



ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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January 13, 2022

Holmes & Turner, PC
1283 North 14th 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, 2021 and 2020, 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 January 13, 2022, 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 31, 2021, 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) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. In addition, you have proposed adjusting journal entries that have been posted to the entity's accounts. We are in agreement with those adjustments.
- 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) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 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: _____

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 Statements of Net Position as of June 30, 2021 and 2020 and the related Statements of Revenues, Expenses and Changes in Net Position, and Cash Flows for the years 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 3-9 and 43-46, 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 January 13, 2022 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
January 13, 2022

MANAGEMENT DISCUSSION & ANALYSIS

Management Discussion and Analysis
Fiscal Year 7/1/2020 - 6/30/2021

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 3,300 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 a for profit organization with the exception of state and federal income tax. The District is tax exempt. The basic financial statements produced by the District include, the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows. Each statement contains vital financial information regarding the District's financial position and overall financial stability. The statement of net position contains the assets, deferred outflows, liabilities, deferred inflows, and net position. 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 increased by 7.40% in fiscal year 2020-2021. Capital assets net of accumulated depreciation increased from \$43,432,283 to \$46,683,902. The District continued to add to the asset base in excess of the depreciation expense taken on the existing asset base. In addition, the District received a commitment from the Big Sky Resort Area District (BSRAD) for \$27,000,000 for the new treatment plant. As a result, the District recorded a \$24,412,500 receivable for fiscal year 2020-2021 the remainder was taken as income in 2020-2021.

The sewer capital assets of the District increased from \$38,338,978 to \$41,670,100. The increase was due to the following (approx.):

- \$28,000 on new office equipment.
- \$61,000 on sewer manhole replacements and sewer line lining equipment.
- \$12,000 on sewer storage racks and furniture.
- \$25,000 on upgrades to the force main to Spanish Peaks and the Yellowstone Club.
- \$24,000 on sewer plant upgrades.
- \$2,900,000 completing the design engineering and starting the construction on the new sewer treatment plant.
- \$489,140 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 2020-2021. 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 \$22,433,488 to \$23,446,980. The District spent approximately \$193,000 on engineering and test well drilling for new wells on the mountain. The District spent \$7,000 on well pump replacements. The District spent \$11,000 on new pressure reducing valve equipment. The District spent \$210,000 replacing the water mains at the Hill Condominium complex. The water department spent \$6,000 on new furniture. The District installed \$128,000 in new water meters on newly constructed property in Big Sky. The District also spent \$50,500 on ariel mapping of the property within the District's boundaries. The District added \$406,000 in donated water extension in 2020-2021 fiscal year.

The total long-term liabilities with the existing State Revolving Fund Loans of both systems increased from \$5,669,000 to \$6,190,000 including the current portion of the SRF Loans and the new First Security Bank loan. The District used 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. The rules for how to account for pensions changed the financial reporting requirements for governmental pensions and now 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 and current period non-cash expenses reported to the District by the actuary of the Montana Public Employees Retirement Administration. In fiscal 2020-2021 the District updated the Net Pension Liability (NPL) from \$286,700 to \$336,686. This amount represents the District's share of the actuarial unfunded liabilities of the pension system in which the District employees participate. Although \$336,686 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. For fiscal 2020-2021 GASB 68 reporting requirements increased the net pension liability by \$49,986 and added \$43,623 to current year pension expense. 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 increased 17.99% due primarily to the new debt incurred for the new treatment plant. The current liabilities of the District increased from \$4,162,375 to \$5,578,480. The accounts payable and accrued expenses increased from \$512,978 to \$1,139,383. The District's Performance bonds and retainage payable increased from \$2,415,397 to \$2,808,097 and the current portion of the long-term liabilities increased from \$1,234,000 to \$1,631,000. The accounts payable increase was due primarily to larger expenses associated with the new treatment plant costs at fiscal year-end.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
2016-2017	\$58,963,862	3.68%	\$11,746,890	-7.10%
2017-2018	\$60,031,311	1.93%	\$10,763,391	-8.37%
2018-2019	\$61,169,177	1.90%	\$9,607,328	-10.74%
2019-2020	\$62,651,174	2.42%	\$9,000,267	-6.32%
2020-2021	\$93,320,100	48.95%*	\$10,619,680	17.99%

***Due to the BSRAD \$27M Commitment**

Operating Revenue/Non-Operating Revenue

The total operating revenues of the District increased from \$3,260,877 to \$3,786,752. The total sewer operating revenue increased from \$1,836,590 to \$2,037,974. The total water operating revenue increased from \$1,424,287 to \$1,748,788. The sewer operating revenue increase was due to the 5% rate increase effective 1/1/2020 and the increase in sewer usage. The increase in water operating revenue was due to the 4% rate increase effective 1/1/2020 and the increase in water usage. The increase in sewer usage was approximately 20% and the increase in water usage was approximately 18% from the prior fiscal year. The sewer system had an additional one hundred and one hookups representing an increase of approximately 3.34% in sewer hookups. The water department had an additional eighty-two hookups representing an

increase of approximately 2.66% in water hookups. The difference between the water and sewer is due to the fact the District only services the sewer system in Spanish Peaks.

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 fourth year of the water system investment charge which was effective October 1, 2016. The total non-operating revenue includes tax receipts for bond payments, plant investment charges, water system investment charges, interest income, Resort Tax appropriation and other non-operating income. The Total non-operating revenue, net of interest expenses and other non-operating expenses of the District increased from \$2,279,499 to \$3,918,423. The District collected \$1,391,793 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 now old sewer treatment plant. In addition, the BSRAD contribution was \$2,587,500 for the new treatment plant for total tax receipts of \$3,979,293. Plant investment fees decreased from \$471,948 to \$397,528 due to a decrease in the number of single-family equivalents (SFE's) on the submitted sewer permits for which the District booked sewer plant investment charges due the District in the fiscal year. The water system investment charges decreased from \$92,227 to \$86,216 for the same reason as the sewer system decrease. Interest income decreased from \$214,380 to \$75,810 due to steadily decreasing interest rates. The District was awarded \$27,000,000 from the Resort Tax Board to use towards costs for the new treatment plant.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
2016-2017	\$4,998,521	17.12%	\$3,109,615	3.75%
2017-2018	\$5,311,792	6.26%	\$3,233,550	3.99%
2018-2019	\$4,925,166	-7.27%	\$3,428,324	6.02%
2019-2020	\$5,434,597	10.34%	\$3,629,448	5.87%
2020-2021	\$8,394,179	54.46%*	\$4,634,158	27.68%**

***Increase due to the BSRAD Contribution of \$2,587,500**

****Increase primarily due to both legal fees for Cottonwood Environmental Lawsuit (\$375,000) and the costs to issue the bonds for the new treatment plant (\$188,400).**

Operating Expenses/Non-Operating Expenses

The total operating expense for the District increased from \$3,485,227 to \$3,945,154. The total general and administrative expense increased from \$600,489 to \$1,010,875. The total sewer general and administrative expense increased from \$269,693 to \$271,422. Total sewer operation expense increased from \$1,343,675 to \$1,395,268. The total water general and administrative expense decreased from \$414,992 to \$411,945. The total water operating expense decreased from \$856,378 to \$855,667. The total operating expense increased \$459,927 from last fiscal year, a 13.20% increase. The increase in operating expenses is due primarily to the Cottonwood Environmental Lawsuit (\$375,000) and to general price inflation, repairs and maintenance on the sewer treatment plant and additional wastewater monitoring. In the non-operating expense category, the main item is the interest expense on the State Revolving Fund Loans. In fiscal year 2020-2021 the District made principal payments in the amount of \$1,234,000 with total payments amounting to \$1,353,401. The District paid \$119,401 in interest on those loans.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
2016-2017	\$2,977,755	10.17%	\$2,898,439	5.90%
2017-2018	\$2,980,366	0.09%	\$3,047,875	5.16%
2018-2019	\$3,099,744	4.01%	\$3,257,628	6.88%
2019-2020	\$3,260,877	5.20%	\$3,485,277	6.99%
2020-2021	\$3,786,752	16.13%	\$3,945,154	13.20%

Capital Assets

The District received a total of \$406,485 in donated water assets and \$489,681 in donated sewer assets. The donated capital assets were in the form of water main and sewer main 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, 2021 was \$58,384,066. The total amount includes \$40,448,902 invested in capital assets, net of related debt, \$14,659,697 in unrestricted assets which includes cash, and \$3,275,467 restricted cash for debt service. The total represents an increase of \$4,662,188 over the prior fiscal year total. The invested in capital assets, net of related debt increased by \$2,685,619 due to more assets added then the debt reduction and asset depreciation. The unrestricted portion decreased by \$657,188 due primarily to cash put into restricted for debt service. The restricted for debt service category increased from \$714,851 to \$3,275,467 due to funds moved into the reserve accounts for the new debt and the revenues from Big Sky Resort Area District.

The District continued the new treatment plant project with Advanced Engineering & Environmental Services, Inc. (AE2S) completing the design phase of the project. The District awarded the construction contract to the low bidder. The District awarded the contract to Record Steel and Construction, Inc. (RSCI) with a low bid of \$41,801,849.13. RSCI started construction on the new plant in June of 2020.

The District implemented the new rate categories for residential, commercial, irrigation and reuse water. The rate study included an evaluation of the plant investment fees charged on both the sewer and water system. The District completed the plant investment and system investment charges and will implement the new fees in 2021-2022.

Summary

The District's overall financial position remains stable with sufficient reserves and financing sources available to fund both the operating and non-operating activities of the District. In Fiscal Year 2020-2021 water operating revenues were insufficient to cover operating expenses. The water department had an operating loss of \$24,260. The sewer operating revenues were insufficient to cover sewer operating expenses as well. The sewer department had operating loss of \$134,142. Water operating

revenue increased by 22.78% and sewer operating revenue increased by 10.97%. The operating expenses increased by 13.20% leaving a total deficit of \$158,402 for water and sewer operations.

The District's rate table below shows the history of the District's rates from fiscal 2006-2007 through fiscal 2020-2021. The District has attempted to keep the rate structure stable with moderate rate increases over time. As stated earlier in this report the District in fiscal 2018-2019 contracted with AE2S to review and propose new rates. In fiscal 2019-2020 new rates were adopted effective 1-1-2020. The District's rates were segmented into commercial, residential and irrigation. In addition, a reuse rate was added. However, a base charge for metering reuse water was implemented but no usage charge at this time.

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%
2019-2020**	\$17.58	4%	\$2.98**	9%	\$28.22	5%	\$6.88**	5%
2020-2021**	\$17.58	0%	\$2.98**	0%	\$28.22	0%	\$6.88**	0%

*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 in 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

**Beginning January 1 of 2020, the District instituted separate rate codes for commercial and residential water and sewer usage. In addition, a separate rate code for irrigation water and reuse water (treated wastewater) usage. Water tiers were lowered and separate tier levels for residential, commercial, irrigation and reuse were established. Residential 0-20,000 gallons, 20,000 to 40,000 gallons, 40,000 to 60,000 gallons, 60,000 gallons and above as follows:2020 \$2.98, \$4.47, \$6.26 and \$8.76. Commercial 0-30,000 gallons, 30,000 to 60,000 gallons, 60,000 to 80,000 gallons, 80,000 gallons and above as follows:2020 \$2.98, \$4.47, \$6.26 and \$8.76. Irrigation 0-20,000 gallons, 20,000

to 40,000 gallons, 40,000 gallons and above as follows: 2020 \$4.47, \$6.26 and \$8.76. Reuse usage does not yet have a volumetric charge. However, the District will review reuse charges on an annual basis. The sewer commercial usage rate is \$7.21 per thousand gallons.

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, sewer, irrigation or reuse.

Budget/Actuals

The budget for fiscal 2020-2021 at year-end had total revenues 116.01% of budget, total expenses 132.13% of budget and total net revenue 100.85% of budget. The District received \$896,166 in contributed assets from developers. The District booked \$6,000 for the Search and Rescue building accrual. Income before developer contributions was \$3,760,021.

The operating revenues were at 109.51% of budget and operating expenses were at 115.53% of budget. As a result, there was a \$158,402 operating deficit. The District budget for 2020-2021 projected operating revenue of \$43,421. Administrative expenses for general administration were 164.65% of budget. The primary reason for the overage on the budget is the Cottonwood Environmental Lawsuit which the District spent approximately \$375,000 defending in 2020-2021. As a result, general and administrative expenses were outside budget tolerance of plus or minus five percent of budget. The water department administration and sewer department administration came in at 94.10% of budget and 84.05% of budget respectively. The sewer operations expense was at 114.65% of budget. The water operations expense was 100.55% 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 outside budget tolerance in repairs and maintenance and professional services all other sections were within budget tolerances. In the sewer plant operations expense category repairs and maintenance was 259.32% of budget. There were five line items that made up the majority of the overage; sewer repairs/maintenance, Treatment Plant repairs/maintenance, Filter Building repairs/maintenance, YC Pump Station/maintenance, irrigation maintenance. Staff performed more maintenance and repairs on the sewer system, treatment plant, filter building, YC Pump Station and the irrigation system than budgeted. In the sewer professional service category 108.96% of budget. The District engaged several engineering firms for additional services that were not budgeted. However, the overall sewer budget was slightly over the budgetary tolerance of plus or minus five percent at 108.23% of budget.

The water department operations were within budget tolerance in all categories except repairs and maintenance and professional services. In the repairs and maintenance category which was at 125.98% of budget. Both repairs for the distribution system and repairs for booster stations were over budget. There were more repairs done to the distribution system and booster stations than budgeted. However, the overall water budget was within budgetary tolerance of plus or minus five percent at 100.55% of budget.

Total non-operating revenues were at 121.97% of budget and non-operating expenses were at 746.89% of budget. The combined water and sewer tax receipts from both Madison and Gallatin County were within budget tolerance. The sewer plant investment fee category was budgeted at \$400,000 however, \$397,528 was collected. The water system investment fee category was budgeted at \$75,000 however, \$86,216 was collected. The District budgeted \$150,000 in developer capital contributions, however, \$902,166 was contributed. The water debt service Interest costs were underestimated and came in at 109.40% of budget. The sewer debt service interest costs were underestimated and came in at 120.53% of budget. The items that were primarily responsible for the overage are the costs associated with the bond issue for the new treatment plant project. The total costs to complete the bond issue for the new treatment plant were \$543,394. In the past the District was able to capitalize these costs. However,

there was a change in accounting rules that now expenses those costs in the period incurred. As a result, non-operating expenses were under budgeted. However, because of the increase in the non-operating revenue line items it resulted in net non-operating revenues of \$3,918,423 106.32% of budget

State Revolving Fund Debt/Other Debt

The District has a total of seven State Revolving Fund Loans remaining with an outstanding balance at fiscal year-end of \$5,835,000 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

The District was unable to secure enough funding through the State's Revolving Fund Loan program for the new treatment plant. As a result, the District went to the private sector to secure funding. The District worked with First Security Bank in Big Sky and secured a loan in the amount of \$42,715,929. At June 30, 2021 the District had drawn only \$355,000 which was the origination fee and legal costs to close the loan.

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 FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17,478,884	\$ 7,150,889
Investments	408,722	10,392,902
Accounts receivable, net	896,684	744,829
Prepaid expenses	132,414	102,027
Water meter inventory	104,981	113,393
Due from other government, current	2,716,875	-
Total current assets	21,738,560	18,504,040
Noncurrent assets		
Restricted cash and cash equivalents	3,247,013	714,851
Due from other government, noncurrent	21,695,625	-
Nondepreciable capital assets	1,137,806	1,131,806
Depreciable capital assets, net	45,501,096	42,300,477
Total noncurrent assets	71,581,540	44,147,134
Total assets	93,320,100	62,651,174
DEFERRED OUTFLOWS OF RESOURCES		
Montana Public Employees Retirement System	\$ 123,462	\$ 92,979

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	2021	2020
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,139,383	\$ 512,977
Performance bonds and retainage payable	2,808,097	2,415,397
Current portion of long-term liabilities	1,631,000	1,234,000
Total current liabilities	<u>5,578,480</u>	<u>4,162,374</u>
Long-term liabilities		
Compensated absences payable	145,514	116,192
Net pension liability	336,686	286,700
General obligation bonds	3,174,000	4,435,000
Sewer system revenue bonds	1,385,000	-
Total long-term liabilities	<u>5,041,200</u>	<u>4,837,892</u>
Total liabilities	<u>10,619,680</u>	<u>9,000,266</u>
DEFERRED INFLOWS OF RESOURCES		
Montana Public Employees Retirement System	27,316	22,008
Infrastructure tax agreement	24,412,500	-
Total deferred inflows of resources	<u>24,439,816</u>	<u>22,008</u>
NET POSITION		
Net investment in capital assets	40,448,902	37,763,283
Unrestricted	14,659,697	15,243,745
Restricted	3,275,467	714,851
Total net position	<u>\$ 58,384,066</u>	<u>\$ 53,721,879</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, 2021 AND 2020

	2021	2020
OPERATING REVENUE		
Sewer services	\$ 2,037,974	\$ 1,836,590
Water services	1,748,778	1,424,287
Total operating revenue	<u>3,786,752</u>	<u>3,260,877</u>
OPERATING EXPENSES		
General and administrative		
Advertising	142	24
Dues and subscriptions	3,490	3,065
Education expenses	785	9,712
Insurance	134,967	148,551
Janitorial and carpet services	2,989	3,094
Meetings	2,432	5,065
Miscellaneous	4,703	6,462
Office building repair and maintenance	15,154	6,597
Office supplies and expenses	30,550	28,231
Payroll taxes and benefits	65,956	60,521
Professional fees	415,092	36,185
Telephone and computer maintenance	32,156	17,298
Salaries	295,557	267,137
Utilities	4,810	4,512
Vehicle expenses	2,069	4,035
Total general and administrative	<u>\$ 1,010,852</u>	<u>\$ 600,489</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, 2021 AND 2020

	2021	2020
OPERATING EXPENSES (CONTINUED)		
Sewer general and administrative		
Salaries and wages	\$ 169,243	\$ 157,741
Insurance	57,003	69,704
Payroll taxes and benefits	38,043	35,209
Dues and subscriptions	609	800
Telephone	4,900	5,277
Office supplies	325	257
Education expense	1,299	705
Total sewer general and administrative	<u>271,422</u>	<u>269,693</u>
Sewer plant expenses		
Chemicals	80,970	69,427
Depreciation	697,766	684,901
Engineering	16,889	63,363
Fuel - equipment and vehicles	8,770	9,567
Lab testing equipment	-	527
Maintenance and repairs - building and grounds	132,877	82,130
Miscellaneous	3,650	210
Safety equipment	458	1,172
Sewer repairs and maintenance	113,991	84,251
Treatment plant repairs and maintenance	36,444	9,187
Electric and utilities	266,024	295,066
Travel and vehicle expense	8,790	14,670
Waste water monitoring	28,639	29,204
Total sewer plant expenses	<u>\$ 1,395,268</u>	<u>\$ 1,343,675</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, 2021 AND 2020

	2021	2020
OPERATING EXPENSES (CONTINUED)		
Water general and administrative		
Salaries and wages	\$ 265,210	\$ 256,688
Insurance	68,336	75,700
Payroll taxes and benefits	59,990	56,822
Dues and subscriptions	1,753	2,550
Telephone	9,053	9,789
Office supplies	922	1,329
Education expense	2,253	7,686
Public water supply fee	4,428	4,428
Total water general and administrative	411,945	414,992
Water plant expenses		
Depreciation	474,399	463,034
Fuel - equipment and vehicles	10,903	12,173
Lab testing equipment	3,877	6,868
Miscellaneous	52	657
Professional services	4,425	816
Repairs and maintenance	142,028	141,937
Special projects	50,079	24,265
Safety equipment	264	2,583
Electric and utilities	156,576	179,607
Travel and vehicle expense	13,064	24,438
Total water plant expenses	855,667	856,378
Total operating expenses	3,945,154	3,485,227
Operating income (loss)	\$ (158,402)	\$ (224,350)

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, 2021 AND 2020

	2021	2020
NONOPERATING REVENUES AND (EXPENSES)		
Interest expense	\$ (105,706)	\$ (132,941)
Other nonoperating expense	(583,298)	(11,280)
Tax receipts for bond payments	3,979,293	1,310,370
Plant investment charges	397,528	471,948
Water system investment charges	86,216	92,227
Interest income	75,810	214,380
Resort tax appropriation	-	250,000
Other nonoperating revenue	68,580	84,795
Total nonoperating revenues and (expenses)	<u>3,918,423</u>	<u>2,279,499</u>
Income before contributions	3,760,021	2,055,149
Contributed capital	902,166	6,000
Increase (decrease) in net position	4,662,187	2,061,149
Net position, beginning of year	53,721,879	51,660,730
Net position, end of year	<u>\$ 58,384,066</u>	<u>\$ 53,721,879</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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 3,574,027	\$ 3,146,098
Payments to suppliers and employees	(2,053,556)	(2,006,504)
Net cash flows from operating activities	<u>1,520,471</u>	<u>1,139,594</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating resort tax appropriation	<u>-</u>	<u>250,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on capital debt	(1,234,000)	(1,207,000)
Cash received from bond issuance	1,755,000	-
Purchases of capital assets	(3,476,619)	(1,502,550)
Interest paid on capital debt	(105,706)	(132,941)
Taxes collected for bond payments	1,363,339	1,310,370
Infrastructure tax for WRRF project	2,615,954	-
Other receipts (payments)	(30,974)	637,690
Net cash flows from capital and related financing activities	<u>886,994</u>	<u>(894,431)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest	75,810	214,380
Proceeds from performance bonds and fees	392,700	282,121
Purchases of investments	(15,818)	(165,173)
Sales of investments	10,000,000	-
Net cash flows from investing activities	<u>10,452,692</u>	<u>331,328</u>
Net increase (decrease) in cash	12,860,157	826,491
Cash and cash equivalents, beginning of year	7,865,740	7,039,249
Cash and cash equivalents, end of year	<u><u>20,725,897</u></u>	<u><u>7,865,740</u></u>
CASH AND CASH EQUIVALENTS AS PRESENTED ON THE STATEMENT OF NET POSITION		
Cash and cash equivalents	17,478,884	7,150,889
Restricted cash and cash equivalents	3,247,013	714,851
Total	<u><u>\$ 20,725,897</u></u>	<u><u>\$ 7,865,740</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, 2021 AND 2020

	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (158,402)	\$ (224,350)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,172,165	1,147,935
(Increase) decrease in current assets:		
Accounts receivable	(151,855)	(38,530)
Prepaid expenses	(30,387)	(93,535)
Inventory	8,412	2,351
Deferred outflows of resources	(30,483)	17,286
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	626,405	324,910
Compensated absences payable	29,322	(7,549)
Net pension liability	49,986	453
Deferred inflows of resources	5,308	10,623
Net cash flows from operating activities	<u>\$ 1,520,471</u>	<u>\$ 1,139,594</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest in building	\$ 902,166	\$ 6,000

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, 2021 AND 2020

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, 2021 AND 2020

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, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Restricted Cash

	2021	2020
WRRF Fund	\$ 2,589,885	\$ 69,970
Debt Service	653,971	641,710
SRF Construction MMA	3,157	3,170
Total restricted cash	<u>\$ 3,247,013</u>	<u>\$ 714,850</u>

i. Infrastructure Tax - WRRF Project

This is the balance of infrastructure tax proceeds received from the Resort Area District. These funds are restricted for use related to the WRRF project. See Note 3 for more information.

ii. Debt Service

This is the amount that has accumulated in the Debt Service Fund. This restriction is for debt repayment on the general obligation and special revenue bonds. See Note 5 for more information.

h. Inventory

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 cost 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, 2021 AND 2020

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, 2021 AND 2020

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).



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

2. CASH AND INVESTMENTS

As of June 30, 2021 and June 30, 2020, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$20,725,897 and \$7,865,740, respectively. The bank balance as of June 30, 2021 and June 30, 2020 was \$18,205,823 and \$7,847,160, 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, 2021, 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, 2021 and June 30, 2020 was \$408,722 and \$10,392,902.

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2021:

GASB 31

According to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests on the participant's behalf in an investment portfolio. STIP is also classified as a "2a7-like" pool.

A 2a7-like pool is an external investment pool that is not registered with the Security and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair market value to report net assets and to compute unit values. The Board of Investments has adopted a policy to treat STIP as a 2a7-like pool and to utilize an amortized cost unit value rather than fair value to report net assets.

GASB 40

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – *Deposit and Investment Risk Disclosures*. The unaudited financial statements as of June 30, 2021 and 2020 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 2021 are disclosed in STIP's financial statements. An unaudited copy of the STIP fiscal year 2021 financial statements is available online at the Montana Board of Investments' website.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

3. DUE FROM OTHER GOVERNMENTS

On February 4, 2020, the District and Big Sky Resort Area District ("RAD") entered into an interlocal agreement with respect to the WRRF Phase I Project, the Canyon Project and the payment or financing costs thereof. Pursuant to the agreement, the electors of the RAD approved the imposition of the additional 1% infrastructure resort tax commencing July 1, 2020 and terminating June 1, 2032. The additional infrastructure tax will be used to pay the lesser of 60% of the total costs of the WRRF Phase I Project or \$27,000,000, and \$12,000,000 for the costs of the Canyon Project if it is determined to be feasible in accordance with Section 3.3. On April 4, 2021, the interlocal agreement was amended to account for various changes including the source of funding obtained by the Water & Sewer District, the estimated cost of the project, and the agreed upon minimum contributions required by the RAD. Due to the new estimated total project cost, the minimum annual contributions to be received from the RAD are as follows.

	Minimum Contributions
2021	\$ 2,587,500
2022	2,716,875
2023	2,852,719
2024	2,995,335
2025	3,145,122
Thereafter	12,702,449
Total	<u>\$ 27,000,000</u>

During the year ended June 30, 2021, the RAD paid the minimum annual contribution of \$2,587,500. The total remaining balance due at year end was \$24,412,500 and is reported as a Deferred Inflow of Resources since it represents the increase of net assets that applies to future periods.

As of June 30, 2021, the Canyon Project has not met the conditions of Section 3.3 of the amended interlocal agreement. Therefore, the \$12,000,000 has not been recognized as a Deferred Inflow of Resources or included in the Due from other Governments balance.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

4. CAPITAL ASSETS

Capital assets for the year ended June 30, 2021:

	Balance			Balance
	June 30, 2020	Additions	Disposals	June 30, 2021
Nondepreciable capital assets:				
Land	\$ 1,073,689	\$ 6,000	\$ -	\$ 1,079,689
Land improvements	58,117	-	-	58,117
Total nondepreciable capital assets	1,131,806	6,000	-	1,137,806
Depreciable capital assets:				
Buildings	708,219	28,171	-	736,390
Sewer infrastructure	38,338,978	3,331,122	-	41,670,100
Water infrastructure	22,433,488	1,013,492	-	23,446,980
Total depreciable capital assets	61,480,685	4,372,785	-	65,853,470
Accumulated depreciation	(19,180,209)	(1,172,165)	-	(20,352,374)
Depreciable capital assets, net	42,300,476	3,200,620	-	45,501,096
Total capital assets, net	\$ 43,432,282	\$ 3,206,620	\$ -	\$ 46,638,902



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

4. CAPITAL ASSETS (CONTINUED)

Capital assets for the year ended June 30, 2020:

	Balance			Balance
	June 30, 2019	Additions	Disposals	June 30, 2020
Nondepreciable capital assets:				
Land	\$ 1,067,689	\$ 6,000	\$ -	\$ 1,073,689
Land improvements	58,117	-	-	58,117
Total nondepreciable capital assets	1,125,806	6,000	-	1,131,806
Depreciable capital assets:				
Buildings	708,219	-	-	708,219
Sewer infrastructure	37,089,766	1,249,212	-	38,338,978
Water infrastructure	22,180,150	253,338	-	22,433,488
Total depreciable capital assets	59,978,135	1,502,550	-	61,480,685
Accumulated depreciation	(18,032,274)	(1,147,935)	-	(19,180,209)
Depreciable capital assets, net	41,945,861	354,615	-	42,300,476
Total capital assets, net	\$ 43,071,667	\$ 360,615	\$ -	\$ 43,432,282



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

5. LONG-TERM DEBT

The District has issued both general obligation and revenue bonds which consist of the following at June 30:

	2021	2020
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.	\$ 86,000	\$ 119,000
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.	1,131,000	1,566,000
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.	303,000	420,000
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.	969,000	1,343,000
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.	1,946,000	2,221,000
Series 2021A Sewer System Revenue Bond totaling \$42,715,929, dated June 1, 2021, is used for the purpose of constructing a Water Resource Recovery Facility (WRRF). This bond is issued as a drawdown bond by a local bank, with advances of principal to be made to the District commencing on June 1, 2021 and concluding no later than December 1, 2023 ("Construction period"). During the Construction Period, interest at a rate of 3.07% per annum accrues from the date of each advance and is due and payable on the 1st day of each month.	355,000	-
2.50% State Revolving Fund (DNRC Revolving Loan Program) totaling \$1,050,000 dated May 18, 2021, is a Series 2021C bond used for the purpose of constructing a Water Resource Recovery Facility (WRRF). Payable in 40 semiannual installments of approximately until July 1, 2041.	1,050,000	-
2.50% State Revolving Fund (DNRC Revolving Loan Program) totaling \$350,000, dated May 18, 2021, is a Series 2021B Bond used for the purpose of constructing a Water Resource Recovery Facility (WRRF). Payable in 40 semiannual installments of approximately until July 1, 2041.	350,000	-
Total long-term debt	6,190,000	5,669,000
Less: current portion	(1,631,000)	(1,234,000)
Long-term portion of debt	<u>\$ 4,559,000</u>	<u>\$ 4,435,000</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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

5. LONG-TERM DEBT (CONTINUED)

	June 30, 2020	Additions	Reductions	June 30, 2021	Amounts due within one year
Bonds payable:					
Sewer System Revenue Bonds, Series 2021A	\$ -	\$ 355,000	\$ -	\$ 355,000	\$ -
SRF Revenue Bonds, Series 2021B	-	350,000	-	350,000	350,000
SRF Revenue Bonds, Series 2021C	-	1,050,000	-	1,050,000	20,000
SRF Treatment Plant	1,566,000	-	(435,000)	1,131,000	445,000
SRF Water Meters	119,000	-	(33,000)	86,000	34,000
SRF Water Tank	420,000	-	(117,000)	303,000	119,000
GO Bonds Treatment Plant	1,343,000	-	(374,000)	969,000	382,000
Improvements	2,221,000	-	(275,000)	1,946,000	281,000
Total bonds payable	5,669,000	1,755,000	(1,234,000)	6,190,000	1,631,000
Compensated absences	116,192	29,323	-	145,515	-
Net pension liability	286,700	49,986	-	336,686	-
Total long-term debt	<u>\$ 6,071,892</u>	<u>\$ 1,834,309</u>	<u>\$(1,234,000)</u>	<u>\$ 6,672,201</u>	<u>\$ 1,631,000</u>
	June 30, 2019	Additions	Reductions	June 30, 2020	Amounts due within one year
Bonds payable:					
SRF Treatment Plant	\$ 1,991,000	\$ -	\$ (425,000)	\$ 1,566,000	\$ 435,000
SRF Water Meters	151,000	-	(32,000)	119,000	33,000
SRF Water Tank	535,000	-	(115,000)	420,000	117,000
GO Bonds Treatment Plant	1,709,000	-	(366,000)	1,343,000	374,000
Improvements	2,490,000	-	(269,000)	2,221,000	275,000
Total bonds payable	6,876,000	-	(1,207,000)	5,669,000	1,234,000
Compensated absences	123,741	-	(7,549)	116,192	-
Net pension liability	286,247	453	-	286,700	-
Total long-term debt	<u>\$ 7,285,988</u>	<u>\$ 453</u>	<u>\$(1,214,549)</u>	<u>\$ 6,071,892</u>	<u>\$ 1,234,000</u>



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

5. LONG-TERM DEBT (CONTINUED)

Debt service requirements at June 30, 2021, were as follows.

Year	Principal	Interest	Total
2022	\$ 1,631,000	\$ 63,769	\$ 1,694,769
2023	1,331,000	56,059	1,387,059
2024	1,199,000	39,025	1,238,025
2025	345,000	31,300	376,300
2026	353,000	26,639	379,639
2027-2031	716,000	81,030	797,030
2032-2036	273,000	49,520	322,520
2037-2041	309,000	20,610	329,610
2042-2046	33,000	330	33,330
	<u>\$ 6,190,000</u>	<u>\$ 368,282</u>	<u>\$ 6,558,282</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, 2021.

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.

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

At June 30, 2021 and 2020, the District had a liability of \$336,686 and \$286,700, respectively, for its proportionate share of the net pension liability. See Note 5 for more information.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. 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.

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, 2020, was determined by taking the results of the June 30, 2019, 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 roll forward procedure will include the effects of any assumption changes and legislative changes. 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 all participating employers.

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.

iii. Contributions

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2020, and 2019, 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 \$336,686 and the employer's proportionate share was 0.0128 percent.

As of Measurement Date	Net Pension Liability as of June 30, 2020	Net Pension Liability as of June 30, 2019	Percent of Collective NPL as of June 30, 2020	Percent of Collective NPL as of June 30, 2019	Change in Percent of Collective NPL
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 336,686	\$ 286,700	0.0128	0.0137	(0.0009)
State of Montana Proportionate Share associated with Employer	115,036	99,839	0.0044	0.0048	(0.0004)
Total	<u>\$ 451,722</u>	<u>\$ 386,539</u>	<u>0.0172</u>	<u>0.0185</u>	<u>(0.0013)</u>

b. Changes in actuarial assumptions and methods:

The following changes in assumptions or other inputs were made that affected the measurement of the TPL. (1) The discount rate was lowered from 7.65% to 7.34%; (2) the investment rate of return was lowered from 7.65% to 7.34%; and (3) the inflation rate was reduced from 2.75% to 2.40%.

c. Changes in benefit terms:

There have been no changes in benefit terms since the previous measurement date.

d. Changes in proportionate share:

There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

e. Pension expense

As of Measurement Date	Pension Expense as of June 30, 2020	Pension Expense as of June 30, 2019
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 45,394	\$ 47,405
Employer Grant Revenue - State of Montana Proportionate Share for Employer	18,813	6,778
Total	<u>\$ 64,207</u>	<u>\$ 54,183</u>

At June 30, 2020, the employer recognized \$45,394 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$18,813 for the state of Montana proportionate share of the pension expense associated with the employer.

f. Recognition of Deferred Inflows and Outflows

At June 30, 2020, 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	\$ 5,435	\$ 9,626
Projected Investment Earnings vs. Actual Investment Earnings	29,154	-
Changes in Assumptions	23,314	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	17,690
Employer Contributions Subsequent to the Measurement Date	65,559	-
Total	<u>\$ 123,462</u>	<u>\$ 27,316</u>

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

f. Recognition of Deferred Inflows and Outflows (Continued)

For the Measurement Year Ended June 30:	Recognition of Deferred Inflows in Future years as an increase or (decrease) to Pension Expense
2021	\$ 928
2022	12,189
2023	10,187
2024	7,284
2025	-
Thereafter	\$ -

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.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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; or 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;



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. 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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. 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
2021	7.9000	7.9000	8.5700	0.1000
2020	7.9000	7.9000	8.6700	0.1000
2019	7.9000	7.9000	8.5700	0.1000
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.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. 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.
 - The State contributed a Statutory Appropriation from the General Fund of \$33,951,150.

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, 2019, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2020. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2020, 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, 2019. Among those assumptions were the following.

- Investment return (net of admin expense) 7.65%
- Admin expense as a % of payroll 0.30%
- General wage growth * 3.50%
- *Includes inflation at 2.40%
- Merit increases 0 to 4.8%
- 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% 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%;



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

k. Actuarial Assumptions (Continued)

- 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 7.34%. 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 established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. 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 2123. 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 most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The long-term rate of return as of June 30, 2020, was calculated using the average long-term capital market assumptions published in the Survey of Capital Market Assumptions 2020 Edition by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.94%. The assumed inflation is based on the intermediate inflation of 2.4% in the 2020 OASDI Trustees Report by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.34%.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. 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, 2020, are summarized below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	2.0000	0.1100
Domestic equity	30.0000	6.1900
Foreign equity	16.0000	6.9200
Fixed income	25.0000	5.5400
Private equity	18.0000	13.8000
Real estate	9.0000	5.7400
Total	100.0000 %	

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 7.34%, 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 (6.34%)	Current Discount Rate	1.0% Increase (8.34%)
Big Sky Co Water & Sewer Dist #363's Net Pension Liability	\$ 463,428	\$ 336,686	\$ 230,223



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

6. 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, 2021 AND 2020

6. 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, 2020, 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 329 employers that have participants in the PERS-DCRP totaled \$775,195.

7. 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.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 13, 2022, the date on which these financial statements were available to be issued.

The District is currently in the process of applying for forgiveness for the Series 2021B Revenue Bonds through the DNRC. The District anticipates the full amount of the loan to be forgiven in FY2022 totaling \$350,000.

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
2020	0.0128	\$ 336,686	\$ 115,036	\$ 451,722	\$ 214,123	157.2400	68.9000
2019	0.0137	286,700	99,839	386,539	226,307	126.6900	73.8500
2018	0.0137	286,247	101,712	387,959	225,549	126.9100	73.4700
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	111.1200	79.8700

*The amounts presented for each fiscal year were determined as of June 30, the measurement date. 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
2021	\$ 19,192	\$ -	\$ 19,192	\$ -	\$ 218,833	8.7700 %
2020	18,565	-	18,565	-	214,123	8.6700 %
2019	19,464	-	19,464	-	226,307	8.6000
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, the most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

Changes of Benefit Terms

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

2017:

Working Retiree Limitations – for PERS

Effective July 1, 2017, 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.

Refunds

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, 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 termination of service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Interest credited to member accounts – Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

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 members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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 30, 2019 actuarial valuation:

General Wage Growth *	3.50%
Investment Rate of Return *	7.65%
* includes inflation at	2.75%
Merit salary increases	0% to 8.47%
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, with no projections
Admin Expense as a % of Payroll	0.30%

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, 2021, 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 January 13, 2022.

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.

A handwritten signature in dark ink, appearing to read "Holmes + Turner", with a long, sweeping horizontal line extending to the right.

Holmes & Turner
Bozeman, Montana
January 13, 2022



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021

Current Year Findings:

None.

Prior Year Findings:

None.