

December 19, 2023

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

We have audited the financial statements of Big Sky County Water & Sewer No. 363 (the District) for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 1, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in Note 1p to the financial statements, the District adopted GASBS No. 96 – Subscription-Based Information Technology Arrangements, beginning July 1, 2022. As noted in Note 1p, the District did not have any arrangements that met the definition of a SBITA in excess of 12 months. Therefore, a cumulative adjustment to beginning net position was not necessary. We noted no transactions entered into by the district during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the District's financial statements were:

- Management's estimate of the depreciable lives of capital assets is based on management's expected useful life of the assets. We evaluated the key factors and assumptions used to develop the depreciable lives in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the collectability of accounts receivable is based on management's experience and analysis of these accounts. We evaluated the key factors and assumptions used to assess the collectability of accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached material misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2023.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis and pension schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,



Holmes & Turner
Bozeman, MT

Big Sky County Water & Sewer District No. 363

Year End: June 30, 2023

Report trial balance

Date: 7/1/2022 To 6/30/2023

Number	Date	Name	Account No	Debit	Credit
AJE.01	6/30/2023	Pension Deferred Outflows	1219	13,821.40	
AJE.01	6/30/2023	Pension Defered Inflows	2040	81,583.00	
AJE.01	6/30/2023	Net Pension Liability	2101		88,787.00
AJE.01	6/30/2023	Pension Grant Income	3049		10,556.00
AJE.01	6/30/2023	Public Emp Ret Sys - Employer	5025	1,501.79	
AJE.01	6/30/2023	Public Emp Ret Sys Ex	6030	1,017.73	
AJE.01	6/30/2023	Public Emp Ret Sys Exp	7035	1,419.08	
To record pension adjustments.					
AJE.02	6/30/2023	Other Receivables	1207		30,748.27
AJE.02	6/30/2023	Sewer Wastewater User Charges	3020	30,748.27	
(DO NOT ENTER) To adjust for AR entry made by client during fieldwork.					
AJE.03	6/30/2023	Compensated Absences	2080		23,197.80
AJE.03	6/30/2023	Salaries	5010	11,388.59	
AJE.03	6/30/2023	Salaries	6010	3,188.25	
AJE.03	6/30/2023	Salaries	7010	8,620.96	
To adjust compensated absences balance.					
AJE.04	6/30/2023	Non-Oper Inc Sewer - Other	4040	1,586,348.57	
AJE.04	6/30/2023	Capital grants	4041		1,586,348.57
To reclass capital grants.					
				1,739,637.64	1,739,637.64

Net Income (Loss) 5,433,778.77

11/16/20
2:42 PM

Preparer	Reviewer	2nd Reviewer

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Big Sky County Water & Sewer District No. 363

Year End: June 30, 2023

Reclassifying journal entries

Date: 7/1/2022 To 6/30/2023

Number	Date	Name	Account No	Reference	Debit	Credit	Recurrence	Misstatement
RJE.01	6/30/2023	Current Portion of LT Debt	2090			844,000.00		
RJE.01	6/30/2023	State Revolving Fund SRF-21509	2201		42,000.00			
RJE.01	6/30/2023	SRF Loan # 03097 Trmt.Plnt	2202		231,000.00			
RJE.01	6/30/2023	SRF Loan # N WRF-03045 Water	2203		18,000.00			
RJE.01	6/30/2023	SRF Loan WRF 03050 Water	2204		62,000.00			
RJE.01	6/30/2023	SRF Loan # 04116 Trmt Plnt	2205		197,000.00			
RJE.01	6/30/2023	SRF-Loan WRF-08109 Water	2206		294,000.00			
		To record current portion of LT debt.						
RJE.02	6/30/2023	Due from other governments, current	1500		2,995,335.00			
RJE.02	6/30/2023	WRRF Infrastructure Tax Agreement	1501			2,995,335.00		
		To record current portion of Due from Other Gov.						
					3,839,335.00	3,839,335.00		
Net Income (Loss)			5,433,778.77					

Preparer	Reviewer	2nd Reviewer
MC 11/16/2023		



**BIG SKY COUNTY
WATER & SEWER
DISTRICT NO. 363**

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363

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JUNE 30, 2023 AND 2022

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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, 2023 and 2022 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, 2023 and 2022, 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 4 - 11 and 44 - 47 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 19, 2023, 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 19, 2023

MANAGEMENT DISCUSSION & ANALYSIS

Big Sky County Water & Sewer District
Management Discussion and Analysis
Fiscal Year 7/1/2022 -6/30/2023

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 viewed as a governmental enterprise. The accounting which is the same as a for profit organization apart from 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 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 41.49% in fiscal year 2022-2023. Capital assets net of accumulated depreciation increased from \$58,361,992 to \$82,576,001 including construction in progress. 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 2022-2023 minimum contribution of \$2,852,719. As a result, the District receivable from the BSRAD was reduced to \$18,842,906 at fiscal year-end.

The sewer capital assets, excluding construction in progress, of the District increased from \$36,859,510 to \$37,446,978. The increase was due to the following (approx.):

- \$10,050 effluent flow meter and flume transmitters.
- \$37,123 blower motor and motor reconditioning and prominent analyzer.
- \$115,602 on sewer manhole replacements and sewer line lining equipment.
- \$9,335 on an irrigation bypass for the golf course.
- \$36,200 variable frequency drive pumps for the filter building.
- \$69,077 new sewer truck.
- \$12,879 new computers
- \$262,440 new sewer extensions
- \$62,000 engineering for new effluent booster station.

The District continues to recognize the Search and Rescue Building on the books of the District. The District added another \$6,000 in fiscal year 2022-2023. There is an agreement with 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 \$23,773,410 to \$24,159,256. The increase was due to the following (approx.):

- \$27,450 on mountain wells.
- \$15,195 on booster station pumps.
- \$218,027 on water transmission lines.
- \$21,023 on fire hydrants.
- \$10,067 on new computers.
- \$115,310 on water meters.
- \$21,666 on main line replacements.

The total long-term liabilities with the existing State Revolving Fund loans of both systems increased from \$5,800,545 to \$24,203,934 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 paid off four of the State Revolving Fund loans on July 1, 2023. The remaining three loans, one for the drinking water project will be paid off in July of 2027, the other two 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 standards, 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 2022-2023 the District updated the Net Pension Liability (NPL) from \$224,637 to \$313,424. This amount represents the District's share of the actuarial unfunded liabilities of the pension system in which the District employees participate. Although \$313,424 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 2022-2023 GASB 68 reporting requirements increased the net pension liability by \$88,787 and increased the current year pension expense by \$3,938.60. 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 168.80% due primarily to the new debt incurred for the new treatment plant. The current liabilities of the District increased from \$6,986,361 to \$7,916,653. The accounts payable and accrued expenses increased from \$2,009,833 to \$2,197,613. The District's Performance bonds and retainage payable increased from \$3,645,528 to \$4,875,040 and the current portion of the long-term liabilities decreased from \$1,331,000 to \$844,000.

The accounts payable increase was due primarily to larger expenses associated with the new treatment plant costs at the fiscal year-end. The increase in the performance bonds and retainage payable was due to the increase in the retainage on the new plant construction project. The decrease in the current portion of long-term liabilities was due to the payoff of the State Revolving Fund Loans.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
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%	\$11,808.569	11.20%
2022-2023	\$119,015,731	23.21%	\$31,741,235	168.80%

Operating Revenue/Non-Operating Revenue

The total operating revenues of the District increased from \$4,025,910 to \$4,149,243. The total sewer operating revenue increased from \$2,263,395 to \$2,400,357. The total water operating revenue decreased from \$1,762,515 to \$1,748,886. The sewer operating revenue increase was due to the 5% rate increase effective 7/1/2022 and a slight increase in sewer usage. The decrease in water operating revenue was due to a decrease in usage during the summer irrigation period. Water usage was down by approximately 5.1% from the prior period irrigation period. Sewer usage was up approximately 0.65% from the prior fiscal year. The sewer system had an additional one hundred and twenty-two hookups representing an increase of approximately 3.74% in sewer hookups. The water department had an additional one hundred and one hookups representing an increase of approximately 3.11% 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 only the sixth 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 decreased from \$5,550,086 to \$4,329,400. The District collected \$1,301,102 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 \$2,852,719 for the new treatment plant for total tax receipts of \$4,153,821. Plant investment fees decreased from \$852,177 to \$257,015 due to a decrease in the number of single-family equivalents (SFE’s) on the submitted sewer permits for which the District booked sewer plant investment charges due the District in the fiscal year. The water system investment charges decreased from \$246,754 to \$67,338 for the same reason as the sewer system decrease. Interest income increased from \$44,386 to \$275,078 due to the dramatic increase in interest rates during the fiscal year.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
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%**
2022-2023	\$8,996,689	-7.65%*	\$5,417,698	7.67%

*Increase due to the BSRAD Contribution of 20-21 \$2,587,500, 21-22 \$2,716,875, 22-23 \$2,852,719.

**Increase primarily due to both legal fees for Cottonwood Environmental Lawsuit and the costs to issue the bonds for the new treatment plant. Legal fees in 2020-21 \$383,728, 2021-22 \$1,093,176, 2022-23 \$451,378

Operating Expenses/Non-Operating Expenses

The total operating expense for the District increased from \$4,865,599 to \$4,899,652. The total general and administrative expenses decreased from \$1,763,430 to \$1,339,135. The total sewer general and administrative expense increased from \$321,833 to \$389,222. Total sewer operation expense increased from \$1,466,761 to \$1,677,941. The total water general and administrative expense increased from \$421,943 to \$520,822. The total water operating expense increased from \$891,632 to \$972,532. The total operating expense increased \$34,053 from last fiscal year, a 0.70% increase. The increase in operating expenses is due primarily to general price inflation and repairs and maintenance on both the water system and sewer system. In the non-operating expense category, the main item is the interest expense on the State Revolving Fund Loans and the new First Security Bank loan for the new treatment plant. In fiscal year 2022-2023, the District made principal payments on the State Revolving Fund Loans in the amount of \$1,331,000 with total payments amounting to \$1,420,198.75. The District paid \$89,198.75 in interest on those loans. The First Security Loan for the new treatment plant is interest only on the outstanding balance until construction close out. The District paid \$363,008.17 in fiscal 2022-2023 to First Security Bank in interest only payments.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
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%
2022-2023	\$4,149,243	3.06%	\$4,899,652	0.70%

Capital Assets

The District accepted two sewer extensions. One on the mountain for the Big Sky Employee Housing Project next to Lake Levinsky and the other in Spanish Peaks Resort for the Montage Resort. 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 a 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 two sewer extensions added \$262,440 in capital assets as well as non-operating income in fiscal 2022-2023. 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, 2023, was \$68,534,248. The total amount includes \$58,372,067 invested in capital assets, net of related debt, \$6,886,714 in unrestricted assets which includes cash, and \$3,275,467 restricted cash for debt service and other restricted cash. 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 \$5,433,780 due to more assets added than the debt reduction and asset depreciation. The unrestricted portion increased by \$2,580,006 due primarily to cash put into the new sewer treatment plant project. The restricted for debt service category decreased from \$3,647,768 to \$3,275,467 due to additional funds moved out of 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 2022-2023. The project schedule was delayed by approximately one year. There still has been 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 2024 now.

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 has implemented 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. The updated fees appear to be working as designed by the engineer.

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 2022-2023 water operating revenues were insufficient to cover operating expenses. The water department had an operating loss of \$414,036. The sewer operating revenues were insufficient to cover sewer operating expenses as well. The sewer department had an operating loss of \$336,374. Water operating revenue decreased by 0.77% and sewer operating revenue increased by 6.05%. The operating expenses increased by 0.70% leaving a total deficit of \$750,409 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 2022-2023. 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 will start as of July 1, 2023.

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%
2022-2023	\$19.38	5%	\$3.29**	5%	\$31.11	5%	\$7.58**	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: 2022 \$3.29, \$4.92, \$6.90, and \$9.66. Commercial 0-30,000 gallons, 30,000 to 60,000 gallons, 60,000 to 80,000 gallons, 80,000 gallons and above as follows: 2022 \$3.29, \$4.92, \$6.90, and \$9.66. Irrigation 0-20,000 gallons, 20,000 to 40,000 gallons, 40,000 gallons and above as follows: 2022 \$4.92, \$6.90, and \$9.66. Reuse usage will begin in fiscal 2023-2024 at \$1.00 for each thousand gallons used. The sewer commercial usage rate is \$7.95 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 2022-2023 at year-end had total revenues 116.49% of budget, total expenses 112.98% of budget and total net revenue 120.21% of budget. The District booked \$6,000 for the Search and Rescue building accrual. The District booked \$268,440 in developer contributions. Income before developer contributions was \$3,578,991.

The operating revenues were at 93.38% of the budget and operating expenses were at 105.65% of budget. As a result, there was a \$750,409 operating deficit. The District budget for 2022-2023 projected operating loss of \$194,229. The reasons for the deficit were a combination of lower revenues than budgeted and higher costs on the sewer plant operations and legal costs than budgeted. Administrative expenses for general administration were 109.05% of the budget. The District spent approximately \$374,262 in legal fees defending the District in 2022-2023 from the lawsuits from Cottonwood Environmental Law Center. 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 93.73% of the budget and 80.82% of budget respectively. The sewer operations expense was 118.63% of the budget. The water operations expense was 101.54% of the 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 132.44% of budget. The cost of fuel, which increased over the fiscal year and repairs and maintenance on the vehicle fleet was the cause of overage. In the sewer plant operations expense category operating expenses were 115.50% of the budget. The District used more propane and electric power than was budgeted. The new plant construction and associated activities around the existing plant contributed to both the higher propane and electric usage at the existing plant. In addition, the District spent more on both lab equipment and supplies and compost supplies. In the sewer plant operations expense category repairs and maintenance was 153.79% of budget. There were six-line items that made up a majority of the overage; sewer repairs/maintenance,

treatment plant repairs/maintenance, filter building repair/maintenance, pond blowers/pond maintenance and irrigation maintenance. Staff performed more maintenance and repairs on the sewer system, sewer treatment plant, pond blowers, and the irrigation system than budgeted. In the sewer professional service category 526.40% of the budget. The District engaged AE2S in additional engineering services that were not budgeted. In the special projects section, the District rented two large pumping systems to pump water from the ponds. As a result, the overall sewer budget was outside the budgetary tolerance of plus or minus five percent at 118.63% of budget.

The water department operations were within budget tolerance in all categories except vehicles, repairs and maintenance and professional services and special projects. In the vehicles category there were more repairs to the fleet than budgeted. In the repairs and maintenance category, which was at 109.09% of budget, the pressure reducing valves(prv's) maintenance line item was not budgeted for adequately. In the special projects category, the replacement of parts were not put in the budget. However, the overall water budget was within budgetary tolerance of plus or minus five percent at 101.54% of budget.

Total non-operating revenues were at 132.02% of budget and non-operating expenses were at 327.88% of budget. The combined water and sewer tax receipts from both Madison and Gallatin County were within budget tolerance. Interest rates rose dramatically during fiscal 2022-2023. As a result, the District earned \$275,078 in interest but had only budgeted \$55,200. The sewer plant investment fee category was budgeted at \$400,000 however, \$257,015 was collected. The water system investment fee category was budgeted at \$150,000 however, \$67,338 was collected. The District also received a \$2,000,000 Federal Grant under the American Rescue Plan Act (ARPA). The District received \$1,604,392 on the grant in 2022-2023. The remaining funds will be awarded in 2023-2024. The ARPA funds were accounted for under the capital contributions on the District financial statements. The District budgeted \$150,000 in developer capital contributions; however, two extensions were contributed in the amount of \$268,440. The water SRF debt service interest costs were overestimated and came in at 87.48% of the budget. The sewer SRF debt service interest costs were overestimated and came in at 80.35% of budget. The First Security Debt Service was not budgeted and was the major reason for the underestimate in non-operating expenses. The other items in the non-operating revenue and expense that were not budgeted include the pass-through revenues and expenses for the Galatin River Task force. The District uses its status as a governmental entity to assist the Gallatin River Task Force in obtaining federal grants for water conservation projects. The revenues and expenses are accounted for in the non-operating revenue and expense section of the District's financial statements.

State Revolving Fund Debt/Other Debt

The District had a total of six State Revolving Fund Loans remaining with an outstanding balance at fiscal year-end of \$2,873,000 including the current portion of the long-term debt. 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 \$20,089,399 from that loan in 2022-2023. The total balance on the FSB loan at fiscal year-end was \$21,330,934. The principal source for SRF 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 Districts current financial position is stable. There are no significant facts, decisions or conditions that are expected to have a significant effect on the financial position of the District or results of water and sewer operations and services.

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 STATEMENTS OF NET POSITION
 JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,629,483	\$ 11,733,102
Investments	6,704,248	885
Accounts receivable, net	1,009,812	844,337
Prepaid expenses	53,085	18,149
Water meter inventory	453,093	295,551
Due from other government, current	2,995,335	2,852,719
Total current assets	16,845,056	15,744,743
Noncurrent assets		
Restricted cash and cash equivalents	3,747,103	3,647,768
Due from other government, noncurrent	15,847,571	18,842,906
Nondepreciable capital assets	42,151,795	17,793,382
Depreciable capital assets, net	40,424,206	40,568,610
Total noncurrent assets	102,170,675	80,852,666
Total assets	119,015,731	96,597,409
DEFERRED OUTFLOWS OF RESOURCES		
Montana Public Employees Retirement System	\$ 125,604	\$ 111,782

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, 2023 AND 2022

	2023	2022
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,197,613	\$ 2,009,833
Performance bonds and retainage payable	4,875,040	3,645,528
Current portion of long-term liabilities	844,000	1,331,000
Total current liabilities	7,916,653	6,986,361
Long-term liabilities		
Compensated absences payable	151,224	128,026
Net pension liability	313,424	224,637
General obligation bonds	1,083,000	1,885,000
Sewer system revenue bonds	22,276,934	2,584,545
Total long-term liabilities	23,824,582	4,822,208
Total liabilities	31,741,235	11,808,569
DEFERRED INFLOWS OF RESOURCES		
Montana Public Employees Retirement System	22,946	104,529
Infrastructure tax agreement	18,842,906	21,695,625
Total deferred inflows of resources	18,865,852	21,800,154
NET POSITION		
Net investment in capital assets	58,372,067	55,145,992
Unrestricted	6,886,714	4,306,708
Restricted	3,275,467	3,647,768
Total net position	\$ 68,534,248	\$ 63,100,468

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, 2023 AND 2022

	2023	2022
OPERATING REVENUE		
Sewer services	\$ 2,400,357	\$ 2,263,395
Water services	1,748,886	1,762,515
Total operating revenue	4,149,243	4,025,910
OPERATING EXPENSES		
General and administrative		
Advertising	280	26
Dues and subscriptions	3,025	3,223
Education expenses	2,312	3,264
Insurance	251,782	153,503
Janitorial and carpet services	3,896	3,317
Meetings	11,418	7,429
Miscellaneous	3,823	7,883
Office building repair and maintenance	6,485	3,876
Office supplies and expenses	35,339	28,334
Payroll taxes and benefits	64,452	49,893
Professional fees	525,265	1,162,712
Telephone and computer maintenance	54,155	44,650
Salaries	363,778	286,868
Utilities	6,894	5,431
Vehicle expenses	6,231	3,021
Total general and administrative	\$ 1,339,135	\$ 1,763,430

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, 2023 AND 2022

	2023	2022
OPERATING EXPENSES (CONTINUED)		
Sewer general and administrative		
Salaries and wages	\$ 252,164	\$ 212,243
Insurance	83,894	64,891
Payroll taxes and benefits	43,803	34,367
Dues and subscriptions	1,210	887
Telephone	5,166	5,486
Office supplies	595	2,363
Education expense	2,390	1,596
Total sewer general and administrative	389,222	321,833
Sewer plant expenses		
Chemicals	68,382	117,571
Depreciation	690,291	685,390
Engineering	134,232	27,639
Fuel - equipment and vehicles	13,530	13,872
Lab testing equipment	5,013	6,994
Maintenance and repairs - building and grounds	92,245	102,597
Miscellaneous	9,737	1,987
Safety equipment	1,498	935
Sewer repairs and maintenance	126,066	81,556
Special projects	20,000	-
Treatment plant repairs and maintenance	29,694	51,288
Electric and utilities	400,004	305,306
Travel and vehicle expense	24,432	9,963
Waste water monitoring	62,817	61,663
Total sewer plant expenses	\$ 1,677,941	\$ 1,466,761

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, 2023 AND 2022

	2023	2022
OPERATING EXPENSES (CONTINUED)		
Water general and administrative		
Salaries and wages	\$ 354,919	\$ 285,006
Insurance	85,941	66,917
Payroll taxes and benefits	61,900	48,281
Dues and subscriptions	2,630	1,980
Telephone	7,329	7,475
Office supplies	-	425
Education expense	3,227	7,431
Public water supply fee	4,876	4,428
Total water general and administrative	520,822	421,943
Water plant expenses		
Depreciation	455,378	464,435
Fuel - equipment and vehicles	17,885	15,071
Lab testing equipment	8,214	3,414
Miscellaneous	1,239	559
Professional services	4,817	-
Repairs and maintenance	187,457	172,998
Special projects	98,245	75,926
Safety equipment	816	754
Electric and utilities	175,519	147,980
Travel and vehicle expense	22,962	10,495
Total water plant expenses	972,532	891,632
Total operating expenses	4,899,652	4,865,599
Operating income (loss)	\$ (750,409)	\$ (839,689)

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, 2023 AND 2022

	2023	2022
NONOPERATING REVENUES AND (EXPENSES)		
Interest expense	\$ (437,376)	\$ (117,837)
Other nonoperating expense	(80,670)	(48,506)
Tax receipts for bond payments	4,153,821	4,109,452
Plant investment charges	257,015	852,177
Water system investment charges	67,338	246,754
Interest income	275,078	44,386
Other nonoperating revenue	94,194	463,660
Total nonoperating revenues and (expenses)	4,329,400	5,550,086
Income before contributions	3,578,991	4,710,397
Capital contributions	1,854,789	6,000
Increase (decrease) in net position	5,433,780	4,716,397
Net position, beginning of year	63,100,468	58,384,071
Net position, end of year	\$ 68,534,248	\$ 63,100,468

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, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 3,935,010	\$ 4,204,202
Payments to suppliers and employees	(3,693,345)	(3,088,213)
Net cash flows from operating activities	241,665	1,115,989
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on capital debt	(1,331,000)	(1,631,000)
Cash received from bond issuance	19,734,389	1,241,545
Purchases of capital assets	(25,090,523)	(12,866,999)
Proceeds from sales of capital assets	500	-
Interest paid on capital debt	(437,376)	(117,837)
Taxes collected for bond payments	1,301,102	1,392,577
Infrastructure tax for WRRF project	2,852,719	2,716,875
Proceeds from capital grants	1,586,349	-
Other receipts (payments)	336,663	1,514,169
Net cash flows from capital and related financing activities	(1,047,177)	(7,750,670)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest	275,078	44,386
Proceeds from performance bonds and fees	1,229,512	837,431
Purchases of investments	(6,703,362)	(163)
Sales of investments	-	408,000
Net cash flows from investing activities	(5,198,772)	1,289,654
Net increase (decrease) in cash	(6,004,284)	(5,345,027)
Cash and cash equivalents, beginning of year	15,380,870	20,725,897
Cash and cash equivalents, end of year	9,376,586	15,380,870
CASH AND CASH EQUIVALENTS AS PRESENTED ON THE STATEMENT OF NET POSITION		
Cash and cash equivalents	5,629,483	11,733,102
Restricted cash and cash equivalents	3,747,103	3,647,768
Total	\$ 9,376,586	\$ 15,380,870

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, 2023 AND 2022

	2023	2022
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (750,409)	\$ (839,689)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,145,669	1,149,825
(Increase) decrease in current assets:		
Accounts receivable	(165,475)	23,893
Prepaid expenses	(34,936)	114,265
Inventory	(157,542)	(190,570)
Deferred outflows of resources	(13,822)	11,680
Due from other governments	2,852,719	2,745,329
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	187,778	870,455
Compensated absences payable	23,198	(17,488)
Water reserve payable	-	(112,049)
Net pension liability	88,787	(2,639,662)
Deferred inflows of resources	(2,934,302)	-
Net cash flows from operating activities	\$ 241,665	\$ 1,115,989
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest in building	\$ 6,000	\$ 6,000
Water and Sewer Extensions	262,440	-
Total	\$ 268,440	\$ 6,000

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

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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, 2023 AND 2022

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, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Restricted Cash

	2023	2022
WRRF Fund	\$ 3,092	\$ 2,830
Debt Service	569,326	608,795
SRF Construction MMA	3,160	3,157
Performance bonds and retainage	3,171,525	3,032,986
Total restricted cash	\$ 3,747,103	\$ 3,647,768

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.

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.

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Compensated Absences

Employees accrue vacation time at 10 hours per month (increasing to 12 hours per month after 10 years of service and up to 16 hours per month after 21 years of service) and sick leave at 8 hours per month. Upon termination, unused sick time is paid at 25%. Unused vacation may not be accrued beyond two times the annual amount. Excess time must be used within 90 days of the next calendar year or be forfeited.

k. Net Position

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

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, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Tax Revenue (Continued)

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

m. Budget

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

n. Use of Estimates

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

o. Tax Exempt Status

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

p. New Accounting Pronouncements

i. GASB Statement No. 96

During the year the District implemented GASBS No. 96 - Subscription-Based Information Technology Arrangements. The statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources. As of June 30, 2023, the District only had short-term SBITAs and, therefore, did not account for SBITAs as explained in the paragraph above.

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

2. CASH AND INVESTMENTS

As of June 30, 2023 and June 30, 2022, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$9,376,586 and \$15,380,870, respectively. The bank balance as of June 30, 2023 and June 30, 2022 was \$9,643,923 and \$16,964,096, 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, 2023, 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, 2023 and June 30, 2022 was \$6,704,248 and \$885.

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2023:

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, 2023 and 2022 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 2023 are disclosed in STIP's financial statements. An unaudited copy of the STIP fiscal year 2023 financial statements is available online at the Montana Board of Investments' website.

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%

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

3. DUE FROM OTHER GOVERNMENTS (CONTINUED)

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
2024	\$ 2,995,335
2025	3,145,122
2026	3,302,379
2027	3,467,497
2028	3,640,872
Thereafter	2,291,701
Total	\$ 18,842,906

During the year ended June 30, 2023, the RAD paid the minimum annual contribution of \$2,582,719. The total remaining balance due at year end was \$18,842,906 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, 2023, 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, 2023 AND 2022

4. CAPITAL ASSETS

Capital assets for the year ended June 30, 2023:

	Balance			Balance
	June 30, 2022	Additions	Disposals	June 30, 2023
Nondepreciable capital assets:				
Land	\$ 1,085,689	\$ 6,000	\$ -	\$ 1,091,689
Land improvements	58,117	-	-	58,117
Construction in progress	16,649,576	24,352,413	-	41,001,989
Total nondepreciable capital assets	17,793,382	24,358,413	-	42,151,795
Depreciable capital assets:				
Buildings	736,390	-	-	736,390
Sewer infrastructure	36,859,510	590,468	-	37,449,978
Water infrastructure	23,773,410	385,846	-	24,159,256
Total depreciable capital assets	61,369,310	976,314	-	62,345,624
Accumulated depreciation	(20,800,700)	(1,120,718)	-	(21,921,418)
Depreciable capital assets, net	40,568,610	(144,404)	-	40,424,206
Total capital assets, net	\$ 58,361,992	\$ 24,214,009	\$ -	\$ 82,576,001

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

4. CAPITAL ASSETS (CONTINUED)

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
Construction in progress	4,452,366	12,197,210	-	16,649,576
Total nondepreciable capital assets	<u>5,590,172</u>	<u>12,203,210</u>	<u>-</u>	<u>17,793,382</u>
Depreciable capital assets:				
Buildings	736,390	-	-	736,390
Sewer infrastructure	37,217,734	92,202	(450,425)	36,859,511
Water infrastructure	23,446,980	577,587	(251,158)	23,773,409
Total depreciable capital assets	61,401,104	669,789	(701,583)	61,369,310
Accumulated depreciation	<u>(20,352,374)</u>	<u>(1,149,825)</u>	<u>701,499</u>	<u>(20,800,700)</u>
Depreciable capital assets, net	<u>41,048,730</u>	<u>(480,036)</u>	<u>(84)</u>	<u>40,568,610</u>
Total capital assets, net	<u>\$ 46,638,902</u>	<u>\$ 11,723,174</u>	<u>\$ (84)</u>	<u>\$ 58,361,992</u>

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

5. LONG-TERM DEBT

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

	2023	2022
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.	\$ 18,000	\$ 52,000
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.	231,000	686,000
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.	62,000	184,000
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.	197,000	587,000
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.	1,377,000	1,665,000
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, 2024 ("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.	21,330,934	1,596,545
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.	988,000	1,030,000
Total long-term debt	24,203,934	5,800,545
Less: current portion	(844,000)	(1,331,000)
Long-term portion of debt	\$ 23,359,934	\$ 4,469,545

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.

The Series 2021A bond was amended to extend the construction period from December 1, 2023 to December 1, 2024. Since this bond is still in the draw-down phase of the construction period, an amortization schedule has not been agreed-upon between the District and the Holder. As a result, the debt service for this bond is not presented in the debt service maturity table below.

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

5. LONG-TERM DEBT (CONTINUED)

	June 30, 2022	Additions	Reductions	June 30, 2023	Amounts due within one year
Bonds payable:					
Sewer System Revenue Bonds, Series 2021A	\$ 1,596,545	\$ 19,734,389	\$ -	\$ 21,330,934	\$ -
SRF Revenue Bonds, Series 2021C	1,030,000	-	(42,000)	988,000	42,000
SRF Treatment Plant	686,000	-	(455,000)	231,000	231,000
SRF Water Meters	52,000	-	(34,000)	18,000	18,000
SRF Water Tank	184,000	-	(122,000)	62,000	62,000
GO Bonds Treatment Plant	587,000	-	(390,000)	197,000	197,000
Improvements	1,665,000	-	(288,000)	1,377,000	294,000
Total bonds payable	5,800,545	19,734,389	(1,331,000)	24,203,934	844,000
Compensated absences	128,026	23,198	-	151,224	-
Net pension liability	224,637	88,787	-	313,424	-
Total long-term debt	<u>\$ 6,153,208</u>	<u>\$ 19,846,374</u>	<u>\$ (1,331,000)</u>	<u>\$ 24,668,582</u>	<u>\$ 844,000</u>

	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)	-	-
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	1,331,000
Compensated absences	145,515	-	(17,489)	128,026	-
Net pension liability	336,686	-	(112,049)	224,637	-
Total long-term debt	<u>\$ 6,672,201</u>	<u>\$ 1,241,545</u>	<u>\$ (1,760,538)</u>	<u>\$ 6,153,208</u>	<u>\$ 1,331,000</u>

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

5. LONG-TERM DEBT (CONTINUED)

Debt service requirements at June 30, 2023, were as follows.

Year	Principal	Interest	Total
2024	\$ 844,000	\$ 39,025	\$ 883,025
2025	345,000	31,300	376,300
2026	353,000	26,639	379,639
2027	360,000	21,860	381,860
2028	207,000	16,990	223,990
2029-2033	254,000	65,220	319,220
2034-2038	287,000	38,390	325,390
2039-2043	223,000	9,030	232,030
	<u>\$ 2,873,000</u>	<u>\$ 248,454</u>	<u>\$ 3,121,454</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, 2023.

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, 2023 and 2022, the District had a liability of \$313,424 and \$224,637, 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, 2023 AND 2022

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, 2023 AND 2022

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2022, and 2021, 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 \$313,424 and the employer's proportionate share was 0.0132 percent.

As of Measurement Date	Net Pension Liability as of June 30, 2022	Net Pension Liability as of June 30, 2021	Percent of Collective NPL as of June 30, 2022	Percent of Collective NPL as of June 30, 2021	Change in Percent of Collective NPL
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 313,424	\$ 224,637	0.0132	0.0124	0.0008
State of Montana Proportionate Share associated with Employer	101,846	71,529	0.0043	0.0039	0.0004
Total	<u>\$ 415,270</u>	<u>\$ 296,166</u>	<u>0.0175</u>	<u>0.0163</u>	<u>0.0012</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 7.06% to 7.30%; (2) the investment rate of return was increased from 7.06% to 7.30%; (3) Updated all mortality tables to the PUB2010 tables for general employees; (4) Updated the rates of withdrawal, retirement, and disability; (5) Lowered the payroll growth assumption from 3.50% to 3.25%; and (6) The inflation rate was increased from 2.40% to 2.75%.

c. Changes in benefit terms:

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

d. Changes in proportionate share:

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

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

e. Pension expense

As of Measurement Date	Pension Expense as of June 30, 2022	Pension Expense as of June 30, 2021
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 29,397	\$ 6,789
Employer Grant Revenue - State of Montana Proportionate Share for Employer	10,556	17,836
Total	<u>\$ 39,953</u>	<u>\$ 24,625</u>

At June 30, 2022, the employer recognized \$29,397 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$10,556 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, 2022, 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	\$ 3,996	\$ -
Projected Investment Earnings vs. Actual Investment Earnings	9,211	-
Changes in Assumptions	11,680	22,946
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	9,191	-
Employer Contributions Subsequent to the Measurement Date	91,526	-
Total	<u>\$ 125,604</u>	<u>\$ 22,946</u>

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

For the Measurement Year Ended June 30:	Recognition of Deferred Inflows in Future years as an increase or (decrease) to Pension Expense
2023	\$ 6,619
2024	(6,524)

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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
2025	(9,935)
2026	20,972
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, 2023 AND 2022

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

h. Summary of Benefits

i. Eligibility for benefit

Service retirement:

Hire prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hire prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

ii. Vesting

5 years of membership service..

iii. Member's highest average compensation (HAC)

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

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

h. Summary of Benefits (Continued)

iv. Compensation Cap

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

v. Monthly benefit formula

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

vi. Guaranteed Annual Benefit Adjustment (GABA)

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

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

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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
2023	7.9000	7.9000	8.9700	0.1000
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, 2023 AND 2022

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 \$34,633,570.

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, 2021, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2022. There were several significant assumptions and other inputs used to measure the TPL. Among those assumptions were the following.

- Investment return (net of admin expense) 7.30%
- Admin expense as a % of payroll 0.28%
- General wage growth * 3.50%
- *Includes inflation at 2.75%
- 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%;
 - 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 active participants were based on PUB-2010 General Amount Weighted Employer Mortality projected to 2021 for males and females. Projected generationally using MP-2021.
- Mortality assumptions among disabled retirees were based on PUB-2010 General Amount Weighted Disabled Retiree Mortality Table, projected to 2021, set forward one year for

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

k. Actuarial Assumptions (Continued)

both males and females.

- Mortality assumptions among contingent survivors were based on PUB-2010 General Amount Weighted Contingent Survivor Mortality projected to 2021 with ages set forward one year for males and females. Projected generationally using MP-2021.
- Mortality assumptions among Healthy Retirees were based on PUB-2010 General Amount Weighted Healthy Retiree Mortality Table projected to 2021, with ages set forward one year and adjusted 104% for males and 103% for females. Projected generationally using MP-2021.

l. Discount Rate

The discount rate used to measure the TPL was 7.30%. 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 expected rate of return on pension plan investments is reviewed as part of regular experience studies prepared for the plan about every five years. The long-term rate of return as of June 30, 2022, is based on analysis in the experience study report dated May 2, 2022 without consideration for the administrative expense analysis shown. Several factors are considered in evaluating the long-term rate of return assumption including long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption intended to be long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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, 2022, 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
International equity	17.0000	7.1400
Core Fixed income	15.0000	1.1400
Non-core Fixed Income	6.0000	3.0200
Private investments	15.0000	9.1300
Real Assets	5.0000	4.0300
Real estate	9.0000	5.4100
Total	<u>100.0000 %</u>	

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 7.30%, 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 (6.30%)	Current Discount Rate	1.0% Increase (8.30%)
Big Sky Co Water & Sewer Dist #363's Net Pension Liability	\$ 451,815	\$ 313,424	\$ 197,315

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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, 2023 AND 2022

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, 2022, 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 344 employers that have participants in the PERS-DCRP totaled \$1,681,603.

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 19, 2023, 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
2022	0.0132	\$ 313,424	\$ 101,846	\$ 415,270	\$ 231,636	135.3100	73.6600
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
2023	\$ 30,017	\$ -	\$ 30,017	\$ -	\$ 334,640	8.9700
2022	20,601	-	20,601	-	231,636	8.8900
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, 2023 AND 2022

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, 2023 AND 2022

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, 2021 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	0.29%

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, 2023, 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 19, 2023.

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 19, 2023

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2023

Current Year Findings:

None.

Prior Year Findings:

None.