



ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017



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December 13, 2018

Holmes & Turner, PC  
1283 North 14<sup>th</sup> Avenue, Suite 201  
Bozeman, Montana 59715

This representation letter is provided in connection with your audit of the financial statements of Big Sky County Water & Sewer District No. 363 (the District), which comprise the respective financial position of the District as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 13, 2018, the following representations made to you during your audit.

### **Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 13, 2018, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

- 7) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the accounts.
- 8) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 9) We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 10) Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

### **Information Provided**

- 11) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the District and involves—
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.

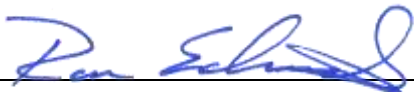
### **Government-specific**

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21) The District has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 22) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 26) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 27) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 28) The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 29) The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 30) The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34 .
- 31) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- 32) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 33) Provisions for uncollectible receivables have been properly identified and recorded.
- 34) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.



- 35) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 36) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 37) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 38) We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 39) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature: 

Title: General Manager

**Big Sky County Water & Sewer District No. 363**

Year End: June 30, 2018

Report trial balance

Date: 7/1/2017 To 6/30/2018

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
AJE.01	6/30/2018	Current Portion of LT Debt	2090				1,182,000.00		
AJE.01	6/30/2018	SRF Loan # 03097 Trmt.Plnt	2202			416,000.00			
AJE.01	6/30/2018	SRF Loan # N WRF-03045 Water	2203			32,000.00			
AJE.01	6/30/2018	SRF Loan WRF 03050 Water	2204			113,000.00			
AJE.01	6/30/2018	SRF Loan # 04116 Trmt Plnt	2205			358,000.00			
AJE.01	6/30/2018	SRF-Loan WRF-08109 Water	2206			263,000.00			
		To record current portion of long-term debt.							
AJE.02	6/30/2018	Pension Deferred Outflows	1219			7,175.00			
AJE.02	6/30/2018	Pension Deferred Outflows	1219			39,827.00			
AJE.02	6/30/2018	Pension Deferred Outflows	1219			28,688.00			
AJE.02	6/30/2018	Pension Deferred Outflows	1219				70,072.44		
AJE.02	6/30/2018	Pension Deferred Outflows	1219			56,998.18			
AJE.02	6/30/2018	Pension Defered Inflows	2040			818.00			
AJE.02	6/30/2018	Pension Defered Inflows	2040				2,379.00		
AJE.02	6/30/2018	Net Pension Liability	2101			247,117.00			
AJE.02	6/30/2018	Net Pension Liability	2101				291,368.00		
AJE.02	6/30/2018	Pension Grant Income	3049				630.00		
AJE.02	6/30/2018	Annual Pension Expense (GASB 68)	5495			44,251.00			
AJE.02	6/30/2018	Annual Pension Expense (GASB 68)	5495			1,561.00			
AJE.02	6/30/2018	Annual Pension Expense (GASB 68)	5495				5,617.56		
AJE.02	6/30/2018	Annual Pension Expense (GASB 68)	5495				22,542.99		
AJE.02	6/30/2018	Annual Pension Expense (GASB 68)	5495			630.00			
AJE.02	6/30/2018	Annual Pension Expense (GASB 68) - Sewer	5496				13,139.15		
AJE.02	6/30/2018	Annual Pension Expense (GASB 68) - Water	5497				21,316.04		
		To record pension related items.							
						1,609,065.18	1,609,065.18		
		Net Income (Loss)	2,182,080.08						

Preparer	Reviewer	2nd Reviewer
MC 11/18/2018		



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Big Sky County Water & Sewer District No. 363, which comprise the Statement of Net Position as of June 30, 2018 and the related Statement of Revenues, Expenses and Changes in Net Position, and Cash Flows for the year then ended, and the related notes to the financial statements.

### **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 an opinion 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 *Governmental 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 opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Sky County Water & Sewer District No. 363 as of June 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Prior Period Financial Statements

The financial statements of Big Sky County Water & Sewer District No. 363 as of June 30, 2017, were audited by other auditors whose report dated December 19, 2017, expressed an unmodified opinion on those statements.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 3-8 and 41-43, respectively, 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 *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018 on our consideration of Big Sky County Water & 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 & Sewer District No. 363's internal control over financial reporting and compliance.



Holmes & Turner  
Bozeman, Montana  
December 13, 2018

Management Discussion and Analysis  
Fiscal Year 7/1/2017 - 6/30/2018

The Big Sky County Water & Sewer District 363 is a public water and sewer system located in Southwest Montana. The District was established in 1994 under Montana Code Annotated Title 7, Chapter 13. The District spans two counties, Gallatin and Madison, and serves approximately 3,000 water and sewer customers located within the District. The District serves customer properties starting in the Meadow Village area within Gallatin County and extends to the Big Sky Ski Area within Madison County. The difference in elevation of the properties that the District serves creates unique challenges and opportunities for the Big Sky County Water & Sewer District 363.

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 for a 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 equity. The statement of revenues, expenses, and changes in net position 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 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 1.14% in fiscal year 2017-2018. Capital assets net of accumulated depreciation decreased from \$42,569,924 to \$42,086,101. The District's depreciation expense exceeded the amount of capital assets that were added to the asset base.

The sewer capital assets of the District increased from \$37,371,059 to \$37,617,106. The District spent approximately \$22,600 replacing sewer manholes throughout the District. The District purchased backup heaters for both force main pump houses costing approximately \$6,600. The District spent approximately \$10,400 updating the phone systems and replacing the District's printer. The District spent approximately \$33,100 on two peerless pumps for the treatment plant replacing the failed pump and providing a backup pump. The District hired the engineering firm Advanced Engineering & Environmental Services, Inc. (AE2S) to provide recommendations to upgrade and expand the sewer treatment plant. Under the engineering contract the District spent approximately \$96,000 in fiscal 2017-2018. The Sewer Department added \$71,447 in donated sewer extensions. The District continues to recognize the Search and Rescue Building on the books of the District. The District added another \$6,000 in fiscal 2017-2018. There is an agreement with the Big Sky Search and Rescue stipulating the circumstances under which the building may eventually revert to the District. However, the District anticipates this to be a perpetual agreement with the Big Sky Search and Rescue Operation.

The water capital assets increased from \$21,015,830 to \$21,371,258. The District spent approximately \$57,600 on both engineering and hardware for the wells and pump houses on the mountain. The District spent approximately \$31,000 completing rehab work on the mountain 50K water tank. A pressure reducing vault was replaced on the mountain costing approximately \$20,000. The water department replaced one truck and purchased another for the additional operator hired in May of 2017 spending approximately \$72,500 on the two vehicles. The water department purchased two new laptops for meter reading and the new operator costing approximately \$2,900. The water department spent \$17,800 on office equipment and new pipe locator. The District finished the update to the water SCADA Equipment spending approximately \$84,000 in fiscal 2017-2018.

The District installed new water meter equipment costing approximately \$61,000. The District also added \$26,688 in donated water extensions.

The total long-term liabilities associated with the existing State Revolving Fund Loans of both systems decreased to \$8,058,000 from \$9,214,000 including the current portion of the SRF Loans. The District uses low interest rate loans from the State Revolving Loan Program to finance both water and sewer projects. In July of 2013 the District refinanced the three water loans through the State Revolving Loan Program two at 2.00% and the larger dollar loan at 2.25%. The two sewer loans were both refinanced at 2.25% in May of 2013.

The District is a member of the Montana Public Employees Retirement Administration which administers the retirement plan for District employees. Recent changes in the financial reporting requirements for governmental pensions impact the District's financial statements. The Governmental Accounting Standard's Board (GASB) introduced two new standards in June of 2012. The two new standard's GASB 67 and 68 relate to financial statement reporting for public pensions. GASB 67 is applicable to the overall pension system financial statements and GASB 68 effective in fiscal 2015 is applicable to the financial statements of the participating employers. As a result, the District is now booking assets and liabilities reported to the District by the actuary of the Montana Public Employees Retirement Administration. In fiscal 2017-2018 the District updated the Net Pension Liability (NPL) from \$247,117 to \$291,368. This amount represents the District's share of the actuarial unfunded liabilities of the pension system in which the District employees participate. Although \$291,368 is a large pension liability, the unfunded liability is currently funded over a thirty-year period. The net pension liability is subject to volatile swings based on financial market movements and any changes in the underlying actuarial assumptions. This last fiscal year there were changes in the underling actuarial assumptions which impacted the amount of the unfunded liability. For fiscal 2017-2018 GASB 68 reporting requirements increased the net pension liability by \$44,251. District management does not believe that the current NPL adversely affects the financial statements or financial position of the District. See the attached GASB 68 notes to the financial statements for more detail.

The total liabilities of the District decreased 8.37% due primarily to the reduction in the General obligation bonds. The District's Performance bonds and retainage payable did increase but not enough to offset the reduction in outstanding debt. The current liabilities of the District increased from \$3,318,742 to \$3,465,153 which includes an increase in accounts payable from \$187,272 to \$254,685, an increase in performance bonds and retainage payable from \$1,948,682 to \$2,028,468, a decrease in water reserve payable from \$26,788 to zero, and an increase in the current portion of long-term debt from \$1,156,000 to \$1,182,000 at 6/30/2018.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
2013-2014	\$54,617,927	-0.46%	\$13,771,430	-8.00%
2014-2015	\$54,965,447	0.64%	\$12,859,740	-6.62%
2015-2016	\$56,873,268	3.47%	\$11,947,122	-4.10%
2016-2017	\$58,963,862	3.68%	\$11,746,890	-7.10%
2017-2018	\$60,031,311	1.93%	\$10,763,391	-8.37%

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

The total operating revenues of the District increased from \$2,977,755 to \$2,980,366. The total sewer operating revenue increased from \$1,619,154 to \$1,649,513. The total water operating revenue decreased from \$1,358,601 to \$1,330,853.



The sewer operating revenue increase was due to an increase in sewer use over the fiscal year and the 1% rate increase effective 7/1/2017. The decrease in water operating revenue was due to lower water use over the fiscal year. Although the water rates increased by 1% as well, the lower usage offset the rate increase. The sewer usage was up approximately 4.43% and water usage was down approximately 2.98% over the prior fiscal year. The sewer system had an additional one hundred and thirteen hookups representing an increase of approximately 4.15% in sewer hookups. The water department had an additional one hundred and seven hookups representing an increase of approximately 3.81% in water hookups.

The District has a plant investment charge on the sewer plant and water system investment charge on the water plant. The plant investment charge and system investment charge are calculated based on the size of the property and collected through the permitting process. This is the second year of the water system investment charge which was effective October 1, 2016. The total non-operating revenue includes plant investment charges, water system investment charges, interest income, tax receipts for bond payments. The total non-operating revenue, net of interest expenses and other non-operating expenses of the District increased to \$2,145,451 from \$1,809,590. The District collected \$1,416,778 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 sewer treatment plant. Plant investment fees decreased from \$505,543 to \$490,334 due to a reduction in the sewer plant investment fee for permits paid in the fiscal year. The water system investment charges increased to \$118,292 from \$77,120 due to a full year application of the water system charge.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
2013-2014	\$3,840,655	-4.61%	\$2,829,236	-2.47%
2014-2015	\$4,004,567	4.09%	\$2,812,414	-0.59%
2015-2016	\$4,267,858	6.57%	\$2,996,991	6.56%
2016-2017	\$4,998,521	17.12%	\$3,109,615	3.75%
2017-2018	\$5,311,492	6.26%	\$3,233,550	3.99%

#### **Operating Expenses/Non-Operating Expenses**

The total operating expense for the District increased to \$3,047,875 from \$2,898,439. The total general and administrative expense increased to \$564,019 from \$557,052. The total sewer general and administrative expense increased to \$223,192 from \$221,084. Total sewer operation expense increased from \$1,133,021 to \$1,145,759. The total water general and administrative expense increased to \$357,697 from \$303,948. The total water operating expense increased to \$757,208 from \$683,334. The total operating expense increased \$149,438 from last fiscal year, a 5.16% increase. The increase in operating expenses is due to general price inflation, increased payroll and benefit costs, repairs and maintenance, new capital assets on the water side increasing depreciation. In the non-operating expense category, the main item is the interest expense on the State Revolving Fund Loans. In fiscal 2017-2018 the District made principal payments in the amount of \$1,156,000 with total payments amounting to \$1,354,503. The District paid \$198,503 in interest on those loans.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
2013-2014	\$2,582,750	6.47%	\$2,537,388	8.55%
2014-2015	\$2,570,264	-0.48%	\$2,551,926	0.57%
2015-2016	\$2,703,452	5.18%	\$2,736,955	8.03%
2016-2017	\$2,977,755	10.17%	\$2,898,439	5.90%
2017-2018	\$2,980,366	0.09%	\$3,047,875	5.16%

### **Capital Assets**

The District received donated capital assets in the form of water and sewer extensions in fiscal 2017-2018. There was one new water and two sewer main extension donated to the District. The first donation was the sewer extension for the Big Pine View Subdivision. The water lines were already conveyed, and small sewer extension valued at \$935 was conveyed to the District. The other water and sewer extensions conveyed to the District were the new phase up at the Mountain Lake Condominiums valued at \$70,512 for the sewer extension and \$26,688 for the water extensions. 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 to the District. The warranty is in the form of cash or letter of credit. 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 also booked an additional \$6,000 in donated capital assets for the Big Sky Search & Rescue Building agreement. However, the District does not record the depreciation expense for the Search and Rescue Building in the District accounting records.

The District's total net position at June 30, 2018 was \$49,398,229. The total amount includes \$34,028,101 invested in capital assets, \$14,711,767 in unrestricted assets which includes cash, and \$658,361 restricted cash for debt service. The total represents an increase of \$2,182,075 over the prior fiscal year total. The unrestricted portion increased by \$1,445,445 due primarily to an increase in cash. The restricted for debt service category increased to \$658,361 from \$593,908 due to variance in tax receipts.

The District entered into a contract with Advanced Engineering & Environmental Services, Inc. (AE2S) to prepare a conceptual design study for effluent reuse and discharge. The prior fiscal year's capital improvement plans required the board to find options for the disposal of effluent. The AE2S report is expected to be completed in 2018-2019. The District finished the work on the Mountain 50K tank and started the work to treat mountain wells 5 & 6. Both wells will need some sort of treatment for H2S which is present in both wells.

### **Summary**

The Districts 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 2017-2018 both water and sewer operating revenues were not sufficient to cover operating expenses. Water operating revenue decreased by 2.04% and sewer operating revenue increased by 1.87%. The operating expenses increased by 5.16% leaving a total deficit of \$67,509 for water and sewer operations. The deficit in the sewer operations was \$1,448.

**Big Sky County Water & Sewer District  
Management Discussion and Analysis**

**Fiscal Year 7/1/2017 - 6/30/2018**

The deficit in water operations was \$66,062. The water department added both staff and additional equipment in fiscal 2017-2018 contributing to the deficit. Because of the continued growth and required upgrades to both the water and sewer systems within the Big Sky Water & Sewer District 363 rates will need to be reviewed.

The District's rate table below shows the history of the District's rates from fiscal 2006-2007 through fiscal 2018-2019. The District has attempted to keep the rate structure stable with moderate rate increases over time. In fiscal 2018-2019, the District will attempt to maintain a stable rate structure going forward by implementing rate increases in a measured approach. The current water rate is insufficient to fund water operations so expect a rate increase in 2019-2020 on water operations. The sewer operations are under study for major upgrades and expansion. Therefore, an increase in sewer rates is anticipated for the 2019-2020 fiscal year. The rate increases will be phased in as in the past to try and avoid rate shock by District rate payers.

Rates Fiscal Year	Water Base	Growth Rate	Water Usage	Growth Rate	Sewer Base	Growth Rate	Sewer Usage	Growth Rate
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%
2014-2015	\$15.77	1%	\$2.54	1%	\$24.39	1%	\$5.94	1%
2015-2016	\$15.93	1%	\$2.57	1%	\$24.63	1%	\$6.00	1%
2016-2017*	\$16.57	4%	\$2.67*	4%	\$26.35	7%	\$6.42	7%
2017-2018*	\$16.73	1%	\$2.70*	1%	\$26.62	1%	\$6.48	1%
2018-2019*	\$16.90	1%	\$2.73*	1%	\$26.88	1%	\$6.55	1%

\*Water usage rates are tiered, 0-60,000 gallons, 60,000 to 90,000 gallons, 90,000 to 120,000 gallons, 120,000 gallons and above.

\*Beginning on July 1 of 2018, 0-60,000 gallons, 60,000 to 90,000 gallons, 90,000 to 120,000 gallons, 120,000 gallons and above as follows: 2018-2019 \$2.73, \$4.08, \$5.45, \$6.82

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.

**Budget/Actuals**

The budget for fiscal 2017-2018 at year-end had Total Revenues 112.17% of budget, Total Expenses 99.79% of budget and Total Net Revenue 139.43% of budget.

The District received contributed assets from developers totaling \$104,135 in water and sewer main extensions and \$6,000 for the Search and Rescue building accrual. Income before developer contributions was \$2,077,942.

The Operating Revenues were at 99.80% of budget and Operating Expenses were at 99.22% of budget. As a result, there was a \$67,509 operating deficit. The District budget for 2017-2018 projected an operating deficit of \$85,520. Administrative expenses for general administration were 102.32% of budget. The Administrative expenses were over budget in several areas. The primary reason for the administrative budget overage was the line item pension expense. The line item was not included in the original budget. The allocated annual pension expense from the Montana Public Employees Retirement Administration Actuaries for fiscal 2017-2018 was \$18,281. As a result, the overall administrative budget was over \$12,786. The additional costs were unforeseen at the time the budget was adopted and the budget was not amended. The water department administration and sewer department administration came in at 85.90% of budget and 92.87% of budget respectively. The sewer operations expense was at 101.49% of budget. The water operations expense was 103.05% of budget. The sewer and water department's operating budgets are separated into seven categories: Vehicles, Operating Expenses, Repairs and Maintenance, Professional Services, Miscellaneous, Asset Replacement & Depreciation and Special Projects.

The sewer department operations were over budget in all categories except operating expense, miscellaneous and special projects. However, the overall budget was within budgetary tolerance of plus or minus five percent. In the Vehicles category repairs and maintenance for the heavy equipment vehicles were the cause of the excess expense again this fiscal-year. The repairs were not budgeted. In the Repairs and Maintenance category there were more sewer repairs than anticipated, the irrigation repairs included repairing items on the golf course irrigation system that were not included in the original budget, major unanticipated repairs to the YC Pump Station and lab fees that were sent out for third party testing were not anticipated in the original budget. The District will reexamine the Sewer Repairs and Maintenance budget in the next fiscal year.

The water department operations were over budget in all categories except Water System Operating Expense, Professional Service, Miscellaneous and Asset Replacement & Depreciation. However, the overall budget was within budgetary tolerance of plus or minus five percent. In the Vehicles category repairs and maintenance for the heavy equipment vehicles were the cause of the excess expense again this fiscal-year. The repairs were not budgeted. In the Repairs and Maintenance category the water distribution system repairs were higher than anticipated. The water department also had telemetry repairs that exceeded the budget. The water department also repaired more fire hydrants in fiscal 2017-2018 than budgeted. The subsequent budget will be amended accordingly.

Total Non-Operating Revenues were at 133.29% of budget and Non-Operating Expenses were at 99.83% of budget. The Tax receipts from Gallatin were on target and Madison County were over budget by approximately 9%. The Sewer Plant Investment Fee sub-category was budgeted at \$250,000 however, \$490,334 was collected. The Water System Investment Fee sub-category was budgeted at \$75,000 however, \$118,292 was collected. The District budgeted \$150,000 in developer capital contributions, however, \$104,135 were received. Both the Water and Sewer Debt Service Interest costs were on budget or under budget. As result, Net Non-Operating Revenues were \$2,145,451.

#### **State Revolving Fund Debt**

The District has a total of five State Revolving Fund Loans remaining with an outstanding balance at fiscal year-end of \$8,058,000 including the current portion of the long-term debt. The District services the debt through bi-annual payments. The main source for debt service is the ad-valorem tax established each year based on the actual debt service payments made each January 1, and July 1. The District reassesses debt service funding alternatives in every budget cycle.

#### **Conclusion**

The Districts 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  
STATEMENTS OF NET POSITION  
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 16,468,110	\$ 14,884,846
Investments	1,697	1,672
Accounts receivable, net	668,574	664,647
Prepaid expenses	8,822	7,095
Water meter inventory	139,646	171,698
Total current assets	<u>17,286,849</u>	<u>15,729,958</u>
Noncurrent assets		
Restricted cash and cash equivalents	658,361	593,908
Nondepreciable capital assets	1,119,806	1,113,806
Depreciable capital assets, net	40,966,295	41,456,118
Total noncurrent assets	<u>42,744,462</u>	<u>43,163,832</u>
Total assets	<u>60,031,311</u>	<u>58,893,790</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Montana Public Employees Retirement System	<u>\$ 132,688</u>	<u>\$ 70,072</u>

The accompanying notes are an integral part of these financial statements.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF NET POSITION  
JUNE 30, 2018 AND 2017

	2018	2017
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 254,685	\$ 187,272
Performance bonds and retainage payable	2,028,468	1,948,682
Water reserve payable	-	26,788
Current portion of long-term liabilities	1,182,000	1,156,000
Total current liabilities	<u>3,465,153</u>	<u>3,318,742</u>
Long-term liabilities		
Compensated absences payable	130,870	123,033
Net pension liability	291,368	247,117
General obligation bonds	6,876,000	8,058,000
Total long-term liabilities	<u>7,298,238</u>	<u>8,428,150</u>
Total liabilities	<u>10,763,391</u>	<u>11,746,892</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Montana Public Employees Retirement System	<u>2,379</u>	<u>818</u>
<b>NET POSITION</b>		
Net investment in capital assets	34,028,101	33,355,924
Unrestricted	14,711,767	13,266,320
Restricted for debt service	658,361	593,908
Total net position	<u>\$ 49,398,229</u>	<u>\$ 47,216,152</u>

The accompanying notes are an integral part of these financial statements.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUE		
Sewer services	\$ 1,649,513	\$ 1,619,154
Water services	1,330,853	1,358,601
Total operating revenue	<u>2,980,366</u>	<u>2,977,755</u>
OPERATING EXPENSES		
General and administrative		
Dues and subscriptions	1,938	1,821
Education expenses	3,057	4,828
Insurance	158,104	134,386
Janitorial and carpet services	935	1,014
Meetings	8,944	5,534
Miscellaneous	3,646	3,989
Office building repair and maintenance	1,533	3,188
Office supplies and expenses	21,737	26,092
Payroll taxes and benefits	61,136	79,246
Professional fees	20,915	30,933
Telephone and computer maintenance	16,099	15,086
Salaries	253,123	242,503
Utilities	5,837	3,710
Vehicle expenses	7,015	4,722
Total general and administrative	<u>\$ 564,019</u>	<u>\$ 557,052</u>

The accompanying notes are an integral part of these financial statements.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING EXPENSES (CONTINUED)		
Sewer general and administrative		
Salaries and wages	\$ 148,020	\$ 142,465
Insurance	55,313	45,993
Payroll taxes and benefits	11,620	23,863
Dues and subscriptions	670	555
Telephone	5,792	5,515
Office supplies	962	306
Education expense	815	2,387
Total sewer general and administrative	<u>223,192</u>	<u>221,084</u>
Sewer plant expenses		
Chemicals	72,725	65,737
Depreciation	673,925	674,113
Engineering	15,933	5,370
Fuel - equipment and vehicles	9,078	7,576
Lab testing equipment	1,236	2,036
Maintenance and repairs - building and grounds	64,793	49,597
Miscellaneous	5,653	5,916
Safety equipment	959	3,511
Sewer repairs and maintenance	63,848	62,726
Treatment plant repairs and maintenance	13,681	23,484
Electric and utilities	203,368	211,380
Travel and vehicle expense	12,715	14,383
Waste water monitoring	7,845	7,192
Total sewer plant expenses	<u>\$ 1,145,759</u>	<u>\$ 1,133,021</u>

The accompanying notes are an integral part of these financial statements.





BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING EXPENSES (CONTINUED)		
Water general and administrative		
Salaries and wages	\$ 239,813	\$ 190,524
Insurance	78,736	64,599
Payroll taxes and benefits	18,826	31,656
Dues and subscriptions	2,848	3,110
Telephone	7,924	7,857
Office supplies	1,592	992
Education expense	4,094	1,346
Public water supply fee	3,864	3,864
Total water general and administrative	357,697	303,948
Water plant expenses		
Depreciation	436,234	398,162
Fuel - equipment and vehicles	10,744	7,191
Lab testing equipment	4,063	1,904
Miscellaneous	1,366	1,328
Professional services	5,599	8,433
Repairs and maintenance	105,386	70,668
Special projects	6,536	12,779
Safety equipment	3,972	312
Electric and utilities	168,766	172,360
Travel and vehicle expense	14,542	10,197
Total water plant expenses	757,208	683,334
Total operating expenses	3,047,875	2,898,439
Operating income (loss)	\$ (67,509)	\$ 79,316

The accompanying notes are an integral part of these financial statements.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
NONOPERATING REVENUES AND (EXPENSES)		
Interest expense	\$ (185,675)	\$ (211,176)
Other nonoperating revenue	180,272	10,717
Interest income	125,450	70,429
Plant investment charges	490,334	505,543
Tax receipts for bond payments	1,416,778	1,356,957
Water system investment charges	118,292	77,120
Total nonoperating revenues and (expenses)	2,145,451	1,809,590
Income before contributions	2,077,942	1,888,906
Contributed capital	104,135	401,100
Increase (decrease) in net position	2,182,077	2,290,006
Net position, beginning of year	47,216,152	44,926,146
Net position, end of year	\$ 49,398,229	\$ 47,216,152

The accompanying notes are an integral part of these financial statements.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 2,949,651	\$ 2,918,749
Payments to suppliers	(1,174,853)	(1,235,862)
Payments to employees	(674,094)	(786,394)
Net cash flows from operating activities	<u>1,100,704</u>	<u>896,493</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal paid on capital debt	(1,156,000)	(1,129,000)
Purchases of capital assets	(522,203)	(536,977)
Interest paid on capital debt	(185,675)	(211,176)
Taxes collected for bond payments	1,416,778	1,356,957
Other receipts (payments)	788,902	593,380
Net cash flows from capital and related financing activities	<u>341,802</u>	<u>73,184</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest	125,425	70,429
Proceeds from performance bonds and fees	79,786	1,010,767
Net cash flows from investing activities	<u>205,211</u>	<u>1,081,196</u>
Net increase (decrease) in cash	1,647,717	2,050,873
Cash and cash equivalents, beginning of year	15,478,754	13,427,881
Cash and cash equivalents, end of year	<u><u>17,126,471</u></u>	<u><u>15,478,754</u></u>
<b>CASH AND CASH EQUIVALENTS AS PRESENTED ON THE STATEMENT OF NET POSITION</b>		
Cash and cash equivalents	16,468,110	14,884,846
Restricted cash and cash equivalents	658,361	593,908
	<u><u>\$ 17,126,471</u></u>	<u><u>\$ 15,478,754</u></u>

The accompanying notes are an integral part of these financial statements.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (67,509)	\$ 79,316
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,110,159	1,072,275
(Increase) decrease in current assets:		
Accounts receivable	(3,927)	(54,142)
Prepaid expenses	(1,727)	2,311
Inventory	32,052	(122,266)
Deferred outflows of resources	(62,616)	192
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	67,411	(113,265)
Compensated absences payable	7,837	(728)
Water reserve payable	(26,788)	(4,864)
Net pension liability	44,251	54,333
Deferred inflows of resources	1,561	(16,669)
Net cash flows from operating activities	<u>\$ 1,100,704</u>	<u>\$ 896,493</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest in building	<u>\$ 104,135</u>	<u>\$ 401,100</u>

The accompanying notes are an integral part of these financial statements.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Big Sky County Water and 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 3,000 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 position (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 position.

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.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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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 non-operating revenues and expenses.

d. Water and Wastewater user Charges

The District bills its customers for sewer and water services on a calendar quarter basis in arrears. Bills are mailed out the first week of January, April, July and October of each year. The service charges for sewer and water are calculated from water meter readings which the District collects for each billable property. Property owners are assessed sewer and water fees annually based on a base rate and usage. 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 of Montana Short-Term Investment Pool (STIP).

To minimize custodial credit risk in relation to the District's deposits, the District's policy is 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.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Restricted Cash

As of June 30, 2018 and June 30, 2017, according to a bond resolution, cash in the amount of \$658,361 and \$593,908 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 incurred before the end of a construction period is recognized as an expense in the period in which the cost is incurred.

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.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Proprietary fund net position is divided into three components:

i. 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.

ii. Restricted

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.

iii. Unrestricted

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 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.





BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Tax Revenue (Continued)

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 in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

o. Tax Exempt Status

The District is a municipal corporation and, therefore, is not liable for federal and state income taxes pursuant to Internal Revenue Code 501(c)(1).

p. Recent Accounting Pronouncements

For the year ended June 30, 2018, the District adopted GASB No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* and GASB No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

Prior to the issuance of Statement No. 82, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in the schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Recent Accounting Pronouncements (Continued)

Prior to the issuance of Statement No. 89, Statement 62 required interest costs associated with construction to be capitalized and included in the historical cost of the asset. This Statement supersedes Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

q. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

2. CASH AND INVESTMENTS

As of June 30, 2018 and June 30, 2017, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$17,126,471 and \$15,478,754, respectively. The bank balance as of June 30, 2018 and June 30, 2017 was \$17,118,139 and \$15,548,284, respectively. Of the bank balance, \$750,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by the pledging banks' agents in the District's name.

At June 30, 2018, 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, 2018 and June 30, 2017 was \$1,697 and \$1,672.

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2018:

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.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
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2. CASH AND INVESTMENTS (CONTINUED)

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, 2018 and 2017 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 2018 are disclosed in STIP's financial statements. An unaudited copy of the STIP fiscal year 2018 financial statements is available online at the Montana Board of Investments' website.



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3. CAPITAL ASSETS

Capital assets for the year ended June 30, 2018:

	Balance			Balance
	June 30, 2017	Additions	Disposals	June 30, 2018
Nondepreciable capital assets:				
Land	\$ 1,055,689	\$ 6,000	\$ -	\$ 1,061,689
Land improvements	58,117	-	-	58,117
Total nondepreciable capital assets	1,113,806	6,000	-	1,119,806
Depreciable capital assets:				
Buildings	708,220	-	-	708,220
Sewer infrastructure	35,706,707	240,046	-	35,946,753
Water infrastructure	20,858,157	380,290	(24,862)	21,213,585
Total depreciable capital assets	57,273,084	620,336	(24,862)	57,868,558
Accumulated depreciation	(15,816,966)	(1,110,159)	24,862	(16,902,263)
Depreciable capital assets, net	41,456,118	(489,823)	-	40,966,295
Total capital assets, net	\$ 42,569,924	\$ (483,823)	\$ -	\$ 42,086,101



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
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3. CAPITAL ASSETS (CONTINUED)

Capital assets for the year ended June 30, 2017:

	Balance			Balance
	June 30, 2016	Additions	Disposals	June 30, 2017
Nondepreciable capital assets:				
Land	\$ 1,049,689	\$ 6,000	\$ -	\$ 1,055,689
Land improvements	58,117	-	-	58,117
Total nondepreciable capital assets	1,107,806	6,000	-	1,113,806
Depreciable capital assets:				
Buildings	708,220	-	-	708,220
Sewer infrastructure	35,480,669	226,038	-	35,706,707
Water infrastructure	20,196,459	707,952	(46,254)	20,858,157
Total depreciable capital assets	56,385,348	933,990	(46,254)	57,273,084
Accumulated depreciation	(14,789,032)	(1,072,275)	44,341	(15,816,966)
Depreciable capital assets, net	41,596,316	(138,285)	(1,913)	41,456,118
Total capital assets, net	\$ 42,704,122	\$ (132,285)	\$ (1,913)	\$ 42,569,924



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4. LONG-TERM DEBT

The District has issued general obligations bonds which consist of the following at June 30:

	2018	2017
2% State Revolving Fund (DNRC Drinking Water Revolving Loan Program) totaling \$319,000, dated August 1, 2013, is a refinancing of Series 2002 bonds dated September 24, 2002 for the purchase and installation of water meters. Payable in 20 semi-annual installments of approximately \$17,600 until July 1, 2023.	\$ 183,000	\$ 215,000
2.25% State of Montana General Obligation Bonds, Wastewater Revolving Fund Program totaling \$3,739,000, dated April 29, 2013, 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.	2,067,000	2,417,000
2% State Revolving Fund (DNRC Drinking Water Revolving Loan Program) totaling \$1,127,000, dated August 1, 2013, is a refinancing of Series 2003 dated May 20, 2003 for the construction of a water tank. Payable in 20 semi-annual installments of approximately \$62,300 until July 1, 2023.	648,000	758,000
2.25% State Revolving Fund (DNRC Drinking Water Revolving Loan Program) totaling \$3,867,000, dated August 1, 2013, is a refinancing of Series 2007 dated August 17, 2007 for improvements to the District's water system. Payable in 28 semi-annual installments of approximately \$161,500 until July 1, 2027.	2,407,000	2,814,000
2.25% State Revolving Fund (DNRC Revolving Loan Program) General Obligation Bond totaling \$4,353,000, dated April 29, 2013, 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.	2,753,000	3,010,000
Total long-term debt	8,058,000	9,214,000
Less: current portion	(1,182,000)	(1,156,000)
Long-term portion of debt	<u>\$ 6,876,000</u>	<u>\$ 8,058,000</u>

The general obligation bonds are to be repaid semi-annually through 2027 with a mill levy approved in 2004, District plant investment charges, and operating revenue and reserves.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
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4. LONG-TERM DEBT (CONTINUED)

	June 30, 2017	Additions	Reductions	June 30, 2018	Amounts due within one year
Bonds payable:					
SRF Treatment Plant	\$ 2,814,000	\$ -	\$ (407,000)	\$ 2,407,000	\$ 416,000
SRF Water Meters	215,000	-	(32,000)	183,000	32,000
SRF Water Tank	758,000	-	(110,000)	648,000	113,000
GO Bonds Treatment Plant	2,417,000	-	(350,000)	2,067,000	358,000
Improvements	3,010,000	-	(257,000)	2,753,000	263,000
Total bonds payable	9,214,000	-	(1,156,000)	8,058,000	1,182,000
Compensated absences	123,033	7,837	-	130,870	130,870
Net pension liability	247,117	44,251	-	291,368	291,368
Total long-term debt	<u>\$ 9,584,150</u>	<u>\$ 52,088</u>	<u>\$ (1,156,000)</u>	<u>\$ 8,480,238</u>	<u>\$ 1,604,238</u>
					Amounts due within one year
	June 30, 2016	Additions	Reductions	June 30, 2017	year
Bonds payable:					
SRF Treatment Plant	\$ 3,212,000	\$ -	\$ (398,000)	\$ 2,814,000	\$ 407,000
SRF Water Meters	245,000	-	(30,000)	215,000	32,000
SRF Water Tank	866,000	-	(108,000)	758,000	110,000
GO Bonds Treatment Plant	2,759,000	-	(342,000)	2,417,000	350,000
Improvements	3,261,000	-	(251,000)	3,010,000	257,000
Total bonds payable	10,343,000	-	(1,129,000)	9,214,000	1,156,000
Compensated absences	123,761	-	(728)	123,033	123,033
Net pension liability	192,784	54,333	-	247,117	247,117
Total long-term debt	<u>\$ 10,659,545</u>	<u>\$ 54,333</u>	<u>\$ (1,129,728)</u>	<u>\$ 9,584,150</u>	<u>\$ 1,526,150</u>



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
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4. LONG-TERM DEBT (CONTINUED)

Debt service requirements at June 30, 2018, were as follows.

Year	Principal	Interest	Total
2019	\$ 1,182,000	\$ 97,050	\$ 1,279,050
2020	1,207,000	82,200	1,289,200
2021	1,234,000	67,031	1,301,031
2022	1,261,000	51,519	1,312,519
2023	1,289,000	35,669	1,324,669
Thereafter	1,885,000	46,844	1,931,844
	<u>\$ 8,058,000</u>	<u>\$ 380,313</u>	<u>\$ 8,438,313</u>

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, 2018.

Compensated Absences Payable

Compensated absences payable, represent vested vacation and sick leave benefits earned by employees and payable upon termination, as well as additional salary-related charges payable by the City as the employer.





BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
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4. LONG-TERM DEBT (CONTINUED)

Net Pension Liability - Public Employees' Retirement System (PERS)

At June 30, 2018 and 2017, the District had a liability of \$291,368 and \$247,117, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, with update procedures to roll forward the total pension liability to June 30, 2017. The District's proportion of the net pension liability was based on the employer's contributions received by PERS during the measurement period July 1, 2015 through June 30, 2017, relative to the total employer contributions received from all of the PERS' participating employers. At June 30, 2018 and 2017, the District's proportion was 0.0150% and 0.0145%, respectively.

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the nonemployer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). Employers are required to record and report their proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of resources associated with pensions.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

a. Net Pension Liability

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2017, was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures. The roll forward procedures uses a calculation that adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

i. Special Funding

The state of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as special funding. Those employers who received special funding are counties; cities and towns; school districts and high schools; and other governmental agencies.

ii. Not Special Funding

Per Montana law, state agencies and universities paid their own additional contributions. These employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions. The state of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are not accounted for as special funding for all participating employers.

The proportionate shares of the employer's and the state of Montana's NPL for the June 30, 2017, and 2016, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of \$291,368 and the employer's proportionate share was 0.0150 percent.



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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

As of Measurement Date	Net Pension Liability as of June 30, 2017	Net Pension Liability as of June 30, 2016	Percent of Collective NPL as of June 30, 2017	Percent of Collective NPL as of June 30, 2016	Change in Percent of Collective NPL
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 291,368	\$ 247,117	0.0150 %	0.0145 %	0.0005 %
State of Montana Proportionate Share associated with Employer	11,820	3,019	0.0602	0.0185	0.0417
Total	<u>\$ 303,188</u>	<u>\$ 250,136</u>	<u>0.0752 %</u>	<u>0.0330 %</u>	<u>0.0422 %</u>

b. Changes in actuarial assumptions and methods:

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

c. Changes in benefit terms:

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all system's are limited to the member's accumulated contributions rather than the present value for the member's benefit.



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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

d. Changes in proportionate share:

Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL.

e. Pension expense

As of Measurement Date	Pension Expense as of June 30, 2017	Pension Expense as of June 30, 2016
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 55,726	\$ 39,167
Employer Grant Revenue - State of Montana Proportionate Share for Employer	630	253
Employer Grant Revenue - State of Montana Coal Tax for Employer	4,168	4,330
Total	<u>\$ 60,524</u>	<u>\$ 43,750</u>

At June 30, 2017, the employer recognized \$55,726 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$630 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of \$4,168 from the Coal Severance Tax Fund.



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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

f. Recognition of Deferred Inflows and Outflows

At June 30, 2017, the employer reported its proportionate share of Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

As of Measurement Date	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$ 7,175	\$ 422
Projected Investment Earnings vs. Actual Investment Earnings	-	1,957
Changes in Assumptions	39,827	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	28,688	-
Employer Contributions Subsequent to the Measurement Date	56,998	-
Total	<u>\$ 132,688</u>	<u>\$ 2,379</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

For the Measurement Year Ended June 30:	Recognition of Deferred Inflows in Future years as an increase or (decrease) to Pension Expense
2018	\$ 10,321
2019	22,784
2020	17,721
2021	(6,202)
2022	-
Thereafter	\$ -



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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

g. Plan Description

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, MCA. This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

h. Summary of Benefits

i. Eligibility for benefit

Service retirement:

Hire prior to July 1, 2011:

Age 60, 5 years of membership service;  
Age 65, regardless of membership service;  
Any age, 30 years of membership service.

Hired on or after July 1, 2011:

Age 65, 5 years of membership service;  
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hire prior to July 1, 2011:

Age 50, 5 years of membership service; or  
Any age, 25 years of membership service.

Hired on or after July 1, 2011:

Age 55, 5 years of membership service.

ii. Vesting

5 years of membership service..

iii. Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months;



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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

h. Summary of Benefits (Continued)

iv. Compensation Cap

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

v. Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

vi. Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more



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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

i. Overview of Contributions

Members and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		Local Government	
	hired <07/01/11	hired after >07/01/11	Employer	State of Montana
2018	7.9000 %	7.9000 %	8.4700 %	0.1000 %
2017	7.9000	7.9000	8.3700	0.1000
2016	7.9000	7.9000	8.2700	0.1000
2015	7.9000	7.9000	8.1700	0.1000
2014	7.9000	7.9000	8.0700	0.1000
2012-2013	6.9000	7.9000	7.0700	0.1000
2010-2011	6.9000	-	7.0700	0.1000
2008-2009	6.9000	-	6.9350	0.1000
2000-2007	6.9000 %	- %	6.8000 %	0.1000 %

- Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Employer contributions to the system:
- Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
- Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.





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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

i. Overview of Contributions (Continued)

- Non Employer Contributions:
- Special Funding
  - The State contributed 0.1% of members' compensation on behalf of local government entities.
  - The State contributed 0.37% of members' compensation on behalf of school district entities.
- Not Special Funding
  - The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

j. Stand-Alone Statements

The financial statements of the Montana Public Employees Retirement Board (PERB) Comprehensive Annual Financial Report (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at <http://mpera.mt.gov>.

k. Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following.

- Investment return (net of admin expense) 7.65%
- Admin expense as a % of payroll 0.26%
- General wage growth \* 3.50%
- \*Includes inflation at 2.75%
- Merit increases 0 to 6.3%
- Postretirement benefit increases

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

- 3% of members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:



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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

k. Actuarial Assumptions (Continued)

- 1.5% for each year PERS is funded at or above 90%;
- 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
- 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members were based on RP 2000 Combined Mortality Tables with no projections.

l. Discount Rate

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 0.1% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

m. Target Allocations

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, was outlined in a report dated May 2017 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.



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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

m. Target Allocations (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized below.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Cash equivalents	2.6000 %	4.0000 %	0.1000 %
Domestic equity	36.0000	4.5500	1.6500
Foreign equity	18.0000	6.3500	1.1400
Fixed income	23.4000	1.0000	0.2300
Private equity	12.0000	7.7500	0.9300
Real estate	8.0000	4.0000	0.3200
Total	100.0000 %	-	4.3700 %
Inflation			2.7500 %
Portfolio return expectation			7.1200 %

The long-term expected nominal rate of return above of 7.12% is an expected portfolio rate of return provided by Board of Investments (BOI), which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

n. Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of Measurement Date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Big Sky Co Water & Sewer Dist #363's Net Pension Liability	\$ 424,352	\$ 291,368	\$ 179,737



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

o. Summary of Significant Accounting Policies

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

p. PERS Disclosure for the Defined Contribution Plan

The Authority contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to the individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

p. PERS Disclosure for the Defined Contribution Plan (Continued)

At the plan level for the measurement period ended June 30, 2017, the PERS-CRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 300 employers that have participants in the PERS-DCRP totaled \$396,650.

6. COMMITMENTS AND CONTINGENCIES

a. 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, earthquake 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.

b. 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 developer shall construct lined ponds for the storage of treated wastewater, on its property, with a total combined storage capacity of 130,000,000 gallons. 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.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 13, 2018, the date on which these financial statements were available to be issued.

## REQUIRED SUPPLEMENTARY INFORMATION



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE LAST TEN FISCAL YEARS\*

As of Measurement Date, Year Ended June 30:	Employer's Proportion of NPL (%)	Employer's NPL	State's NPL	Total	Employer's Covered Payroll	Employer's Proportionate Share as a % of Covered Payroll	Plan Fiduciary NPL as a % of TPL
2017	0.0150 %	\$ 291,368	\$ 11,820	\$ 303,188	\$ 185,583	157.0000 %	73.7500 %
2016	0.0145	247,117	3,019	250,136	173,777	142.2000	74.7100
2015	0.0138	192,784	2,368	195,152	160,947	119.7800	78.4000
2014	0.0112 %	\$ 139,967	\$ 1,709	\$ 141,676	\$ 156,510	111.2200 %	79.8700 %

\*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
SCHEDULE OF CONTRIBUTIONS  
FOR THE LAST TEN FISCAL YEARS\*

As of Reporting Date, Year Ended June 30:	Contractually Required DB Contributions	Plan Choice Rate Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 19,104	\$ -	\$ 19,104	\$ -	\$ 225,549	8.4700 %
2017	15,533	-	15,533	-	185,583	8.3700
2016	14,525	9,465	23,990	-	173,777	13.8100
2015	\$ 13,263	\$ 14,568	\$ 27,831	\$ -	\$ 160,947	17.2900 %

\*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.





**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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**CHANGE OF BENEFIT TERMS**

The following changes to the plan provision were made as identified:

**2015 Legislative Changes:**

General revisions – House Bill 101, effective January 1, 2016

**Second Retirement Benefit**

1. Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and
  - GABA starts again in the January immediately following second retirement.
2. For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
  - members receive a recalculated retirement benefit based on laws in effect at second retirement; and,
  - GABA starts in the January after receiving recalculated benefit for 12 months.
3. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and,
  - GABA starts again in the January immediately following second retirement.
4. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retire again:
  - member receives same retirement benefit as prior to return to service;
  - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
  - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revised DC Funding Laws – House Bill 107, effective July 1, 2015

**Employer Contributions and the Defined Contribution Plan**

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution member's account.

**2017 Legislative Changes:**

General revisions – House Bill 101, effective July 1, 2017

**Working Retiree Limitations – for PERS**

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

**Terminating Employers – Recovery of actuary costs – for PERS**

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

**Refunds**

1. Terminating members eligible to retire may, in lieu of receiving monthly retirement, refund their accumulated contributions in a lump sum.
2. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of terminating service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

**Family Law Orders**

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.



**BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**Disabled PERS Defined Contribution (DC) Members**

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled membered hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

**PERS Statutory Appropriation – House Bill 648, effective July 1, 2017**

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

- FY2018 - \$31.386 million
- FY2019 - \$31.958 million
- Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
  - o FY2020 - \$32.277 million
  - o FY2021 - \$32.6 million
  - o FY2022 - \$32.926 million
  - o FY2023 - \$33.255 million
  - o FY2024 - \$33.588 million
  - o FY2025 - \$33.924 million

**CHANGE IN ACTUARIAL ASSUMPTIONS AND METHODS**

**Method and assumptions used in calculations of actuarially determined contributions**

The following Actuarial Assumptions were adopted from the June 2017 actuarial valuation:

General Wage Growth *	3.50%
Investment Rate of Return *	7.65%
* includes inflation at	2.75%
Merit salary increases	0% to 6.30%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Mortality (Healthy Members)	For males and females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using BB, males set back 1 year
Mortality (Disabled Members)	For males and females: RP 2000 Combined Mortality Table
Admin Expense as a % of Payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

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 & Sewer District No. 363

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 Big Sky County Water & Sewer District No. 363, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Big Sky County Water & Sewer District No. 363's basic financial statements, and have issued our report thereon dated December 13, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Big Sky County Water & 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 County Water & Sewer District No. 363's internal control. Accordingly, we do not express an opinion on the effectiveness of Big Sky County Water & 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 Big Sky County Water & 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 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.



Holmes & Turner  
Bozeman, Montana  
December 13, 2018



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2018

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**Current Year Findings:**

None.

**Prior Year Findings:**

None.