service regardless of age. Rights become vested after 5 years of service.

Defined Contribution Retirement Plan (DCRP) – Participants may elect the defined contribution plan, in which the contributions into the plan are known, but the benefit is not. The retirement benefit received is based upon account balance, which is determined by contributions made plus investment earnings, or losses, less administrative costs. Employees become vested in the employer's contributions after 5 years of service and become vested in the employee's contributions immediately.

Deferred Compensation Plan

In February 2009, the District entered into an agreement with the Montana Public Employees' Retirement Board to allow its employees to participate in the State of Montana 457 Deferred Compensation Plan (Plan). The Plan is sponsored by the Montana Public Employees' Retirement Board and is authorized by Internal Revenue Code Section 457(b) and is subject to specific Internal Revenue Service laws and requirements.

During the fiscal year ended June 30, 2010 the maximum contribution that the employees could make to the Plan was \$16,500. The District contributes 6.2% of each participant's wages.

During the fiscal year ended June 30, 2010, the District and the employees contributed \$28,343 and \$37,726, respectively to the plan.

BIG SKY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8. COMMITMENTS AND CONTINGENCIES

Risk Management

The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability (i.e. errors and omissions), d) environmental damage, and e) workers' compensation (i.e., employee injuries).

The District participates in a risk pool, which provides general liability insurance, auto liability insurance, crime/bond coverage, errors and omissions insurance, and property insurance. This pool purchases commercial insurance to cover the members' risks; the District does not assume the liabilities of other entities.

Workers' compensation insurance coverage is provided through a commercial policy.

Yellowstone Mountain Club Agreement

On March 28, 2001, the District signed an agreement with the Yellowstone Mountain Club and other related entities owned by a Developer for the sale of water, treatment of wastewater, and right to use land for the storage and disposal of treated wastewater. The District shall have the right to dispose up to 160,000,000 gallons of treated wastewater per year on land owned by the Developer in exchange for a capital asset commitment of approximately \$18 million. The Developer will construct storage ponds and a golf course irrigation system totaling approximately \$6.6 million.

9. CONCENTRATION OF CREDIT RISK

Accounts receivable potentially subject the District to concentrations of credit risk. As of June 30, 2010, approximately \$104,000 was due from one entity and related to one property, on which the mortgagee has initiated the foreclosure process. In accordance with Montana Code Annotated, this balance has been attached to the property tax bill for this property. In the past, when the District has followed these procedures and a property has been foreclosed, the District's billings have remained attached to the property taxes and have been paid upon the sale of the property. It is management's belief that the approximate \$104,000 owed to the District will be paid in the same manner.

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

<u>Federal grantor/Program title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Loan Amount</u>	<u>Federal Expenditures</u>
Office of Water, Environmental Protection Agency Passed through Montana Department of Natural Resources and Conservation:				
State Revolving Fund (DNRC Wastewater Revolving Loan Program Series 2003) - Wastewater Treatment Plant	66.458	SRF C-301184-04	\$ 6,500,000	\$ 4,614,862

NOTE 1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of the Big Sky County Water and Sewer District No. 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*.

NOTE 2. LOANS OUTSTANDING

The District had the following loan balance outstanding at June 30, 2009 and 2010. This loan balance outstanding is also included in the federal expenditures presented in this schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Outstanding Amount at 6/30/09</u>	<u>Outstanding Amount at 6/30/10</u>
Office of Water, Environmental Protection Agency Passed through Montana Department of Natural Resources and Conservation:			
State Revolving Fund (DNRC Wastewater Revolving Loan Program Series 2003) - Wastewater Treatment Plant	66.458	\$ 4,452,399	4,614,862

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

To the Board of Directors
Big Sky County Water and Sewer District No. 363
Big Sky, Montana

We have audited the financial statements of the business-type activities and major fund of Big Sky County Water and Sewer District No. 363 (District) as of and for the year ended June 30, 2010, which collectively comprise the Big Sky County Water and Sewer District No. 363's basic financial statements and have issued our report thereon dated December 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Big Sky County Water & Sewer District No. 363's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Sky County Water & Sewer District No. 363's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Big Sky County Water & Sewer District No. 363's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.


Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

December 21, 2010
Board of Directors
Page two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Sky County Water & Sewer District No. 363's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.

A handwritten signature in blue ink, appearing to read "Holmes & Turner".

December 21, 2010

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

To the Board of Directors
Big Sky County Water and Sewer District No. 363
Big Sky, Montana

Compliance

We have audited Big Sky County Water and Sewer District No. 363's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. Big Sky County Water & Sewer District No. 363's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Big Sky County Water & Sewer District No. 363's management. Our responsibility is to express an opinion on Big Sky County Water & Sewer District No. 363's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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. 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about Big Sky County Water & Sewer District No. 363'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 of Big Sky County Water & Sewer District No. 363's compliance with those requirements.

In our opinion, Big Sky County Water & Sewer District No. 363 complied, in all material respects, with the compliance requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control over Compliance

Management of the Big Sky County Water & Sewer District No. 363 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Big Sky County Water & Sewer District No. 363's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Big Sky County Water & Sewer District No. 363's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.



December 21, 2010

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Summary of auditor's results

1. The auditor's report expresses an unqualified opinion on the financial statements of Big Sky County Water and Sewer District No. 363.
2. No instances of noncompliance material to the financial statements of Big Sky County Water and Sewer District No. 363 were disclosed during the audit.
3. The auditor's report on compliance for the major federal award programs for Big Sky County Water and Sewer District No. 363 expresses an unqualified opinion on all major federal programs.
5. There were no audit findings relating to major programs that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
6. The auditee's major program is as follows:

Office of Water, Environmental Protection Agency
Passed-through Montana Department of Natural Resources and Conservation
State Revolving Fund (DNRC Wastewater Revolving Loan Program Series
2003) – Wastewater Treatment Plan
CFDA #66.458
7. The \$300,000 threshold was used in distinguishing between Type A and Type B programs.
8. Big Sky County Water and Sewer District No. 363 was determined to be a low-risk auditee.

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

There were no findings, questioned costs, or reportable conditions for the year ended June 30, 2009.