

ORIGINAL

# BRANSON SCHOOL DISTRICT

**Audit FY 2012-2013**

Financials Audit

---

holmes & turner  
Certified Public Accountants

WAC/ARF  
SUPERSTAR



CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1283 NORTH 14TH STREET, SUITE 201  
BOZEMAN, MONTANA 59715  
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December 5, 2013

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

We have audited the financial statements of the business-type activities and the major fund of Big Sky County Water and Sewer District No. 363 for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 21, 2013. Professional standards also require that we communicate to you the following information related to our audit.

#### 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 and Sewer District No. 363 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Big Sky County Water and Sewer District No. 363's financial statements were:

Management's estimate of the depreciable lives of capital assets is based on prescribed depreciable lives for water and sewer utilities, and the expected useful life. Management's estimate of the collectability of accounts receivable is based on the knowledge of, and history with, existing customers, as well as the ability to place the accounts on the County tax rolls. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

##### *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 clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 December 5, 2013.

*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*

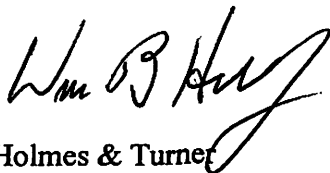
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Big Sky County Water and Sewer District No. 363 and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Holmes & Turner

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

# Big Sky Water and Sewer District Adjusting Journal Entries

BSWATER

Page 1

11/19/13 08:46 AM

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

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper	Misstatement
PAJE01	Potential	06/30/13						
		03-1207-0	Other receivables	6,000.00				
		01-3030-0	Late Payment Fees		6,000.00			
			Record accrued penalties on Farmhouse note			6,000.00		
PAJE02	Potential	06/30/13						
		01-3046-0	Water Miscellaneous Income	4,355.06				
		03-1010-0	BSWB - Cking #102547		4,355.06			
			Deposits posted 6/30/13 in error; should have been 7/5/13			(4,355.06)		
PAJE03	Potential	06/30/13						
		01-7010-0	Salaries	3,331.75				
		03-2080-0	Compensated Absences		3,331.75			
			Correct compensated absences to actual			(3,331.75)		
PAJE04	Potential	06/30/13						
		03-1207-0	Other receivables	41,397.78				
		03-1207-0	Other receivables	76,332.64				
		02-4013-0	Madison Co Tax Receipts Sewer		117,730.42			
		01-9998-0	Equity		65,283.48			
		02-4013-0	Madison Co Tax Receipts Sewer	65,283.48				
		02-4013-0	Madison Co Tax Receipts Sewer	31,841.70				
		01-9998-0	Equity		31,841.70			
			Accrue taxes receivable			20,605.24		

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

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

BSWATER

Page 2

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

11/19/13 08:46 AM

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper	Misstatement
PAJE05	Potential	06/30/13						
		03-1600-0	Fixed Assets-Swr	17,000.00				
		01-3047-0	Rent Inc-Lower Level New Offi		17,000.00			
						17,000.00		
			Record interest in Big Sky S & R Building					
		TOTAL		<u>245,542.41</u>	<u>245,542.41</u>	<u>35,918.43</u>		



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December 5, 2013

To the Management and  
Board of Directors of  
Big Sky Water & Sewer District

In planning and performing our audit of the financial statements of Big Sky Sewer & Water District, Inc. for the year ended June 30, 2013, we considered Big Sky Sewer & Water District, Inc.'s internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

During our audit, we noticed a few opportunities to strengthen your internal controls and operating efficiency. We have enclosed a list of recommended changes for your review. This letter does not affect our report, dated December 5, 2013, on Big Sky Sewer & Water District, Inc.'s financial statements.

We will review the status of these comments during our next audit engagement. Please feel free to contact us at your convenience if we may assist you in implementing these recommendations.

Sincerely,

HOLMES & TURNER

William Hebron

Enclosure:  
As stated

## **Management Letter Recommendations**

### **Grant Activity Documentation and Reporting**

When performing tests of grant activity, we noted that in-kind activity for a grant was not adequately documented, and a final engineer's report was not submitted to the grantor as requested. We encourage the District to comply with all Grantor requests and maintain supporting documentation for all grant expenditures in order to eliminate the possibility of non-compliance with grant requirements.

### **Capital Assets**

As part of the testing for capital assets, we reviewed the capital asset listing for items that may no longer be in service or maintained by the District. Items were identified on this schedule that should be removed. While this does not result in a misstatement of the financial statements, we encourage the District to update this schedule annually to ensure a current and accurate list of capital assets is available. This becomes even more important as a result of decreasing the capitalization limit. Adding numerous small items to the list suggests an annual inventory be taken to account for these items.



BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

# 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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the major fund of Big Sky County Water and Sewer District No. 363, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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 the major fund of the Big Sky County Water and Sewer District No. 363, as of June 30, 2013 and the respective changes in financial position

and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

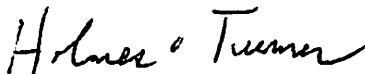
#### **Other Matters**

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3-7 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.

##### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, on our consideration of 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 that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Sky County Water and Sewer District No. 363's internal control over financial reporting and compliance.



December 5, 2013

**Management Discussion and Analysis**  
**Fiscal Year 7/1/2012 - 6/30/2013**

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 Position, Statement of Revenues, Expenses, and Changes in Net Position, 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 position contains the assets, liabilities, and fund position. The statement of revenues, expenses, and changes in net position contains 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 position and end of year net position 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 net fixed assets of the District decreased by 1.49% in the fiscal year 2012-2013. This was due to capital assets net of accumulated depreciation decreasing from \$42,324,410 to \$41,694,837. The District added new capital assets to the asset base but the amounts added did not exceed the depreciation expense of existing assets. In addition, there were no new developer water or sewer mains added due to the continued slowdown in new development. The sewer capital assets of the District increased from \$35,222,306 to \$35,259,138. The District added approximately \$49,000 to the Sewer Plant Assets (manholes, sewer line replacement), \$9,000 to the Filter Plant and \$2,700 to the Treatment Plant. The Sewer Department retired one vehicle with a cost basis of \$25,000. The water capital assets increased from \$18,428,071 to \$18,695,438. The District spent \$17,000 to refurbish the Sweetgrass Hills 50K Water Tank. The District spent \$14,500 on new telemetry equipment for the water system. The District spent \$53,500 on replacing the Broadwater main line and a new water line at the Park Condominiums. The District spent \$107,000 wiring the new wells and pump stations and purchasing and installing generators. The District purchased two new well pumps for \$22,500 for the new Meadow Village wells 4 & 5. The District replaced a pressure reducing valve station costing \$13,000. The District added a small truck to the water vehicle fleet in the amount of \$12,750. The District installed \$25,000 in water meter equipment. The District's other asset category remained at \$97,800 which is a note receivable from Farmhouse Partners for Plant Investment Fees.

The total liabilities of the District decreased 8.45% due primarily to debt service principal payments. The total long-term liabilities associated with the existing State Revolving Fund Loans of both systems decreased from \$14,994,309 to \$13,709,000. The District used low interest rate (3.75%-4.00%) loans from the State Revolving Loan Fund Program to finance both water and sewer projects. In April of 2013 the District refinanced the two remaining sewer loans through the State Revolving Loan Program at 2.25%. The District refinanced the water State Revolving Loans in August of 2013. The water system improvements financed through the State Revolving Loan Program are continuing, however, loan proceeds were fully drawn as of May 2013. The remaining costs will be funded by the District. The current liabilities of the District decreased from \$2,673,049 to \$2,178,194 which includes a decrease in accounts payable to \$207,377 from \$358,825, an increase in performance bonds and retainage payable from \$736,124 to \$774,420 an increase in water reserve payable to \$97,924 from \$78,857, and the decrease in the current portion of long-term debt from \$1,499,243 to \$1,098,473 at 6/30/2013.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
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%
2011-2012	\$55,125,201	-0.36%	\$16,350,775	-7.60%
2012-2013	\$54,868,959	-0.46%	\$14,968,943	-8.45%

### **Operating Revenue/Non-Operating Revenue**

The total operating revenues of the District increased to \$2,425,897 from \$2,338,408. The total sewer operating revenue increased to \$1,313,535 from \$1,288,657. The total water operating revenue increased to \$1,112,362 from \$1,049,751. Both the water operating revenue increase and sewer operating revenue increase was due to an 11.53% increase in water usage and a 6.64% increase in sewer usage. The difference between the two is primarily summer irrigation water which is not included as a source for sewer operating revenue. 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 includes plant investment charges, interest income, tax receipts for bond payments and Resort Tax allocations. The total non-operating revenue, net of interest expenses and other non-operating expenses of the District decreased to \$1,037,167 from \$1,248,654. The decrease is primarily due to the reduction in debt service funding by the Big Sky Area Resort Tax. The District received \$280,000 from the Big Sky Area Resort Tax Board for paying interest and principal on two of the State Revolving Fund loans for the sewer filter building based on the Inter-local Agreement that the District had with the Big Sky Resort Tax Board. The District did not receive any additional funding for debt service except for the funds for the final payment on the two loans backed by the inter-local agreement. The inter-local agreement with the Big Sky Resort Tax Board ended with the January 1, 2013 debt service payments. As a result, the District received \$250,000 less in debt service than the prior fiscal year. The District collected \$1,096,628 in general obligation bond tax receipts for payments on the State Revolving Fund Loans used to finance the water tank, water meters, two water system rehabilitation projects including (Hidden Village and Silverbow Condominiums), new Meadow Village water wells 4 & 5, and the new sewer treatment plant. The tax receipts increased to service the debt payments due to no additional funding by the Big Sky Area Resort Tax.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
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%
2011-2012	\$4,201,313	5.39%	\$3,058,311	0.03%
2012-2013	\$4,026,358	-4.16%	\$2,900,768	-5.15%

**Operating Expenses/Non-Operating Expenses**

The total operating expense for the District decreased to \$2,337,474 from \$2,444,060. The total general and administrative expense increased to \$432,426 from \$429,406. The total sewer general and administrative expense decreased to \$178,830 from \$183,015. Total sewer operation expense decreased to \$904,036 from \$966,477. The total water general and administrative expense decreased to \$233,348 from \$241,159. The total water operating expense decreased to \$588,834 from \$624,003. The total operating expense decreased from last fiscal year at a rate of 4.36%. The decrease was primarily due to lower repairs and maintenance costs, lower sewer utilities and depreciation expense and lower professional services incurred by the water department. In the non-operating expense category the main item is the interest expense on the State Revolving Fund Loans. In fiscal 2012-2013 the District made principal payments in the amount of \$1,426,862 with total payments amounting to \$1,945,488. The District paid \$516,586 in interest on those loans. The other item in the non-operating expense category was the Snowmaking Pilot Project and the Recon Dynamics Remote Radio Read Tower. The expenses associated with those two projects were off set in their entirety by contributions and grants.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
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%
2011-2012	\$2,338,408	0.80%	\$2,444,060	1.92%
2012-2013	\$2,425,897	3.74%	\$2,337,474	-4.36%

**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 which are recorded at the appropriate county office. The District requires a two-year warranty on the assets transferred in the form of cash or letter of credit as warranty security. The warranty security amount is 10% of the cost basis of the assets transferred to the District. 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 position at June 30, 2013 was \$39,900,016. The total amount includes \$28,615,410 invested in capital assets, net of related debt, \$10,771,380 in unrestricted assets which includes cash, and \$513,226 restricted cash for debt service. The total represents an increase of \$1,125,590 over the prior fiscal year total. The invested in capital assets, net of related debt category increased by \$1,285,309 due to asset additions and debt reduction. The unrestricted portion increased by \$138,035 due to an increase in cash position. The restricted for debt service category decreased to \$513,226 from \$810,973 due to the two sewer loans that were paid off on January 1, 2013.

**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. In Fiscal Year 2012-

13 both water and sewer operations had net operating revenue in excess of operating expense. The District continues to believe that both regulatory and other operating costs will increase for the District's water and sewer department. The District proposed a three year phased in rate increase of a 1% increase at the start of each of the next three fiscal years. The increase is for both the water and sewer base rates as well as a 1% increase in usage rates. In addition, The District proposed an additional tier on the water rates. The District notified all property owners at their last known address and held a public hearing on the proposed rate increase. The Board of Director's approved the rate increase at their regularly scheduled June meeting.

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%
2011-2012	\$15.46	0%	\$2.49*	0%	\$23.91	0%	\$5.82	0%
2012-2013	\$15.46	0%	\$2.49*	0%	\$23.91	0%	\$5.82	0%
2013-2014**	\$15.61	1%	\$2.51**	1%	\$24.15	1%	\$5.88	1%

\*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 as follows: 2008-2009 \$2.42, \$3.63, \$4.84; 2009-2010 \$2.49, \$3.74, \$4.99

\*\*Beginning in July of 2013, 0-60,000 gallons, 60,000 to 90,000 gallons, 90,000 to 120,000 gallons, 120,000 gallons and above as follows: 2013-2014 \$2.51, \$3.78, \$5.04, \$6.30

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 2012-2013 at year-end had total revenues 103.19% of budget, total expenses 96.59% of budget and Total net revenue 103.05% of budget. There were no sewer or water assets contributed to the District and net income was \$1,125,590 which was 107.33% of budget.

The operating revenues were at 101.35% of budget and operating expenses were at 97.20% of budget. As a result, there was \$88,423 in operating income. Administrative expenses for general administration, water administration and sewer administration all came in under budget. The sewer operations expense was 97.76% of budget. The sewer and water department's operating budget is separated into seven categories: vehicles, operating expenses, repairs and maintenance, professional services, miscellaneous, asset replacement & depreciation and special projects. The sewer department was under budget in all categories except depreciation expense, which was only fractionally over budget.



The water operations expense was 96.90% of budget. The water department was under budget in all categories except operating expenses and depreciation. In the water operating expense category utility expense was 9.94% over budget. The water department installed new pumping equipment on the Mountain that used more electricity to operate the new variable speed pumps than was anticipated. The depreciation expense was 2.57% over budget due to the additional water assets added for the two new Meadow Wells 4&5. The total water plant operations expense was 97.53% of budget.

Total non-operating revenues were at 105.73% of budget and non-operating expenses were at 94.67% of budget. The tax receipts from both Gallatin and Madison County were higher than budgeted because there was no additional funding from the Resort Tax Board for debt service. The plant investment fee sub-category was budgeted at \$45,000, however, \$166,117 was collected. The District budgeted \$150,000 in capital contributions but none were received. Both the water and sewer debt service interest costs were under budget. As result, net non-operating revenues were \$1,037,167.

The District has a total of five State Revolving Fund Loans remaining with an outstanding balance at fiscal year-end of \$13,709,000 including the current portion of the long-term debt. The District services the debt through bi-annual payments funded through several sources. The two main sources are ad-valorem taxes and the Plant Investment Fees (sewer only). The District's commitment from the Big Sky Area Resort Tax for two loans, \$500,000 annually, ended this fiscal year 2012-2013. The first two SRF loans were paid in full January 1, 2013. The District did not apply for debt service from the Big Sky Area Resort Tax Board for fiscal 2013-2014. The District will reassess the application for debt service in fiscal 2014-2015. The District used approximately \$400,000 in plant investment fees to service the debt. The District refinanced the two remaining sewer loans at a rate of 2.25%. The reduced rate will decrease interest costs by approximately \$752,000 over the remaining life of the two loans. The District will refinance the three water SRF loans at 2.25% and 2.00% depending on the remaining life of each loan in August 2013. The refinance on the remaining water loans will decrease interest costs by approximately \$689,000 over the remaining life of the three loans.

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 POSITION  
JUNE 30, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 11,949,692
Investments	1,647
Accounts receivable	566,602
Water meter inventory	<u>45,155</u>

Total current assets	<u>12,563,096</u>
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Noncurrent assets:

Restricted cash and cash equivalents:

Debt service fund	513,226
Notes receivable	97,800

Capital assets, net of accumulated depreciation, where applicable:

Land and land easements	1,072,806
Depreciable buildings and infrastructure, net	<u>40,622,031</u>

Total noncurrent assets	<u>42,305,863</u>
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Total assets	<u><u>\$ 54,868,959</u></u>
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## LIABILITIES AND NET POSITION

### Current liabilities:

Accounts payable and accrued expenses	\$ 207,377
Performance bonds and retainage payable	774,420
Water reserve payable	97,924
Current portion of long-term debt	<u>1,098,473</u>

Total current liabilities	<u>2,178,194</u>
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### Long-term liabilities:

Unpaid plant investment fees	97,800
Compensated absences payable	82,422
General obligation bonds	13,709,000
Less: current portion of long-term debt	<u>(1,098,473)</u>

Total long-term liabilities	<u>12,790,749</u>
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Total liabilities	<u>14,968,943</u>
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### Net position:

Invested in capital assets, net of related debt	27,985,837
Unrestricted	11,400,953
Restricted for debt service	<u>513,226</u>

Total fund position	<u>39,900,016</u>
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Total liabilities and net position	<u>\$ 54,868,959</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 NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013

Operating revenues:	
Sewer services	\$ 1,313,535
Water services	<u>1,112,362</u>
Total operating revenue	<u>2,425,897</u>
Operating expenses:	
General and administrative:	
Advertising	92
Audit expense	8,788
Bank service charges	86
Computer maintenance	8,636
Directors' expense	524
Dues and subscriptions	1,380
Education expenses	2,700
Insurance	111,691
Janitorial and carpet services	896
Legal fees	8,771
Meetings	1,833
Miscellaneous	1,349
Office building repair & maintenance	1,289
Office supplies and expense	7,851
Payroll taxes and benefits	32,783
Postage and shipping	10,994
Salaries	216,293
State annual filing fee	845
Telephone	5,604
Utilities	5,598
Vehicle expense	<u>4,423</u>
Total general and administrative	<u>432,426</u>

(continued)

See accompanying notes to financial statements

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
(CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Operating expenses (Continued):

Sewer general and administrative:

Salaries and wages	113,864
Workers' compensation insurance	38,789
Payroll taxes and benefits	17,746
Dues and subscriptions	584
Telephone	5,116
Office supplies	34
Education expense	2,697

Total sewer general and administrative	<u>178,830</u>
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Sewer plant expense:

Chemicals	38,248
Compost supplies	4,297
Depreciation expense	623,151
Engineering	1,425
Fuel - equipment and vehicles	10,079
Jetting - sewer lines	15,834
Lab testing equipment	561
Maintenance and repairs - building and grounds	19,000
Miscellaneous	1,494
Operating supplies	19
Safety equipment	71
Sewer repairs and maintenance	17,268
Tools	3,284
Treatment plant repairs and maintenance	14,214
Utilities	124,360
Vehicle insurance	2,310
Vehicle repair and maintenance	3,782
Waste water monitoring	23,778
Welding & welding supplies	861

Total sewer plant expense	<u>904,036</u>
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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 NET POSITION  
(CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Operating expenses (Continued):

Water general and administrative:

Salaries and wages	152,297
Workers' compensation insurance	43,572
Payroll taxes and benefits	23,723
Dues and subscriptions	2,193
Telephone	5,662
Office supplies	17
Education expense	2,040
Public water supply fees	3,844

Total water general and administrative	233,348
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Water plant expense:

Depreciation expense	335,308
Equipment rental	45
Fuel - equipment and vehicles	9,639
Lab fees	1,461
Miscellaneous	1,394
Professional services	7,818
Repairs and maintenance	58,001
Safety equipment	20
Special projects	445
Tools	1,782
Utilities	163,603
Vehicle insurance	2,310
Vehicle repair and maintenance	7,008

Total water plant expense	588,834
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Total operating expenses	2,337,474
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Operating income	88,423
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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 NET POSITION  
(CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013

Nonoperating revenues (expenses):	
Interest expense	(516,586)
Other nonoperating expenses	(46,708)
Gain on disposal of assets	5,500
Other nonoperating revenue	10,000
Interest income	42,216
Plant investment charges	166,117
Resort tax revenue	280,000
Tax receipts for bond payments	<u>1,096,628</u>
Total nonoperating revenues (expenses)	<u>1,037,167</u>
Increase in net position	1,125,590
Net position, beginning of year	<u>38,774,426</u>
Net position, end of year	<u><u>\$ 39,900,016</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, 2013

Increase in cash and cash equivalents:

Cash flows from operating activities

Receipts from customers	\$ 2,480,495
Payments to suppliers	(482,454)
Payments to employees	<u>(892,691)</u>
Net cash provided by operating activities	<u>1,105,350</u>

Cash flows from capital and related financing activities

Principal paid on capital debt	(1,426,862)
Acquisition of capital debt	141,553
Purchases of capital assets	(323,388)
Interest paid on capital debt	(668,709)
Taxes collected for bond payments	1,096,628
Resort taxes received for bond payments	280,000
Other receipts (payments)	<u>129,416</u>
Net cash (used) by capital and related financing activities	<u>(771,362)</u>

Cash flows from investing activities:

Interest	45,230
Proceeds from performance bonds and fees	<u>35,274</u>
Net cash provided by investing activities	<u>80,504</u>

Net increase in cash and cash equivalents 414,492

Cash and cash equivalents - beginning of the year 12,048,426

Cash and cash equivalents - end of the year \$ 12,462,918

Cash and cash equivalents as presented on the statement of net assets:

Cash and cash equivalents	\$ 11,949,692
Restricted cash and cash equivalents	<u>513,226</u>
	<u><u>\$ 12,462,918</u></u>



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

Operating income	<u>\$ 88,423</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	958,459
(Increase) decrease in current assets:	
Accounts receivable	35,532
Prepaid expenses	12,216
Inventory	(6,584)
(Increase) decrease in current liabilities:	
Accounts payable and accrued expenses	675
Compensated absences payable	(2,438)
Water reserve payable	19,067
	<u>1,016,927</u>
Net cash provided by operating activities	<u>\$ 1,105,350</u>

See accompanying notes to financial statements

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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**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 2,700 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.

Pursuant to GASB 62, Big Sky County Water and Sewer District No. 363 follows all GASB pronouncements and may apply FASB pronouncements for accounting issues not addressed by GASB literature, unless it conflicts or contradicts GASB pronouncements.

(continued)

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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**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 Position**

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

(continued)

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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

**G. Restricted Cash**

According to a bond resolution, cash in the amount of \$513,226 is restricted; this is the amount that has accumulated in the Debt Service Fund. This restriction is for debt repayment.

**H. Inventory**

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

**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 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.

**K. Net Position**

The District adopted the provisions of GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement 63 provides a new net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

(continued)

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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

**K. Net Position (Continued)**

Proprietary fund net position is divided into three components:

- **Net investment in capital assets** – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus capital asset related deferred outflows of resources less capital asset related deferred inflows of resources related to those assets.
- **Restricted net position**– consist of assets that are restricted 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 position** – all other net position is reported in this category.

**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.

(continued)

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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

**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).

**P. Recent Accounting Pronouncements**

In November 2010, the GASB issued Statement No. 60, *Accounting, and Financial Reporting for Service Concession Arrangements* (GASB Statement No. 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs). This Statement will improve consistency in reporting these types of arrangements, thereby enhancing the comparability of the accounting and financial reporting of such arrangements among state and local governments. The District does not expect GASB No. 60 to have an impact on its financial statements.

In November 2010, the GASB issues Statement No. 61, *The Financial Reporting Entity Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB Statement No. 61). The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The District does not expect GASB No. 61 to have an impact on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB Statement No. 63). This Statement provides a new net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The District implemented GASB Statement No. 63 beginning with the year ending June 30, 2013.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* (GASB Statement No. 64). The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of an interest rate swap counterparty or swap counterparty's credit support provider. The District does not expect GASB No. 60 to have an impact on its financial statements.

The March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB Statement No. 65), and will be effective for the District in fiscal year 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District has not yet determined the effect that the adoption of this statement may have on its financial statements.

(continued)

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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

**P. Recent Accounting Pronouncements (continued)**

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62* (GASB Statement No. 66). The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The District implemented GASB Statement No. 66 beginning with the year ending June, 2013.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* (GASB Statement No. 67), and will be effective for the District in fiscal year 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The District has not yet determined the effect that the adoption of this statement may have on its financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB Statement No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by other entities. The District participates in the Montana Retirement System that is administered by the State of Montana. Under this standard, the District will be required to report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on its proportionate share of the collective amounts for all the governments in the Montana Retirement System plan. The District will receive the amounts it will be required to report on its financial statements from the Montana Retirement System beginning in fiscal year 2014.

**2. CASH AND INVESTMENTS**

As of June 30, 2013, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$12,462,718 and the bank balance was \$12,468,228. Of the bank balance, \$750,000 was covered by federal depository insurance and \$11,718,228 was covered by collateral held by the pledging bank's agent in the District's name.

At June 30, 2013, 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, 2013 was \$1,647.

(continued)

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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**2. CASH AND INVESTMENTS (continued)**

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2013:

**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, 2013 and 2012 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 2013 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2013 financial statements is available online at <http://www.investmentmt.com/content/STIP/Docs/2013STIPFinancial.pdf>.



BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**3. CHANGES IN CAPITAL ASSETS**

	Balance 7/1/2012	Additions	Retirements	Transfers	Balance 6/30/2013
Capital assets not being depreciated:					
Land	\$ 1,014,689	-	-	-	\$ 1,014,689
Land easements	58,117	-	-	-	58,117
 Total capital assets not being depreciated	 1,072,806	 -	 -	 -	 1,072,806
Capital assets being depreciated:					
Office building	518,259				518,259
Sewer infrastructure	33,689,358	61,519	(24,687)	-	33,726,190
Water infrastructure	18,369,954	267,367	-	-	18,637,321
 Total capital assets being depreciated	 52,577,571	 328,886	 (24,687)	 -	 52,881,770
Accumulated depreciation	(11,325,967)	(958,459)	24,687		(12,259,739)
Net depreciable capital assets	41,251,604	(629,573)	-	-	40,622,031
 Total capital assets	 \$42,324,410	 \$ (629,573)	 -	 -	 \$41,694,837

As of June 30, 2013, approximately \$768,064 of interest has been capitalized as capital assets.

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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**4. OUTSTANDING DEBT**

The following is a summary of long-term debt at June 30, 2013:

*General obligation bonds*

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. \$ 332,000

2.25% State of Montana General Obligation Bonds, Waste-water Revolving Fund Program totaling \$3,739,000, dated October 1, 2003, is a refinancing of Series 2002 bonds used to finance construction of the water treatment plant. Payable in 21 remaining semi-annual installments of approximately \$232,000 until July 1, 2023. 3,739,000

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. 1,314,000

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. Payable in 40 semi-annual installments of approximately \$171,000 until January 1, 2028. 3,971,000

2.25% State Revolving Fund (DNRC Revolving Loan Program) Series 2012 dated September 24, 2002, for \$4,353,000 is a refinancing of Series 2002 bonds used for the purpose of constructing a wastewater treatment plant. Payable in 21 remaining semi-annual installments of approximately \$207,000 until July 1, 2023. 4,353,000

Total \$ 13,709,000

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**4. OUTSTANDING DEBT (Continued)**

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

	Balance 06/30/12	Additions	Reductions	Balance 06/30/13	Amounts Due within One Year
Bonds payable:					
State Revolving Loan #1	\$ 449,000	\$ -	\$ (449,000)	\$ -	\$ -
State Revolving Loan #2	36,000	-	(36,000)	-	-
SRF Treatment Plan	4,681,000	-	(328,000)	4,353,000	320,000
SRF Water Meters	357,000	-	(25,000)	332,000	26,000
SRF Water Tank	1,403,000	-	(89,000)	1,314,000	92,000
GO Bonds Treatment Plant	4,035,862	-	(296,862)	3,739,000	372,000
SRF Water System Improvements	4,032,447	141,553	(203,000)	3,971,000	206,051
Total bonds payable	14,994,309	141,553	(1,426,862)	13,709,000	1,016,051
Compensated absences	84,860	-	(2,438)	82,422	82,422
Total long-term liabilities	<u>\$15,079,169</u>	<u>\$ 141,553</u>	<u>\$ (1,429,300)</u>	<u>\$13,791,422</u>	<u>\$ 1,098,473</u>

Debt service requirements at June 30, 2013, were as follows:

Year Ended June 30,	Principal	Interest
2014	\$ 1,016,051	\$ 327,578
2015	1,041,851	359,067
2016	1,071,945	330,058
2017	1,103,346	300,149
2018	1,133,065	269,330
2019-2023	6,165,608	850,702
2024-2028	2,177,134	154,603
Total	<u>\$ 13,709,000</u>	<u>\$ 2,591,487</u>

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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**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, 2013.

**5. UNPAID PLANT INVESTMENT FEES**

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 was scheduled to be paid at a rate of 1-4% annually until December 31, 2012 at which time the principal would be paid. As of June 30, 2013, the principal balance is still outstanding. The principal balance of this note is offset by delayed plant investment charges.

Changes in unpaid plant investment fees were as follows:

	<u>Balance</u> <u>6/30/12</u>	<u>Additions</u>	<u>Revenue</u> <u>Recognized</u>	<u>Balance</u> <u>6/30/13</u>
Farmhouse	97,800	-	-	97,800

**6. NET POSITION – RESTRICTED**

Net position is restricted as follows:

Restricted for debt service \$ 513,226

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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**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. The District is required to contribute 7.07% of members' compensation, which was \$36,506, \$36,441, and \$35,132 for the fiscal years ended June 30, 2013, 2012 and 2011, respectively. Plan members are required to contribute 6.9% of their compensation, which was \$35,629, \$35,565, and \$34,288 for the years ended June 30, 2013, 2012, and 2011, respectively. The State is required to contribute .1% of members' compensation, which was \$516, \$515, and \$497 for the years ended June 30, 2013, 2012, and 2011, 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 for members hired prior to July 1, 2011, with less than 25 years of membership, is 1.785% of the highest average compensation per year of service credit. For 25 or more years of membership service the percentage is increased to 2%. The benefit for those hired on or after July 1, 2011, with more than 5 and less than 10 years of membership service, is 1.5% of the highest average compensation per year of service credit. Membership service of 10 years or more, but less than 30, receive 1.785%. 30 years or more of membership increases to 2%. The benefits are paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 55 and 5 years of service. 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.

(continued)

BIG SKY COUNTY WATER SEWER DISTRICT NO. 363  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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**7. EMPLOYEE BENEFIT PLANS (Continued)**

During the 2013 and 2012 calendar years, the maximum contribution that a participant could make to the Plan was \$17,500 and \$17,000 respectively. The District contributes 6.2% of each participant's wages.

During the fiscal years ended June 30, 2013, 2012 and 2011 the District contributed \$28,966, \$28,817, and \$27,559, respectively to the plan. The employees contributed \$41,110, \$41,219, and \$38,227, respectively to the plan.

**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. SUBSEQUENT EVENTS**

Subsequent to year-end the District refinanced the following loans:

- 4% State Revolving Fund (DNRC Drinking Water Revolving Loan Program) Series 2002 dated September 24, 2002 for the purchase and installation of water meters;
- 4% State Revolving Fund (DNRC Drinking Water Revolving Loan Program) Series 2003 dated May 20, 2003 for construction of a water tank; and
- 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.

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the business-type activities and major fund of Big Sky Water and Sewer District No. 363, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Big Sky Water and Sewer District No. 363's basic financial statements, and have issued our report thereon dated December 5, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Big Sky Water and Sewer District No. 363's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Water and Sewer District No. 363's internal control. Accordingly, we do not express an opinion on the effectiveness of Big Sky Water and Sewer District No. 363's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

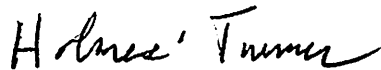
As part of obtaining reasonable assurance about whether Sky Water and Sewer District No. 363's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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

December 5, 2013  
Board of Directors  
Page Two

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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 5, 2013



BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2013

None

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363  
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2013

There were no findings, questioned costs, or reportable conditions for the year ended June 30, 2012.