

ORIGINAL

FILE COPY

**FINANCIAL STATEMENTS**

BIG SKY COUNTY WATER & SEWER DISTRICT

Holmes & Turner

JUNE 30, 2011 and 2010

holmes & turner  
Certified Public Accountants



CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1283 NORTH 14TH STREET, SUITE 201  
BOZEMAN, MONTANA 59715  
(406) 587-4265  
FAX (406) 586-3111

November 30, 2011

Ron Edwards, General Manager  
Terry Smith, Financial Officer  
Big Sky County Water & Sewer District  
P.O. Box 160670  
Big Sky, Montana 59716



Dear Ron and Terry:

Enclosed are the final copies of the District's audit reports and the publication requirements for this report. We have forwarded the Montana Department of Administration's copies to them.

The Montana Single Audit Act (Title 2, Chapter 7, Part 5, MCA) requires each audited local government entity to send a copy of their audit report to a newspaper of general circulation in their area. Publication is required to be done within 30 days of your receipt of the audit report. Enclosed is a sample letter to the newspaper regarding this publication and a sample publication that you may want to utilize. We are sending you an additional copy of the District's audit report for this purpose.

If you have any questions, please do not hesitate to call Rosie or me. It has been a pleasure working with you.

Very truly yours,

HOLMES & TURNER

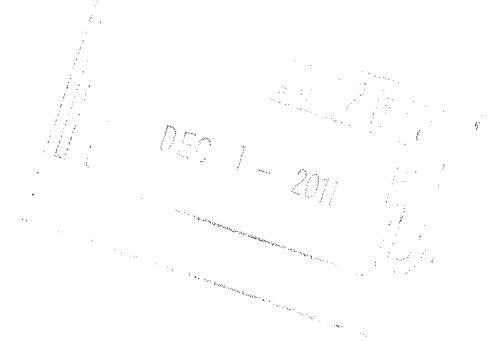
Rosie Barndt

Enclosures: as stated



CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1283 NORTH 14TH STREET, SUITE 201  
BOZEMAN, MONTANA 59715  
(406) 587-4265  
FAX (406) 586-3111



November 29, 2011

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

We have audited the financial statements of the business-type activities and the major fund of Big Sky County Water & Sewer District No. 363 for the year ended June 30, 2011, and have issued our report thereon dated November 29, 2011. Professional standards require that we provide you with the following information related to our audit.

---

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 14, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated May 14, 2008.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Big Sky County Water & Sewer District No. 363 are described in Note One to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended June 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule of adjustments shows the audit adjustments that were posted.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 29, 2011.

*Management Consultations with Other Independent Accountants*

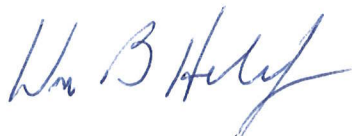
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board and is not intended to be and should not be used by anyone other than this specified party.

Very truly yours,



HOLMES & TURNER

Prepared by\_\_\_\_\_

**Big Sky Water and Sewer District  
Adjusting Journal Entries**

BSWATER

Page 1

Reviewed by\_\_\_\_\_

Reference	Type	Date Account Number	Description	Debit	Credit
AJE01	Adjusting	06/30/11			
		02-6010-0	Salaries	3,111.29	
		01-7010-0	Salaries	3,583.95	
		03-5010-0	Salaries	4,927.36	
		03-2080-0	Compensated Absences		11,622.60
		To record compensation adjustment from client (CLIENT DO NOT POST)			
AJE02	Adjusting	06/30/11			
		01-3025-0	Water User Charges	55,578.66	
		03-2110-0	Spanish Peaks water reserve		55,578.66
		Record liability to Spanish Peaks.			
		TOTAL		<u>67,201.26</u>	<u>67,201.26</u>

**SAMPLE**

**AUDIT PUBLICATION STATEMENT**

An audit of the affairs of Big Sky County Water & Sewer District No. 363 has been conducted by Holmes & Turner (a professional corporation). The audit covered the fiscal year ended June 30, 2011.

Section 2-7-521, MCA, requires the publication concerning the audit report include a statement that the audit report is on file in its entirety and open to public inspection at [*location where report is on file*], and that the Big Sky County Water & Sewer District No. 363 will send a copy of the audit report to any interested person upon request.

Sincerely,

Big Sky County Water & Sewer District No. 363

**SAMPLE LETTER TO NEWSPAPER REGARDING PUBLICATION  
OF STATEMENT REGARDING AUDIT**

DATE

Name of Newspaper

Address

City, MT 59---

Gentlemen:

Section 2-7-521, MCA, requires that the attached Audit Publication Statement be published by a newspaper of general circulation. We consider your newspaper to be a newspaper of general circulation for the Big Sky County Water & Sewer District No. 363.

Will you please publish the enclosed Audit Publication Statement for the fiscal year ended June 30, 2011. All publication costs are required by statute to be borne by the Big Sky County Water & Sewer District No. 363, so please bill us for those costs.

Also enclosed for your information, as required by statute, is a complete copy of the audit report. The audit report itself is not required by law to be published. Only the Audit Publication should be published.

Thank you for your cooperation.

Sincerely,

Pages enclosed to be published – 1 page



CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1283 NORTH 14TH STREET, SUITE 201  
BOZEMAN, MONTANA 59715  
(406) 587-4265  
FAX (406) 586-3111

November 23, 2011

Kay Gray  
Montana Department of Administration  
Local Government Services Bureau-Audit Review Program  
P.O. Box 200547  
Helena, MT 59620-0547

Dear Kay:

Please extend the due date of the audit report for Big Sky County Water & Sewer District to December 31, 2011.


We are in the final stages of issuing the audit report.

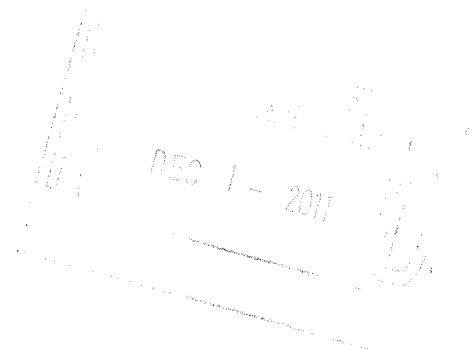
Sincerely,

HOLMES & TURNER

A handwritten signature in dark ink, appearing to read "Rosie Barndt".

Rosie Barndt

cc: Big Sky County Water & Sewer District 





BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

---

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363

TABLE OF CONTENTS

	<u>Page</u>
Independent auditor's report	1-2
Management's discussion and analysis	3-7
Basic financial statements:	
Statement of net assets	8
Statement of revenues, expenses, and changes in fund net assets	9-12
Statement of cash flows	13
Notes to the financial statements	14-24
Schedule of expenditures of federal awards	25
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	26-27
Independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133	28-29
Schedule of findings and questioned costs	30
Current status of prior year recommendations	31

---

## 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, 2011, 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, 2011, 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 November 29, 2011, 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.



November 29, 2011



## BIG SKY COUNTY WATER & SEWER DISTRICT No. 363

PO BOX 160670 • 561 LITTLE COYOTE RD • BIG SKY, MT 59716 • 406-995-2660 • FAX 406-995-3053 • Email - WSD363@GOMONTANA.COM

### Management Discussion and Analysis Fiscal Year 7/1/2010 - 6/30/2011

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 decreased by 0.57%. This was primarily due to capital assets net of accumulated depreciation decreasing from \$43,419,610 to \$42,866,485. The District added few new capital assets to the asset base due to the slowdown in development. The total liabilities of the District decreased 6.62% as a result of debt service principal payments. The sewer capital assets of the District increased from \$34,691,820 to \$34,979,518. The District added approximately \$10,000 to the Irrigation System, \$57,000 to the Treatment Plant, and \$220,000 in Sewer Pond Improvements. The water capital assets increased from \$18,101,907 to \$18,245,604. The District replaced old fire hydrants and spent approximately \$55,000 on new fire hydrants. The District also updated several computers and a copier in the amount of approximately \$20,000. The District also finished the well projects and closed out the contracts for Hidden Village Condominiums and Silverbow Condominiums in the amount of approximately \$29,000. The remainder was spent on meter equipment, a well pump replacement and refurbishing the Sweetgrass Hills Water Tank. 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 \$16,242,153 to \$14,929,929 (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 funds from the Boyne Settlement agreement. The water system improvements are continuing with the State Revolving Loan of \$5,000,000. At June 30, 2011 the loan balance available for use on water projects was \$141,521. The current liabilities of the District increased from \$2,528,577 to \$2,582,107 which includes a decrease in accounts payable to \$374,469 from \$542,511 an increase in performance bonds and retainage payable from \$683,828 to \$704,679 and the increase in the current portion of long-term debt from \$1,302,238 to \$1,447,380 at 6/30/2011.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
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%
2010-2011	\$55,327,031	-0.57%	\$17,695,607	-6.62%

**Operating Revenue/Non-Operating Revenue**

The total operating revenues of the District decreased to \$2,319,863 from \$2,397,265. The total sewer operating revenue increased to \$1,323,696 up \$981. The total water operating revenue decreased to \$996,167 down \$78,383. The marginal increase in sewer revenues was due to a marginal increase in sewer usage. The water revenue decrease was due to a 0.47% decrease in usage and a \$55,579 adjustment to current water revenue for the Spanish Peaks Water Facilities Operating Agreement. In addition, the Yellowstone Mountain Club water system repaired leaks in their main lines which decreased the volume sold to the Club under the water sale agreement. 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, net of interest expenses and other non-operating expenses of the District decreased to \$1,015,754 from \$1,628,629. The decrease is primarily due to the gain on disposal of assets of \$310,369 last fiscal year and a decrease in sewer plant investment charges from \$352,285 to \$42,590. 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 \$32,648 for the State Revolving Fund Loans for the Hidden Village water tank project. The Big Sky Resort Tax Board also provided an additional \$35,000 for the Sewer Pond Rock Cover Project. The District also collected \$956,776 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 decrease in tax receipts is a result of both tax appeals and refunds made to property that was taxed erroneously.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
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%
2010-2011	\$3,986,600	-15.95%	\$3,049,081	-1.51%

**Operating Expenses/Non-Operating Expenses**

The total operating expense for the District increased to \$2,398,098 from \$2,378,743. The total general and administrative expense increased to \$412,798 from \$401,135. The total sewer general and administrative expense decreased to \$186,855 from \$201,818. Total sewer operation expense increased to \$989,582 from \$948,558. The total water general and administrative expense increased to \$206,908 from \$198,531. The total water operating expense decreased to \$601,955 from \$628,701. The total operating expense increased at a rate of 0.81%. In the non-operating expense category the main item is the interest expense on the State Revolving Fund Loans. In fiscal 2010-2011 the District made principal payments in the amount of \$1,328,000 with total payments amounting to \$1,976,955. The District paid \$648,955 in interest on those loans. The other item in the non-operating expense category was the Snowmaking Pilot 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
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%
2010-2011	\$2,319,863	-3.23%	\$2,398,098	0.81%

### **Capital Assets**

The District did not receive any donated capital assets this fiscal year. 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 donated capital 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, 2011 were \$37,631,424. The total amount includes \$26,489,176 invested in capital assets, net of related debt, \$10,401,035 in unrestricted assets which includes cash, and \$741,213 restricted cash for debt service. The total represents an increase of \$937,519 over the prior fiscal year total. The amount invested in capital assets, net of related debt increased by \$613,957 due to asset additions and debt reduction. The unrestricted portion increased by \$1,034,422. The amount restricted for debt service decreased to \$741,213 from \$1,452,073 due to the extinguishment of the Boyne Annual Payment Fund. The last payment from Boyne occurred last fiscal year and the funds were used for debt service and the pond liner cover.

### **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 2010-2011. The loss increased from \$28,229 to \$59,140. There were a number of costly operating events that are not expected to re-occur. The District will continue to 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 2010-2011. However, the \$55,579 adjustment for the Spanish Peaks Water Facilities Operating Agreement for recognition of prior year's net revenue resulted in loss for the current fiscal year. The net operating loss for the water department this fiscal year is \$19,095. 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. The District also believes that the water and sewer rates adopted effective July 1, 2008 and July 1, 2009 should be sufficient to cover operating expenses in the next fiscal year

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%
2010-2011	\$15.46	0%	\$2.49*	0%	\$23.91	0%	\$5.82	0%

*\*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 2010-2011 at year-end had few significant variations. The overall operating loss of \$78,235 was due to both the sewer department operating loss and the Spanish Peaks revenue adjustment noted above. The sewer department was budgeted to earn \$641; however, \$59,140 was needed to balance the sewer budget. The sewer department's budgeted revenue came in 1.77% below budgeted. Sewer operation expenses came in 7.42% over budget. As a result, there was an overall loss for the sewer department. The water department was budgeted to earn \$3,839; however, \$19,095 was needed to balance the water budget. Administrative expenses for general administration, water administration and sewer administration all came in under budget. The sewer operations expense as noted above was 7.42% over budget. The water operations expense was below budget by 8.45%. The sewer expense variance was outside the acceptable variance of plus or minus 5.0%, however, the expenses which caused the variance are not expected to re-occur. Overall operating expenses came in 1.64% below budget and the overall loss of \$78,235 represents 3.21% of total budgeted operating expense.

Non-operating revenue budget variance was a negative 29.20% which was due to several factors. The first is that the District budgeted \$250,000 in capital contributions, there were none. The second was an error in budgeting for tax receipts. The 2010-2011 budget was not updated for additional contributions from the Resort Tax Board as well as the contribution from the District from the Boyne Annual Fund Account. Third, the interest income continued to decline because of the historically low interest rates. The District refunded sewer tax receipts on parcels in Gallatin County. The funds were refunded to the property owners that were charged erroneously and subsequently paid the tax. Gallatin County included properties in the taxing area that should have been exempt. Gallatin County also had a large number of tax appeals that resulted in tax reductions which adversely impacted the overall tax receipts. As a result, the non-operating revenue budget included approximately \$600,000 in revenue that was not realized. Excluding the budget error, lack of capital contributions, tax refunds/appeals and low interest rates the non-operating revenue was at an acceptable variance.

The District has a total of seven State Revolving Fund Loans with an outstanding balance at fiscal year-end of \$16,377,309 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 District used approximately \$400,000 in plant investment fees to service the debt. The Resort Tax Board allocated \$250,000 in additional debt service for fiscal 2011-2012. The District will contribute another \$400,000 in plant investment fees toward debt service in fiscal 2011-2012. To service the debt in the next fiscal year the District will decrease the mills levied on water debt service from 25.37 mills to 21.63 mills and decrease the mills levied on sewer from 26.88 mills to 21.05 mills.



The District did not make any additional draws on the existing sewer State Revolving Fund loan. The loan has a balance available in the amount of \$273,137. The District may use these funds for an updated aeration system for the existing sewer ponds or sewer plant upgrades. The Pond Liner Project should be completed in 2011-2012 using Plant Investment funds. The District's State Revolving Fund Loan for water system upgrades in the amount of \$5,000,000 was used to complete the connection to the water system of the new water wells in the Meadow Village water system. The District drew a total of \$160,918 for water system projects during fiscal 2010-2011. The balance on the water State Revolving Fund loan was \$141,553 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.



## LIABILITIES AND FUND EQUITY

### Current liabilities:

Accounts payable and accrued expenses	\$ 374,469
Performance bonds and retainage payable	704,679
Water reserve payable	55,579
Current portion of long-term debt	<u>1,447,380</u>

Total current liabilities	<u>2,582,107</u>
---------------------------	------------------

### Long-term liabilities:

Deferred revenue	97,800
Compensated absences payable	85,771
General obligation bonds	16,377,309
Less: current portion of long-term debt	<u>(1,447,380)</u>

Total long-term liabilities	<u>15,113,500</u>
-----------------------------	-------------------

Total liabilities	<u>17,695,607</u>
-------------------	-------------------

### Net assets:

Invested in capital assets, net of related debt	26,489,176
Unrestricted	10,401,035
Restricted for debt service	<u>741,213</u>

Total fund equity	<u>37,631,424</u>
-------------------	-------------------

Total liabilities and fund equity	<u>\$ 55,327,031</u>
-----------------------------------	----------------------

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, 2011

Operating revenues:	
Sewer services	\$ 1,323,696
Water services	<u>996,167</u>
Total operating revenue	<u>2,319,863</u>
Operating expenses:	
General and administrative:	
Meetings	1,650
Directors' expense	3,086
Salaries	217,482
Payroll taxes and benefits	31,724
Utilities	5,034
Janitorial and carpet services	1,104
Office supplies and expense	9,939
Telephone	5,763
Postage and shipping	9,400
Advertising	22
Insurance	99,054
Dues and subscriptions	1,340
Vehicle expense	4,299
Legal fees	3,671
Computer maintenance	4,829
Audit expense	8,522
Bank service charges	53
State annual filing fee	890
Miscellaneous	1,163
Office building repair & maintenance	1,681
Education expenses	<u>2,092</u>
Total general and administrative	<u>412,798</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, 2011

Operating expenses (Continued):

Sewer general and administrative:

Salaries and wages	120,622
Workers' compensation insurance	40,099
Payroll taxes and benefits	18,680
Dues and subscriptions	951
Telephone	4,461
Office supplies	1,252
Education expense	790
	<hr/>
Total sewer general and administrative	186,855

Sewer plant expense:

Fuel - equipment and vehicles	9,373
Vehicle repair and maintenance	5,909
Vehicle insurance	2,084
Utilities	116,080
Chemicals	28,416
Stream water quality monitoring	1,509
Waste water monitoring	16,943
Lab testing equipment	413
Compost supplies	2,697
Safety equipment	502
Discharge permit fees	1,125
Welding & welding supplies	443
Sewer repairs and maintenance	53,162
Treatment plant repairs and maintenance	29,367
Maintenance and repairs - building and grounds	35,692
Tools	9,029
Equipment rental	59
Jetting - sewer lines	25,189
Engineering	13,779
Miscellaneous	1,388
Depreciation expense	636,423
	<hr/>
Total sewer plant expense	989,582

(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, 2011

Operating expenses (Continued):

Water general and administrative:

Salaries and wages	132,180
Workers' compensation insurance	41,122
Payroll taxes and benefits	20,052
Dues and subscriptions	3,156
Telephone	6,083
Office supplies	173
Education expense	338
Public water supply fees	<u>3,804</u>

Total water general and administrative	<u>206,908</u>
--	----------------

Water plant expense:

Fuel - equipment and vehicles	8,069
Vehicle repair and maintenance	7,777
Vehicle insurance	2,064
Utilities	138,518
Chemicals	549
Lab fees	7,582
Safety equipment	73
Repairs and maintenance	69,630
Tools	5,893
Equipment rental	1,539
Special projects	10,761
Miscellaneous	1,403
Depreciation expense	<u>348,097</u>

Total water plant expense	<u>601,955</u>
---------------------------	----------------

Total operating expenses	<u>2,398,098</u>
--------------------------	------------------

Operating loss	<u>(78,235)</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, 2011

Nonoperating revenues (expenses):	
Other nonoperating expenses	(2,028)
Other nonoperating revenue	10,360
Interest income	89,360
Tax receipts for bond payments	956,779
Plant investment charges	42,590
Resort tax revenue	567,648
Interest expense	<u>(648,955)</u>
Total nonoperating revenues (expenses)	<u>1,015,754</u>
Increase in net assets	937,519
Net assets, beginning of year	<u>36,693,905</u>
Net assets, end of year	<u><u>\$ 37,631,424</u></u>

See accompanying notes to financial statements





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

Operating loss	<u>\$ (78,235)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	984,520
(Increase) decrease in current assets:	
Accounts receivable	109,295
Inventory	1,262
Prepays	(8,073)
(Increase) decrease in current liabilities:	
Accounts payable and accrued expenses	(149,655)
Compensated absences payable	3,422
Water reserve payable	55,579
	<u>996,350</u>
Net cash provided by operating activities	<u><u>\$ 918,115</u></u>

See accompanying notes to financial statements

**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011**

**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. Use of Restricted/Unrestricted Net Assets**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

**F. 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.

**G. Restricted Cash**

According to a bond resolution, cash in the amount of \$741,213 is restricted; this is the amount that has accumulated in the Debt Service Fund. This restriction is for debt repayment.

(continued)

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

**H. Inventory**

Inventory is recorded at lower of cost (first-in, first-out) or market and consists primarily of operating materials.

**I. Internal Balances**

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

**J. 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.

**K. Compensated Absences**

Employees accrue vacation time at 10 hours per month (increasing to 12 hours per month after 10 years of service and up to 16 hours per month after 21 years of service) 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.

**L. 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, 2011**

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

**L. 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.”

**M. 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.

**N. Budget**

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

**O. 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.

**P. 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, 2011**

**2. CASH AND INVESTMENTS**

As of June 30, 2011, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$11,729,768 and the bank balance was \$11,754,358. Of the bank balance, \$750,000 was covered by federal depository insurance and \$11,004,358 was covered by collateral held by the pledging bank's agent in the District's name.

At June 30, 2011, 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, 2011 was \$1,638.

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2011:

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, 2011 and 2010 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 2011 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2011 financial statements is available online at [www.investmentmt.com/Programs/STIP Program](http://www.investmentmt.com/Programs/STIP Program).

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**3. CHANGES IN CAPITAL ASSETS**

	Balance 7/1/10	Additions	Retirements	Transfers	Balance 6/30/11
Capital assets not being depreciated:					
Land	\$ 1,014,689	\$ -	\$ -	\$ -	\$ 1,014,689
Land easements	58,117	-	-	-	58,117
Sewer construction in progress	59,265	-	-	(59,265)	-
Water construction in progress	113,317	5,000	-	(113,317)	5,000
Total capital assets not being depreciated	<u>1,245,388</u>	<u>5,000</u>	<u>-</u>	<u>(172,582)</u>	<u>1,077,806</u>
Capital assets being depreciated:					
Office building	518,259	-	-		518,259
Sewer infrastructure	33,099,607	287,697	-	59,265	33,446,569
Water infrastructure	17,930,473	138,698	-	113,317	18,182,488
Total capital assets being depreciated	51,548,339	426,395	-	172,582	52,147,316
Accumulated depreciation	(9,374,117)	(984,520)	-	-	(10,358,637)
Net depreciable capital assets	<u>42,174,222</u>	<u>(558,125)</u>	<u>-</u>	<u>172,582</u>	<u>41,788,679</u>
Total capital assets	<u>\$43,419,610</u>	<u>\$ (553,125)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$42,866,485</u>

As of June 30, 2011, 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, 2011:

***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.

\$ 882,000

(continued)

**BIG SKY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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. \$ 71,000

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. 4,996,000

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. 381,000

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. 4,330,862

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. 1,488,000

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. 4,228,447

Total \$ 16,377,309

(continued)



**BIG SKY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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>Balance</u>	<u>Amounts</u>
	<u>6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/11</u>	<u>Due within</u>
					<u>One Year</u>
Bonds payable:					
State Revolving Loan #1	\$ 1,297,000	\$ -	\$ (415,000)	\$ 882,000	\$ 433,000
State Revolving Loan #2	105,000	-	(34,000)	71,000	35,000
SRF Treatment Plant	5,299,000	-	(303,000)	4,996,000	315,000
SRF Water Meters	404,000	-	(23,000)	381,000	24,000
SRF Water Tank	1,569,000	-	(81,000)	1,488,000	85,000
GO Bonds Treatment Plant	4,614,862	-	(284,000)	4,330,862	278,313
SRF Water System Improvements	<u>4,255,529</u>	<u>160,918</u>	<u>(188,000)</u>	<u>4,228,447</u>	<u>191,296</u>
Total bonds payable	17,544,391	160,918	(1,328,000)	16,377,309	1,361,609
Compensated absences	<u>82,349</u>	<u>3,422</u>	<u>-</u>	<u>85,771</u>	<u>85,771</u>
Total long-term liabilities	<u>\$17,626,740</u>	<u>\$ 164,340</u>	<u>\$(1,328,000)</u>	<u>\$16,463,080</u>	<u>\$1,447,380</u>

Debt service requirements at June 30, 2011, were as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30,</u>		
2012	1,361,609	623,442
2013	1,414,383	569,627
2014	964,832	518,719
2015	1,001,979	481,052
2016	1,040,849	441,901
2017-2021	5,851,663	1,566,411
2022-2026	4,283,390	432,505
2027-2028	<u>458,604</u>	<u>20,272</u>
Total	<u>\$ 16,377,309</u>	<u>\$ 4,653,929</u>

(continued)

**BIG SKY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011.

**5. DEFERRED REVENUE**

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:

	<u>Balance</u> <u>6/30/10</u>	<u>Additions</u>	<u>Revenue</u> <u>Recognized</u>	<u>Balance</u> <u>6/30/11</u>
Farmhouse	97,800	-	-	97,800

**6. NET ASSETS – RESTRICTED**

Net assets are restricted as follows:

Restricted for debt service	<u>\$ 741,213</u>
-----------------------------	-------------------

**BIG SKY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 \$35,132 and \$35,342 for the fiscal years ended June 30, 2011 and 2010, respectively. As of July 1, 2007, the District was required to contribute 6.935% of members' compensation, which was \$40,145 for the year ended June 30, 2009. Plan members are required to contribute 6.9% of their compensation, which was \$34,288, \$34,492, and \$39,943 for the years ended June 30, 2011, 2010, and 2009, respectively. The State is required to contribute .1% of members' compensation, which was \$497, \$500, and \$579 for the years ended June 30, 2011, 2010, and 2009, 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, 2011 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 years ended June 30, 2011 and 2010, the District contributed \$27,559 and \$28,343 respectively to the plan and the employees contributed \$38,227 and \$37,726 respectively to the plan.

**BIG SKY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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.

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011

Federal grantor/Program title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Loan Amount	Federal Expenditures
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, 2010 and 2011. This loan balance outstanding is also included in the federal expenditures presented in this schedule.

Program Title	Federal CFDA Number	Outstanding Amount at 6/30/10	Outstanding Amount at 6/30/11
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	\$ 4,614,862	\$ 4,330,862

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, 2011, which collectively comprise the Big Sky County Water and Sewer District No. 363's basic financial statements and have issued our report thereon dated November 29, 2011. 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.

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 cursive script, appearing to read "Holmes & Turner", with a horizontal line above the text.

November 29, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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, 2011. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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, 2011.



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 the 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.



November 29, 2011

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, 2011

There were no findings, questioned costs, or reportable conditions for the year ended June 30, 2011.