



ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the accompanying financial statements of Big Sky County Water & Sewer District No. 363 (the District), which comprise the Statements of Net Position as of June 30, 2022 and 2021 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 - 9 and 45 - 48 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

## **Required Supplementary Information (Continued)**

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022, on our consideration of the District'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 solely 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 the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.



Holmes & Turner  
Bozeman, Montana  
December 15, 2022

## MANAGEMENT DISCUSSION & ANALYSIS

**Big Sky County Water & Sewer District**  
**Management Discussion and Analysis**  
**Fiscal Year 7/1/2021 - 6/30/2022**

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 3,400 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 25.14% in fiscal year 2021-2022. Capital assets net of accumulated depreciation increased from \$46,683,902 to \$58,361,992. The District continued to add to the asset base in excess of the depreciation expense taken on the existing asset base. The District's commitment from the Big Sky Resort Area District (BSRAD) for \$27,000,000 for the new treatment plant was drawn down by the 2021-2022 minimum contribution of \$2,716,875. As a result, the District receivable from the BSRAD was reduced to \$21,695,625 at fiscal year-end.

The District went through both the water and sewer assets to identify old and obsolete assets to retire. There were both water and sewer assets that were determined to be obsolete and or no longer useful. As a result, these items were retired and removed from the records of the District. The assets were retired as of July 1, 2021. The total amount of retired from the sewer assets were \$450,425 and the total amount of retired water asset were \$251,158.

The sewer capital assets of the District increased from \$41,670,100 to \$53,509,087. The increase was due to the following (approx.):

- \$6,247 on new office equipment.
- \$2,629 on a new Badger meter.
- \$58,576 on sewer manhole replacements and sewer line lining equipment.
- \$19,249 on irrigation meters for the golf course.
- \$5,500 on a compressor.
- \$12,197,210 on the construction on the new sewer treatment plant.

The District continues to recognize the Search and Rescue Building on the books of the District. The District added another \$6,000 in fiscal 2021-2022. 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 \$23,466,980 to \$23,773,409. The increase was due to the following (approx.):

- \$9,021 on landscaping Spotted Elk Pumphouse.
- \$79,607 on well drilling.
- \$23,100 on pumping equipment.
- \$303,726 on water transmission lines.
- \$42,892 on a new truck.
- \$6,247 on office furniture.
- \$27,626 on water meters.
- \$85,369 on engineering for system improvements.

The total long-term liabilities with the existing State Revolving Fund Loans of both systems decreased from \$6,190,000 to \$5,800,545 including the current portion of the SRF Loans and the new First Security Bank loan. The First Security Bank loan is fixed for the first twenty-years at 3.07% and will adjust thereafter based on 1 Year Treasury Rate plus 1.5%. The District will complete the payoff of five of the seven State Revolving Fund loans. Four of the five will be paid off on July 1, 2023, and the fifth was forgiven. The remaining two loans, one for the drinking water project will be paid off in July of 2027, the other for the new sewer plant will be paid off in July of 2041.

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 2021-2022 the District updated the Net Pension Liability (NPL) from \$336,686 to \$224,637. This amount represents the District's share of the actuarial unfunded liabilities of the pension system in which the District employees participate. Although \$224,637 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 2021-2022 GASB 68 reporting requirements decreased the net pension liability by \$112,049 and reduced the current year pension expense by \$5,319.91. 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 11.20% due primarily to the new debt incurred for the new treatment plant. The current liabilities of the District increased from \$5,578,480 to \$6,986,365. The accounts payable and accrued expenses increased from \$1,139,383 to \$2,009,837. The District's Performance bonds and retainage payable increased from \$2,808,097 to \$3,645,528 and the current portion



of the long- term liabilities decreased from \$1,631,000 to \$1,331,000. 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
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%
2021-2022	\$96,597,410	3.51%	\$11,808,573	11.20%

### Operating Revenue/Non-Operating Revenue

The total operating revenues of the District increased from \$3,786,752 to \$4,025,910. The total sewer operating revenue increased from \$2,037,974 to \$2,263,395. The total water operating revenue increased from \$1,748,788 to \$1,762,515. The sewer operating revenue increase was due to the 5% rate increase effective 7/1/2021 and the increase in sewer usage. The increase in water operating revenue was due to the 5% rate increase effective 7/1/2021. Water usage was actually down by approximately 6% over the prior fiscal year. Sewer usage was up approximately 9% from the prior fiscal year. The sewer system had an additional one hundred and thirty-nine hookups representing an increase of approximately 4.45% in sewer hookups. The water department had an additional eighty-eight hookups representing an increase of approximately 2.78% in water hookups. The difference in revenue increases between the water and sewer is due to the fact the District only services the sewer system in Spanish Peaks. Spanish Peaks runs and maintains their own water system.

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 to be built and collected through the permitting process. This is the only the fifth 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 \$3,918,423 to \$5,550,086. The District collected \$1,392,578 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 the old sewer treatment plant. In addition, the BSRAD contribution was \$2,716,875 for the new treatment plant for total tax receipts of \$4,109,452. Plant investment fees increased from \$397,528 to \$852,177 due to an increase 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 increased from \$86,216 to \$246,754 for the same reason as the sewer system increase. Interest income decreased from \$75,810 to \$44,386 due to steadily decreasing interest rates and account balances.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
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%**
2021-2022	\$9,742,339	16.06%	\$5,031,942	8.58%**

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

**\*\*Increase primarily due to both legal fees for Cottonwood Environmental Lawsuit and the costs to issue the bonds for the new treatment plant.**

### Operating Expenses/Non-Operating Expenses

The total operating expense for the District increased from \$3,945,154 to \$4,865,599. The total general and administrative expense increased from \$1,010,852 to \$1,763,430. The total sewer general and administrative expense increased from \$271,422 to \$321,833. Total sewer operation expense increased from \$1,395,268 to \$1,466,761. The total water general and administrative expense increased from \$411,945 to \$421,943. The total water operating expense increased from \$855,667 to \$891,632. The total operating expense increased \$920,445 from last fiscal year, a 23.33% increase. The increase in operating expenses is due primarily to the Cottonwood Environmental Lawsuit (\$957,214) and to general price inflation and repairs and maintenance on the water system. The sewer system used more chemicals and power as well as 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 2021-2022, the District made principal payments in the amount of \$1,281,000 with total payments amounting to \$1,388,168.75. The District paid \$107,168.75 in interest on those loans.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
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%
2021-2022	\$4,025,910	6.32%	\$4,865,599	23.33%

### Capital Assets

The District did not receive any donated water or sewer extensions in fiscal 2021-2022. The donated capital assets are usually 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 on June 30, 2022, was \$63,100,466. The total amount includes \$52,561,447 invested in capital assets, net of related debt, \$7,263,552 in unrestricted assets which includes cash, and \$3,275,467 restricted cash for debt service. The total represents an increase of \$4,716,397 over the prior fiscal year total. The amount invested in capital assets, net of related debt increased by \$10,727,545 due to more assets added than the debt reduction and asset depreciation. The unrestricted portion decreased by \$6,039,602 due primarily to cash put into the new sewer treatment plant project. The restricted for debt service category increased from \$3,247,013 to \$3,275,467 due to additional funds moved into the reserve accounts.

The District continued work on the new treatment plant project with Advanced Engineering & Environmental Services, Inc. (AE2S) as the construction engineer and Record Steel and Construction, Inc. (RSCI) as the contractor. RSCI started construction on the new plant in June of 2020 and continued throughout fiscal-year 2021-2022. The project is on schedule with only one major change order to date. The contractor recommended that the District dredge one of the holding ponds to remove sludge. The change order was accepted, and the District used sewer plant investment funds to pay that specific change order. The total project is expected to be completed in December of 2023.

The District's new rate categories for residential, commercial, irrigation and reuse water are working well. The District rate structure is designed to provide cost recovery in a fair and equitable manner. The District will implement a reuse charge based on volume of usage for the reuse water next fiscal year. The changes in the sewer plant investment and water system investment charge, which were included in the rate study performed by AE2S, were effective 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 2021-2022 water operating revenues were insufficient to cover operating expenses. The water department had an operating loss of \$432,775. The sewer operating revenues were insufficient to cover sewer operating expenses as well. The sewer department had operating loss of \$406,914. Water operating revenue increased by 0.79% and sewer operating revenue increased by 11.06%. The operating expenses increased by 23.33% leaving a total deficit of \$839,689 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 2021-2022. 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. Next fiscal year reuse usage charges are expected to be adopted by the board.

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%
2021-2022	\$18.46	5%	\$3.13**	5%	\$29.63	5%	\$7.22**	5%

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

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

\*\*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: 2021 \$3.13, \$4.69, \$6.57 and \$9.20. Commercial 0-30,000 gallons, 30,000 to 60,000 gallons, 60,000 to 80,000 gallons, 80,000 gallons and above as follows: 2021 \$3.13, \$4.69, \$6.57 and \$9.20. Irrigation 0-20,000 gallons, 20,000 to 40,000 gallons, 40,000 gallons and above as follows: 2021 \$4.69, \$6.57 and \$9.20. 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 \$7.57 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 2021-2022 at year-end had total revenues 114.78% of budget, total expenses 111.45% of budget and total net revenue 100.85% of budget. The District booked \$6,000 for the Search and Rescue building accrual. Income before developer contributions was \$4,710,397.

The operating revenues were at 104.35% of budget and operating expenses were at 110.01% of budget. As a result, there was a \$839,689 operating deficit. The District budget for 2021-2022 projected operating loss of \$564,695. Administrative expenses for general administration were 135.23% of budget. The primary reason for the overage on the budget is the Cottonwood Environmental Lawsuit which the District spent approximately \$957,214 defending in 2021-2022. 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 87.28% of budget and 65.99% of budget respectively. The sewer operations expense was at 113.99% of budget. The water operations expense was 103.59% 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 vehicles, operating expenses, repairs and maintenance and professional services all other sections were within budget tolerances. The sewer plant operations expense category vehicles were 111.19% of budget. The cost of fuel which increased dramatically over the fiscal year was the cause of overage. In the sewer plant operations expense category operating expenses was 121.92% of budget. The District used more chemicals and did more testing than what was budgeted. In addition, power costs came in over budget as well. In the sewer plant operations expense category repairs and maintenance was 163.70% of budget. There were four-line items that made up the majority of the overage; Treatment Plant repairs/maintenance, YC Pump Station/maintenance, Pond Blowers/Pond Maintenance and Irrigation Maintenance. Staff performed more maintenance and repairs on the sewer treatment plant, YC Pump Station, Pond Blowers and the irrigation system than budgeted. In the sewer professional service category 178.32% of budget. The District engaged AE2S in additional engineering services that were not budgeted. However, the overall sewer budget was within the budgetary tolerance of plus or minus five percent at 100.80% 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 132.11% of budget, the repairs for the distribution system, wells and booster stations were over budget. There were more repairs done to the distribution system, wells and booster stations than budgeted. However, the overall water budget was within budgetary tolerance of plus or minus five percent at 97.72% of budget.

Total non-operating revenues were at 123.47% of budget and non-operating expenses were at 180.41% 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, \$852,177 was collected. The water system investment fee category was budgeted at \$90,000 however, \$246,754 was

collected. The District budgeted \$150,000 in developer capital contributions; however, none was contributed. The water debt service interest costs were overestimated and came in at 90.43% of budget. The sewer debt service interest costs were underestimated and came in at 143.05% of budget. The items that were primarily responsible for the overage are the costs associated with the new debt and the items associated with the Canyon Project. The District is working with the BSRAD on the Canyon project whose revenues and costs were not known at budget preparation. 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 \$5,550,086 being 122.31% of the budget.

### **State Revolving Fund Debt/Other Debt**

The District has a total of six State Revolving Fund Loans remaining with an outstanding balance at fiscal year-end of \$4,204,000 including the current portion of the long-term debt. The District had one State Revolving Fund Loan forgiven in 2021-2022 with a principal balance of \$350,000. The District also has a loan through First Security Bank (FSB). The FSB loan was drawn on for the new treatment plant construction and engineering costs. The District drew \$1,241,545 from that loan in 2021-2022. The principal 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 loans secured for the new plant are revenue bonds, which means that the debt service will be collected through the user rates.

### **Conclusion**

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF NET POSITION  
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 14,766,088	\$ 17,478,884
Investments	885	408,722
Accounts receivable, net	844,337	868,230
Prepaid expenses	18,149	132,414
Water meter inventory	295,551	104,981
Due from other government, current	2,852,719	2,716,875
Total current assets	18,777,729	21,710,106
Noncurrent assets		
Restricted cash and cash equivalents	614,783	3,247,013
Due from other government, noncurrent	18,842,906	21,724,079
Nondepreciable capital assets	1,143,806	1,137,806
Depreciable capital assets, net	57,218,186	45,501,096
Total noncurrent assets	77,819,681	71,609,994
Total assets	96,597,410	93,320,100
DEFERRED OUTFLOWS OF RESOURCES		
Montana Public Employees Retirement System	\$ 111,782	\$ 123,462

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





BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
STATEMENTS OF NET POSITION  
JUNE 30, 2022 AND 2021

	2022	2021
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,009,836	\$ 1,139,380
Performance bonds and retainage payable	3,645,528	2,808,097
Current portion of long-term liabilities	1,331,000	1,631,000
Total current liabilities	<u>6,986,364</u>	<u>5,578,477</u>
Long-term liabilities		
Compensated absences payable	128,026	145,514
Net pension liability	224,637	336,686
General obligation bonds	1,885,000	3,174,000
Sewer system revenue bonds	2,584,545	1,385,000
Total long-term liabilities	<u>4,822,208</u>	<u>5,041,200</u>
Total liabilities	<u>11,808,572</u>	<u>10,619,677</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Montana Public Employees Retirement System	104,529	27,316
Infrastructure tax agreement	21,695,625	24,412,500
Total deferred inflows of resources	<u>21,800,154</u>	<u>24,439,816</u>
<b>NET POSITION</b>		
Net investment in capital assets	52,561,447	41,833,902
Unrestricted	7,263,552	13,303,154
Restricted	3,275,467	3,247,013
Total net position	<u>\$ 63,100,466</u>	<u>\$ 58,384,069</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, 2022 AND 2021

	2022	2021
OPERATING REVENUE		
Sewer services	\$ 2,263,395	\$ 2,037,974
Water services	1,762,515	1,748,778
Total operating revenue	<u>4,025,910</u>	<u>3,786,752</u>
OPERATING EXPENSES		
General and administrative		
Advertising	26	142
Dues and subscriptions	3,223	3,490
Education expenses	3,264	785
Insurance	153,503	134,967
Janitorial and carpet services	3,317	2,989
Meetings	7,429	2,432
Miscellaneous	7,883	4,703
Office building repair and maintenance	3,876	15,154
Office supplies and expenses	28,334	30,550
Payroll taxes and benefits	49,893	65,956
Professional fees	1,162,712	415,092
Telephone and computer maintenance	44,650	32,156
Salaries	286,868	295,557
Utilities	5,431	4,810
Vehicle expenses	3,021	2,069
Total general and administrative	<u>\$ 1,763,430</u>	<u>\$ 1,010,852</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, 2022 AND 2021

	2022	2021
OPERATING EXPENSES (CONTINUED)		
Sewer general and administrative		
Salaries and wages	\$ 212,243	\$ 169,243
Insurance	64,891	57,003
Payroll taxes and benefits	34,367	38,043
Dues and subscriptions	887	609
Telephone	5,486	4,900
Office supplies	2,363	325
Education expense	1,596	1,299
Total sewer general and administrative	<u>321,833</u>	<u>271,422</u>
Sewer plant expenses		
Chemicals	117,571	80,970
Depreciation	685,390	697,766
Engineering	27,639	16,889
Fuel - equipment and vehicles	13,872	8,770
Lab testing equipment	6,994	-
Maintenance and repairs - building and grounds	102,597	132,877
Miscellaneous	1,987	3,650
Safety equipment	935	458
Sewer repairs and maintenance	81,556	113,991
Treatment plant repairs and maintenance	51,288	36,444
Electric and utilities	305,306	266,024
Travel and vehicle expense	9,963	8,790
Waste water monitoring	61,663	28,639
Total sewer plant expenses	<u>\$ 1,466,761</u>	<u>\$ 1,395,268</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, 2022 AND 2021

	2022	2021
OPERATING EXPENSES (CONTINUED)		
Water general and administrative		
Salaries and wages	\$ 285,006	\$ 265,210
Insurance	66,917	68,336
Payroll taxes and benefits	48,281	59,990
Dues and subscriptions	1,980	1,753
Telephone	7,475	9,053
Office supplies	425	922
Education expense	7,431	2,253
Public water supply fee	4,428	4,428
Total water general and administrative	421,943	411,945
Water plant expenses		
Depreciation	464,435	474,399
Fuel - equipment and vehicles	15,071	10,903
Lab testing equipment	3,414	3,877
Miscellaneous	559	52
Professional services	-	4,425
Repairs and maintenance	172,998	142,028
Special projects	75,926	50,079
Safety equipment	754	264
Electric and utilities	147,980	156,576
Travel and vehicle expense	10,495	13,064
Total water plant expenses	891,632	855,667
Total operating expenses	4,865,599	3,945,154
Operating income (loss)	\$ (839,689)	\$ (158,402)

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, 2022 AND 2021

	2022	2021
NONOPERATING REVENUES AND (EXPENSES)		
Interest expense	\$ (117,837)	\$ (105,706)
Other nonoperating expense	(48,506)	(583,298)
Tax receipts for bond payments	4,109,452	3,979,293
Plant investment charges	852,177	397,528
Water system investment charges	246,754	86,216
Interest income	44,386	75,810
Other nonoperating revenue	463,660	68,580
Total nonoperating revenues and (expenses)	5,550,086	3,918,423
Income before contributions	4,710,397	3,760,021
Contributed capital	6,000	902,166
Increase (decrease) in net position	4,716,397	4,662,187
Net position, beginning of year	58,384,069	53,721,882
Net position, end of year	\$ 63,100,466	\$ 58,384,069

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,204,202	\$ 3,574,027
Payments to suppliers and employees	(3,088,213)	(2,053,556)
Net cash flows from operating activities	<u>1,115,989</u>	<u>1,520,471</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on capital debt	(1,631,000)	(1,234,000)
Cash received from bond issuance	1,241,545	1,755,000
Purchases of capital assets	(12,866,999)	(3,476,619)
Interest paid on capital debt	(117,837)	(105,706)
Taxes collected for bond payments	1,392,577	1,363,339
Infrastructure tax for WRRF project	2,716,875	2,615,954
Other receipts (payments)	1,514,169	(30,974)
Net cash flows from capital and related financing activities	<u>(7,750,670)</u>	<u>886,994</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest	44,386	75,810
Proceeds from performance bonds and fees	837,431	392,700
Purchases of investments	(162)	(15,818)
Sales of investments	408,000	10,000,000
Net cash flows from investing activities	<u>1,289,655</u>	<u>10,452,692</u>
Net increase (decrease) in cash	(5,345,026)	12,860,157
Cash and cash equivalents, beginning of year	20,725,897	7,865,740
Cash and cash equivalents, end of year	<u><u>15,380,871</u></u>	<u><u>20,725,897</u></u>
CASH AND CASH EQUIVALENTS AS PRESENTED ON THE STATEMENT OF NET POSITION		
Cash and cash equivalents	14,766,088	17,478,884
Restricted cash and cash equivalents	614,783	3,247,013
Total	<u><u>\$ 15,380,871</u></u>	<u><u>\$ 20,725,897</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, 2022 AND 2021

	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (839,689)	\$ (158,402)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,149,825	1,172,165
(Increase) decrease in current assets:		
Accounts receivable	23,893	(151,855)
Prepaid expenses	114,265	(30,387)
Inventory	(190,570)	8,412
Deferred outflows of resources	11,680	(30,483)
Due from other governments	2,745,329	-
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	870,455	626,405
Compensated absences payable	(17,488)	29,322
Net pension liability	(112,049)	49,986
Deferred inflows of resources	(2,639,662)	5,308
Net cash flows from operating activities	<u>\$ 1,115,989</u>	<u>\$ 1,520,471</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest in building	\$ 6,000	\$ 902,166

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, 2022 AND 2021

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity

The District was created by resolution by the Board of County Commissioners of Gallatin County, Montana, and Madison County, Montana, on August 3, 1993 and August 4, 1993, respectively. The District was created for the purpose of constructing, repairing, operating, managing, maintaining, and acquiring a sanitary sewer facility on the West Fork of the West Gallatin River, Gallatin County, Montana. The District acquired Lone Mountain Springs Water District, as part of a settlement agreement reached with Boyne USA on July 25, 1997. The District is governed by a Board of Directors elected by members of the District and establishes its own budget independent of any other government entity, so it is therefore considered to be a primary government. The daily affairs of the District are conducted under the supervision of the District's general manager. The District serves approximately 3,000 customers.

b. Measurement Focus and Basis of Accounting

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

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

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Revenues and Expenses

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

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

d. Water and Wastewater user Charges

The District bills its customers for sewer and water services on a calendar quarter basis in arrears. Bills are mailed out the first week of January, April, July and October of each year. The service charges for sewer and water are calculated from water meter readings which the District collects for each billable property. Property owners are assessed sewer and water fees annually based on a base rate and usage. No allowance has been made for uncollectible accounts because the District submits any delinquent accounts to the County Treasurer for collection.

e. Use of Restricted/Unrestricted Net Position

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

f. Cash and Investments

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

To minimize custodial credit risk in relation to the District's deposits, the District's policy is to have uninsured deposits covered by collateral held by the pledging bank's agent in the District's name. The District does not have a policy regarding concentration of credit risk in relation to its investments.

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





BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Restricted Cash

	2022	2021
WRRF Fund	\$ 2,830	\$ 2,589,885
Debt Service	608,795	653,971
SRF Construction MMA	3,157	3,157
Total restricted cash	<u>\$ 614,782</u>	<u>\$ 3,247,013</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, 2022 AND 2021

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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, 2022 AND 2021

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Net Position

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

Proprietary fund net position is divided into three components:

i. Net investment in capital assets

Consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus capital asset related deferred outflows of resources less capital asset related deferred inflows of resources related to those assets.

ii. Restricted

Consist of assets that are restricted as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

iii. Unrestricted

All other net position is reported in this category.

l. Tax Revenue

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

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Tax Revenue (Continued)

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

m. Budget

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

n. Use of Estimates

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

o. Tax Exempt Status

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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## 2. CASH AND INVESTMENTS

As of June 30, 2022 and June 30, 2021, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$15,380,871 and \$20,725,897, respectively. The bank balance as of June 30, 2022 and June 30, 2021 was \$16,964,096 and \$18,205,823, 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, 2022, 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, 2022 and June 30, 2021 was \$885 and \$408,722.

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2022:

### 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, 2022 and 2021 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 2022 are disclosed in STIP's financial statements. An unaudited copy of the STIP fiscal year 2022 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, 2022 AND 2021

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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. The future minimum annual contributions to be received from the RAD are as follows.

	Minimum Contributions
2023	\$ 2,852,719
2024	2,995,335
2025	3,145,122
2026	3,302,379
2027	3,467,497
Thereafter	5,932,573
Total	<u>\$ 21,695,625</u>

During the year ended June 30, 2022, the RAD paid the minimum annual contribution of \$2,716,875. The total remaining balance due at year end was \$21,695,625 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, 2022, 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, 2022 AND 2021

4. CAPITAL ASSETS

Capital assets for the year ended June 30, 2022:

	Balance			Balance
	June 30, 2021	Additions	Disposals	June 30, 2022
Nondepreciable capital assets:				
Land	\$ 1,079,689	\$ 6,000	\$ -	\$ 1,085,689
Land improvements	58,117	-	-	58,117
Total nondepreciable capital assets	1,137,806	6,000	-	1,143,806
Depreciable capital assets:				
Buildings	736,390	-	-	736,390
Sewer infrastructure	41,670,100	12,289,412	(450,425)	53,509,087
Water infrastructure	23,446,980	577,587	(251,158)	23,773,409
Total depreciable capital assets	65,853,470	12,866,999	(701,583)	78,018,886
Accumulated depreciation	(20,352,374)	(1,149,825)	701,499	(20,800,700)
Depreciable capital assets, net	45,501,096	11,717,174	(84)	57,218,186
Total capital assets, net	\$ 46,638,902	\$ 11,723,174	\$ (84)	\$ 58,361,992



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

4. CAPITAL ASSETS (CONTINUED)

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, 2022 AND 2021**

**5. LONG-TERM DEBT**

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

	2022	2021
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.	\$ 52,000	\$ 86,000
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.	686,000	1,131,000
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.	184,000	303,000
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.	587,000	969,000
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.	1,665,000	1,946,000
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.	1,596,545	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.	1,030,000	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	5,800,545	6,190,000
Less: current portion	(1,331,000)	(1,631,000)
Long-term portion of debt	<u>\$ 4,469,545</u>	<u>\$ 4,559,000</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, 2022 AND 2021

5. LONG-TERM DEBT (CONTINUED)

	June 30, 2021	Additions	Reductions	June 30, 2022	Amounts due within one year
Bonds payable:					
Sewer System Revenue Bonds, Series 2021A	\$ 355,000	\$ 1,241,545	\$ -	\$ 1,596,545	\$ -
SRF Revenue Bonds, Series 2021B	350,000	-	(350,000)	-	350,000
SRF Revenue Bonds, Series 2021C	1,050,000	-	(20,000)	1,030,000	42,000
SRF Treatment Plant	1,131,000	-	(445,000)	686,000	455,000
SRF Water Meters	86,000	-	(34,000)	52,000	34,000
SRF Water Tank	303,000	-	(119,000)	184,000	122,000
GO Bonds Treatment Plant	969,000	-	(382,000)	587,000	390,000
Improvements	1,946,000	-	(281,000)	1,665,000	288,000
Total bonds payable	6,190,000	1,241,545	(1,631,000)	5,800,545	1,681,000
Compensated absences	145,515	-	-	145,515	-
Net pension liability	336,686	-	-	336,686	-
Total long-term debt	<u>\$ 6,672,201</u>	<u>\$ 1,241,545</u>	<u>\$(1,631,000)</u>	<u>\$ 6,282,746</u>	<u>\$ 1,681,000</u>
	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>



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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5. LONG-TERM DEBT (CONTINUED)

Debt service requirements at June 30, 2022, were as follows.

Year	Principal	Interest	Total
2023	\$ 2,927,545	\$ 56,059	\$ 2,983,604
2024	1,199,000	39,025	1,238,025
2025	345,000	31,300	376,300
2026	353,000	26,639	379,639
2027	360,000	21,860	381,860
2028-2032	408,000	71,210	479,210
2033-2037	280,000	44,030	324,030
2038-2042	283,000	14,390	297,390
	<u>\$ 6,155,545</u>	<u>\$ 304,513</u>	<u>\$ 6,460,058</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, 2022.

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 District as the employer.

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

At June 30, 2022 and 2021, the District had a liability of \$224,637 and \$336,686, respectively, for its proportionate share of the net pension liability. See Note 6 for more information.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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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, 2021, was determined by taking the results of the June 30, 2020, 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, 2022 AND 2021

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2021, and 2020, 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 \$224,637 and the employer's proportionate share was 0.0124 percent.

As of Measurement Date	Net Pension Liability as of June 30, 2021	Net Pension Liability as of June 30, 2020	Percent of Collective NPL as of June 30, 2021	Percent of Collective NPL as of June 30, 2020	Change in Percent of Collective NPL
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 224,637	\$ 336,686	0.0124	0.0128	(0.0004)
State of Montana Proportionate Share associated with Employer	71,529	115,036	0.0039	0.0044	(0.0005)
Total	<u>\$ 296,166</u>	<u>\$ 451,722</u>	<u>0.0163</u>	<u>0.0172</u>	<u>(0.0009)</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 7.34% to 7.06% and (2) the investment rate of return was lowered from 7.34% to 7.06%.

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  
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6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

e. Pension expense

As of Measurement Date	Pension Expense as of June 30, 2021	Pension Expense as of June 30, 2020
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 6,789	\$ 45,394
Employer Grant Revenue - State of Montana Proportionate Share for Employer	17,836	18,813
Total	<u>\$ 24,625</u>	<u>\$ 64,207</u>

At June 30, 2021, the employer recognized \$6,789 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$17,836 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, 2021, 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	\$ 2,397	\$ 1,626
Projected Investment Earnings vs. Actual Investment Earnings	-	91,003
Changes in Assumptions	33,273	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	11,900
Employer Contributions Subsequent to the Measurement Date	76,112	-
Total	<u>\$ 111,782</u>	<u>\$ 104,529</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, 2022 AND 2021

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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
2022	\$ (8,035)
2023	(9,795)
2024	(21,979)
2025	(29,050)
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, 2022 AND 2021

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

Hired on or after July 1, 2011:

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  
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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  
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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
2022	7.9000	7.9000	8.8700	0.1000
2021	7.9000	7.9000	8.7700	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, 2022 AND 2021

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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 \$34,290,660.

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, 2020, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2021. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2021, 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, 2020. Among those assumptions were the following.

- Investment return (net of admin expense) 7.06%
- Admin expense as a % of payroll 0.28%
- 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, 2022 AND 2021

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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 7.06%. 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 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

m. Target Allocations

The long-term rate of return as of June 30, 2021, was calculated using the average long-term capital market assumptions published in the Survey of Capital Market Assumptions 2021 Edition by Horizon Actuarial Service, LLC, yielding a median real return of 4.66%. The assumed inflation is based on the intermediate inflation assumption of 2.40% in the 2021 OASDI Trustees Report used by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.06%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2021, are summarized in the table on the top of the next page.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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, 2021, are summarized below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	3.0000	(0.3300)
Domestic equity	30.0000	5.9000
Foreign equity	17.0000	7.1400
Core Fixed income	15.0000	1.1400
Non-core Fixed Income	6.0000	3.0200
Private equity	15.0000	9.1300
Real Assets	5.0000	4.0300
Real estate	9.0000	5.4100
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 7.06%, 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 (6.06%)	Current Discount Rate	1.0% Increase (8.06%)
Big Sky Co Water & Sewer Dist #363's Net Pension Liability	\$ 356,576	\$ 224,637	\$ 113,970



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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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, 2022 AND 2021

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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, 2021, 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 340 employers that have participants in the PERS-DCRP totaled \$1,103,889.

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 December 15, 2022, the date on which these financial statements were available to be issued.

## REQUIRED SUPPLEMENTARY INFORMATION





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

As of Measurement Date, Year Ended June 30:	Employer's Proportion of NPL (%)	Employer's NPL	State's NPL	Total	Employer's Covered Payroll	Employer's Proportionate Share as a % of Covered Payroll	Plan Fiduciary NPL as a % of TPL
2021	0.0124	\$ 224,637	\$ 71,529	\$ 296,166	\$ 218,833	102.6500	79.9100
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	111.2200	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
2022	\$ 20,778	\$ -	\$ 20,778	\$ -	\$ 231,636	8.9700
2021	19,393	-	19,393	-	218,833	8.8600
2020	18,760	-	18,760	-	214,123	8.7600
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, 2022 AND 2021

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#### 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, 2022 AND 2021

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, 2020 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	0.28%

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, 2022, and the related notes to the financial statements, which collectively comprise Big Sky County Water & Sewer District No. 363's basic financial statements, and have issued our report thereon dated December 15, 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.



Holmes & Turner  
Bozeman, Montana  
December 15, 2022



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2022

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**Current Year Findings:**

None.

**Prior Year Findings:**

None.