

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363

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CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Big Sky County Water and Sewer District No. 363, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Big Sky County Water and Sewer District No. 363, as of June 30, 2014 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014, on our consideration of Big Sky County Water and Sewer District No. 363's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Sky County Water and Sewer District No. 363's internal control over financial reporting and compliance.

Holmes & Turner

November 18, 2014

Management Discussion and Analysis
Fiscal Year 7/1/2013 - 6/30/2014

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 2,700 water and sewer customers located within the District. The District serves customer properties starting in the Meadow Village area of Big Sky within Gallatin County and extends to the Big Sky Ski Area in Big Sky within Madison County. The difference in elevation of the properties that the District serves creates unique challenges and opportunities for the Big Sky County Water & Sewer District 363.

The Big Sky County Water & Sewer District 363 is accounted for as a governmental enterprise. As a result, the accounting is much the same as a for profit organization with the exception of state and federal income tax. The District is tax exempt. The basic financial statements produced by the District include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets 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 assets contains the assets, liabilities, and fund equity. The statement of revenues, expenses, and changes in fund net assets contain the detail of revenue sources and the detail of where the revenue was expended to provide the water and sewer services to the District as well as the beginning net assets and end of year net assets total. The statement of cash flows provides the detail of cash sources and uses for operating activities, capital and related financing activities, and investing activities.

Assets/Liabilities

The total net fixed assets of the District decreased by 1.34% in fiscal year 2013-2014. This was due to capital assets net of accumulated depreciation decreasing from \$41,694,838 to \$41,136,036. The District added new capital assets to the asset base but the amounts added did not exceed the depreciation expense of existing assets. In addition, no new developer water or sewer mains were added to the District's asset base. The sewer capital assets of the District decreased from \$35,259,140 to \$35,255,972. The District spent approximately \$149,000 replacing a section of sewer on Spotted Elk Road. The District replaced approximately \$23,300 worth of equipment and parts in the Filter Plant. The District replaced approximately \$28,200 in manholes and manhole parts. The District replaced the pumps for the force main line costing approximately \$80,000. The District also recognized the Search and Rescue Building on the books of the District in the amount of \$23,000. There is an agreement with the Big Sky Search and Rescue stipulating the circumstances under which the building may eventually revert to the District. However, the District anticipates this to be a perpetual agreement as long as the Big Sky Search and Rescue operates out of the current building. The District retired various obsolete sewer assets in the amount of approximately \$179,000. The water capital assets increased from \$18,695,438 to \$18,792,468. The District spent \$5,000 to upgrade the landscaping around the mountain water shop building. The District spent \$14,500 on new telemetry equipment for the water system. The District replaced a pressure reducing vault and valves on the Cascade Subdivision costing approximately \$59,300. The District replaced telemetry equipment costing approximately \$4,000. The District spent 44,600 in construction and related costs for the new Spotted Elk Pump House, which will be used for the two new wells 4 and 5 as well as the existing wells. The District installed \$52,300 in water meter equipment. The District retired various obsolete water assets in the amount of approximately \$45,000. The District's other asset category remained at \$97,800 which is a note receivable from Farmhouse Partners for Plant Investment Fees.

The total long-term liabilities associated with the existing State Revolving Fund Loans of both systems decreased from \$13,709,000 to \$12,529,000. The District uses low interest rate loans from the State Revolving Loan Program to finance both water and sewer projects. In July of 2013 the District refinanced the three water loans through the State Revolving Loan Program at 2.00% and 2.25%. The sewer loans were refinanced in prior fiscal year at 2.25%. The total liabilities of the District decreased 8.00% due primarily to debt service principal payments. The current liabilities of the District increased from \$2,178,194 to \$2,225,630 which includes a decrease in accounts payable to \$202,817 from \$207,377 an increase in performance bonds and retainage payable from \$774,420 to \$792,883 a decrease in water reserve payable from \$97,924 to \$51,066 and the increase in the current portion of long-term debt from \$1,098,473 to \$1,178,864 at 6/30/2014.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
2009-2010	\$55,644,784	7.11%	\$18,950,880	-1.26%
2010-2011	\$55,327,031	-0.57%	\$17,695,607	-6.92%
2011-2012	\$55,125,201	-0.36%	\$16,350,775	-7.60%
2012-2013	\$54,868,959	-0.46%	\$14,968,943	-8.45%
2013-2014	\$54,617,927	-0.46%	\$13,771,430	-8.00%

Operating Revenue/Non-Operating Revenue

The total operating revenues of the District increased to \$2,582,750 from \$2,425,897. The total sewer operating revenue increased to \$1,349,444 from \$1,313,535. The total water operating revenue increased to \$1,233,306 from \$1,112,362. Both the water operating revenue increase and sewer operating revenue increase were due to two factors. The first is the 1% rate increase across the rate schedule. The second is an increase in usage. Water had a slight increase of 0.52% and sewer had a 5.76% increase over the prior fiscal year. The District has a plant investment charge on the sewer plant but no plant investment charge on the water system. The total non-operating revenue includes plant investment charges, interest income, tax receipts for bond payments and Resort Tax allocations. The Total non-operating revenue, net of interest expenses and other non-operating expenses of the District decreased to \$966,057 from \$1,037,174. The decrease is primarily due to the reduction in debt service funding by the Big Sky Area Resort Tax. As a result, the District received \$250,000 less in debt service then the prior fiscal year. The District collected \$1,057,736 in general obligation bond tax receipts for payments on the State Revolving Fund Loans used to finance the water tank, water meters, two water system rehabilitation projects including(Hidden Village and Silverbow Condominiums), new Meadow Village water wells 4 & 5, and the new sewer treatment plant. The tax receipts decreased slightly due to the refinance of the loans requiring a slightly lower tax levy in August of 2013.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
2009-2010	\$4,743,019	9.33%	\$3,095,370	-0.66%
2010-2011	\$3,986,600	-15.95%	\$3,049,081	-1.51%
2011-2012	\$4,201,313	5.39%	\$3,058,311	0.03%
2012-2013	\$4,026,358	-4.16%	\$2,900,761	-5.15%
2013-2014	\$3,840,655	-4.61%	\$2,829,236	-2.47%

Operating Expenses/Non-Operating Expenses

The total operating expense for the District increased to \$2,537,388 from \$2,337,474. The total general and administrative expense increased to \$478,936 from \$432,426. The total sewer general and administrative expense increased to \$190,512 from \$178,830. Total sewer operation expense increased to \$944,186 from \$904,036. The total water general and administrative expense increased to \$246,405 from \$233,348. The total water operating expense increased to \$677,349 from \$588,834. The total operating expense increased from last fiscal year at a rate of 8.55%. In the general and administrative section, legal fees due to the bond refinance and water right issues were incurred in fiscal 2013-2014. In addition, a consultant was hired by the board for strategic planning. The primary cause for the increases in both the water and sewer departments was due to higher repairs and maintenance costs. In the non-operating expense category the main item is the interest expense on the State Revolving Fund Loans. In fiscal 2013-2014 the District made principal payments in the amount of \$1,180,000 with total payments amounting to \$1,471,848. The District paid \$291,848 in interest on those loans.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
2009-2010	\$2,397,265	2.86%	\$2,378,743	0.47%
2010-2011	\$2,319,863	-3.23%	\$2,398,098	0.81%
2011-2012	\$2,338,408	0.80%	\$2,444,060	1.92%
2012-2013	\$2,425,897	3.74%	\$2,337,474	-4.36%
2013-2014	\$2,582,750	6.47%	\$2,537,388	8.55%

Capital Assets

The District did not receive any developer donated capital assets in fiscal 2013-2014. Donated capital assets are the water and sewer extensions as well as other infrastructure required to install and complete new construction projects and subdivisions within the District. All donated capital assets are acquired by the District through formal transfer agreements which are recorded at the appropriate county office. The District requires a two-year warranty on the assets transferred in the form of cash or letter of credit as warranty security. The warranty security amount is 10% of the cost basis of the assets transferred to the District. The contributed assets are then recorded as either water or sewer assets on the books of the District and depreciated accordingly. The recorded value of the asset is recognized as income in the year of acceptance. The District did book \$23,000 in donated capital assets for the Big Sky Search & Rescue Building agreement but the District does not depreciate the asset.

The District's total net position at June 30, 2014 was \$40,846,497. The total amount includes \$28,607,036 invested in capital assets, net of related debt, \$11,594,373 in unrestricted assets which includes cash, and \$645,088 restricted cash for debt service. The total represents an increase of \$946,481 over the prior fiscal year total. The invested in capital assets, net of related debt increased by \$621,199 due to asset additions and debt reduction. The unrestricted portion increased by \$193,420 due to an increase in cash. The restricted for debt service category increased to \$645,088 from \$513,226 due to increase in tax receipts.

Summary

The Districts overall financial position remains stable with sufficient reserves and financing sources available to fund both the operating and non-operating activities of the District. In Fiscal Year 2013-14 water operations operating revenue was in excess of operating expense. Sewer operations expense exceeded sewer operating revenues by approximately 1.16%. The District does not expect the deficit in sewer operations to occur in the next fiscal year for two reasons. The first reason is that the second year of the three year 1% a year rate increase will take effect on July 1, 2014. The second reason is that the majority of the state required sewer water sample testing will be performed in house thereby reducing the chemical line item.

The District's rate table below shows the phased in rate increase of a 1% a year starting in fiscal 2013-2014. The increase is for both the water and sewer base rates as well as the tiered water rates. In addition, The District added a fourth tier on the water rates starting July of 2013. The new rates should provide sufficient revenue for both the water and sewer departments to operate without deficits.

Rates Fiscal Year	Water Base	Growth Rate	Water Usage	Growth Rate	Sewer Base	Growth Rate	Sewer Usage	Growth Rate
2005-2006	\$14.25	0%	\$2.35	0%	\$22.04	0%	\$3.85	0%
2006-2007	\$14.25	0%	\$2.35	0%	\$22.04	0%	\$3.85	0%
2007-2008*	\$14.25	0%	\$2.35	0%	\$22.04	0%	\$3.85	0%
2008-2009	\$14.89	4.49%	\$2.42*	2.98%	\$23.03	4.49%	\$4.81	24.94%
2009-2010	\$15.46	3.83%	\$2.49*	2.89%	\$23.91	3.82%	\$5.82	21.00%
2010-2011	\$15.46	0%	\$2.49*	0%	\$23.91	0%	\$5.82	0%
2011-2012	\$15.46	0%	\$2.49*	0%	\$23.91	0%	\$5.82	0%
2012-2013	\$15.46	0%	\$2.49*	0%	\$23.91	0%	\$5.82	0%
2013-2014*	\$15.61	1%	\$2.51*	1%	\$24.15	1%	\$5.88	1%
2014-2015**	\$15.77	1%	\$2.54**	1%	\$24.39	1%	\$5.94	1%

*Beginning in July of 2008 the water usage rates were tiered, 0-60,000 gallons, 60,000 to 90,000 gallons and 90,000 gallons and above as follows: 2008-2009 \$2.42, \$3.63, \$4.84; 2009-2010 \$2.49, \$3.74, \$4.99

**Beginning in July of 2014, 0-60,000 gallons, 60,000 to 90,000 gallons, 90,000 to 120,000 gallons, 120,000 gallons and above as follows: 2014-2015 \$2.54, \$3.82, \$5.09, \$6.37

Water and sewer usage charges are for each thousand gallons metered or fraction of a thousand gallons. The base charges are for one month of service for water and sewer.

Budget/Actuals

The budget for fiscal 2013-2014 at year-end had Total Revenues 105.45% of budget, Total Expenses 102.72% of budget and Total Net Revenue 113.92% of budget. The only contributed asset was the Search and Rescue building accrual, there were no sewer or water main extensions contributed to the District and Net Income was \$1,034,419 which was 99.67% of budget.

Budget/Actuals (Continued)

The Operating Revenues were at 104.73% of budget and Operating Expenses were at 103.07% of budget. As a result, there was \$45,362 in operating income. Administrative expenses for general administration were 102.12% of budget. There were two items, legal fees and strategic plan consultant that caused the administrative expenses to exceed the budget. The water department administration and sewer department administration came in under budget. The sewer operations expense was 103.72% of budget. The water operations expense was 106.03% of budget. The sewer and water department's operating budget is separated into seven categories: Vehicles, Operating Expenses, Repairs and Maintenance, Professional Services, Miscellaneous, Asset Replacement & Depreciation and Special Projects.

The sewer department operations were over budget in all categories except Miscellaneous, Depreciation expense, and Special Projects. In the Vehicles category fuel expense was over budget and repairs were over budget. The sewer department incurred more travel for education and incurred more vehicle repairs for an aging truck fleet. The District will be replacing one of the sewer department vehicles in the next fiscal year. In the Operating Expense category, chemicals and lab fees for wastewater monitoring, were both over budget. The chemicals were not in the budget due to the variability in use of the chemicals purchased. The wastewater monitoring fees have been increasing over the last two budget cycles and were not budgeted adequately. In the Repairs & Maintenance category several line items were over budget. The sewer repairs, treatment plant repairs, pond maintenance, irrigation maintenance and tools and tool maintenance all were significantly over budget. There were several items that needed repair for both the sewer plant and the treatment plant that were not considered in the budget. The pond maintenance is usually fairly stable but incurred additional weed spraying. The irrigation system for the golf course has been difficult to budget. The irrigation system is 18 years old now so repairs to the main lines are becoming more frequent. The booster station is now obsolete and in need of replacement. The District and Boyne are in the process of upgrading the parts of the irrigation system. New irrigation controllers and a new booster station should be installed by the next fiscal year end. The tools and tool maintenance was over budget due to replacing older tools that failed. The overall sewer department budget was within plus or minus 5% which is the District's budgetary tolerance level.

The water department operations were under budget in all categories except repairs and maintenance. The District is contract operating the Spanish Peaks Water System. There were a number of items within the Spanish Peaks System that were repaired and replaced that were not in the budget. As a result, the repairs and maintenance section of the budget was over budget by more than 60%. The District's agreement with Spanish Peaks will end in May of 2015. Thereafter, it will either be conveyed to the District or run privately. The water department budget will be adjusted accordingly for the Spanish Peaks Water System. The District completed the two Meadow Wells 4&5. However, the two wells need to be equipped with water treatment before they are fully connected to the water system. The District budgeted \$1.0 million for next fiscal year to complete the connection of Meadow Wells 4&5 if approved by the state. The project will be funded from District reserves. The overall water department budget was within plus or minus 5% which is the District's budgetary tolerance level.

Total Non-Operating Revenues were at 106.43% of budget and Non-Operating Expenses were at 99.81% of budget. The Tax receipts from both Gallatin and Madison County were higher than budgeted due to prior period collections on foreclosed properties. The Plant Investment Fee sub-category was budgeted at \$120,000; however, \$155,060 was collected. The District budgeted \$75,000 in developer capital contributions but none were received. The District booked \$23,000 for the Big Sky Search & Rescue agreement. Both the Water and Sewer Debt Service Interest costs were right on budget or under budget. As result, Net Non-Operating Revenues were \$966,057.

State Revolving Fund Debt

The District has a total of five State Revolving Fund Loans remaining with an outstanding balance at fiscal year-end of \$12,529,000 including the current portion of the long-term debt. The District services the debt through bi-annual payments funded through several sources. The two main sources are ad-valorem taxes and the Plant Investment Fees (sewer only). The District did not apply for debt service from the Big Sky Area Resort Tax Board for fiscal 2014-2015. The District will reassess the application for Debt service in fiscal 2015-2016. The District used approximately \$300,000 in plant investment fees to service the sewer debt. The District refinanced the three water loans at a rate of 2.0% and 2.25%. The reduced rate will decrease interest costs by approximately \$689,000 over the remaining life of the three water loans.

Conclusion

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

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 12,093,422
Investments	1,649
Accounts receivable	597,264
Prepaid expenses	1,076
Water meter inventory	<u>45,592</u>
Total current assets	<u>12,739,003</u>
Noncurrent assets:	
Restricted cash and cash equivalents:	
Debt service fund	645,088
Notes receivable	97,800
Capital assets, net of accumulated depreciation, where applicable:	
Nondepreciable	1,095,806
Depreciable buildings and infrastructure, net	<u>40,040,230</u>
Total noncurrent assets	<u>41,878,924</u>
Total assets	<u>\$ 54,617,927</u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable and accrued expenses	\$ 202,817
Performance bonds and retainage payable	792,883
Water reserve payable	51,066
Current portion of long-term debt	<u>1,178,864</u>
Total current liabilities	<u>2,225,630</u>
Long-term liabilities:	
Unpaid plant investment fees	97,800
Compensated absences payable	97,864
General obligation bonds	12,529,000
Less: current portion of long-term debt	<u>(1,178,864)</u>
Total long-term liabilities	<u>11,545,800</u>
Total liabilities	<u>13,771,430</u>
Net position:	
Net investment in capital assets	28,607,036
Unrestricted	11,594,373
Restricted for debt service	<u>645,088</u>
Total net position	<u>40,846,497</u>
Total liabilities and net position	<u>\$ 54,617,927</u>

See accompanying notes to financial statements

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues:	
Sewer services	\$ 1,349,444
Water services	<u>1,233,306</u>
Total operating revenue	<u>2,582,750</u>
Operating expenses:	
General and administrative:	
Advertising	74
Audit expense	8,788
Bank service charges	93
Computer maintenance	6,653
Directors' expense	2,933
Dues and subscriptions	1,491
Education expenses	4,350
Insurance	122,168
Janitorial and carpet services	725
Legal fees	15,509
Meetings	12,715
Miscellaneous	1,728
Office building repair & maintenance	2,251
Office supplies and expense	9,088
Payroll taxes and benefits	35,979
Postage and shipping	9,701
Salaries	229,678
State annual filing fee	845
Telephone	4,878
Utilities	4,746
Vehicle expense	<u>4,543</u>
Total general and administrative	<u>478,936</u>

(continued)

See accompanying notes to financial statements

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Operating expenses (continued):

Sewer general and administrative:

Salaries and wages	122,188
Workers' compensation insurance	40,356
Payroll taxes and benefits	19,710
Dues and subscriptions	381
Telephone	4,564
Office supplies	1,167
Education expense	<u>2,146</u>

Total sewer general and administrative	<u>190,512</u>
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Sewer plant expense:

Chemicals	44,347
Compost supplies	4,352
Depreciation expense	602,334
Engineering	2,685
Fuel - equipment and vehicles	9,593
Jetting - sewer lines	22,113
Lab testing equipment	1,658
Maintenance and repairs - building and grounds	19,036
Miscellaneous	1,387
Operating supplies	128
Safety equipment	833
Sewer repairs and maintenance	35,792
Tools	5,553
Treatment plant repairs and maintenance	29,231
Utilities	131,955
Vehicle insurance	2,700
Vehicle repair and maintenance	5,215
Waste water monitoring	<u>25,274</u>

Total sewer plant expense	<u>944,186</u>
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(continued)

See accompanying notes to financial statements

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Operating expenses (continued):

Water general and administrative:

Salaries and wages	160,849
Workers' compensation insurance	46,442
Payroll taxes and benefits	25,928
Dues and subscriptions	3,220
Telephone	5,619
Office supplies	24
Education expense	581
Public water supply fees	<u>3,742</u>

Total water general and administrative 246,405

Water plant expense:

Depreciation expense	339,205
Fuel - equipment and vehicles	10,373
Lab fees	9,663
Miscellaneous	1,387
Professional services	3,555
Repairs and maintenance	127,818
Safety equipment	446
Special projects	8,109
Tools	2,891
Utilities	165,756
Vehicle insurance	2,700
Vehicle repair and maintenance	<u>5,446</u>

Total water plant expense 677,349

Total operating expenses 2,537,388

Operating income 45,362

(continued)

See accompanying notes to financial statements

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Nonoperating revenues (expenses):	
Interest expense	(291,848)
Other nonoperating revenue	6,238
Interest income	38,871
Plant investment charges	155,060
Tax receipts for bond payments	<u>1,057,736</u>
Total nonoperating revenues (expenses)	<u>966,057</u>
Income before contributions	1,011,419
Contributed capital	<u>23,000</u>
Increase in net position	<u>1,034,419</u>
Net position, beginning of year	39,900,016
Prior period adjustment	<u>(87,938)</u>
Net position, beginning of year, as restated	<u>39,812,078</u>
Net position, end of year	<u>\$ 40,846,497</u>

See accompanying notes to financial statements

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Increase in cash and cash equivalents:

Cash flows from operating activities	
Receipts from customers	\$ 2,505,230
Payments to suppliers	(1,073,765)
Payments to employees	<u>(512,715)</u>
Net cash provided by operating activities	<u>918,750</u>
 Cash flows from capital and related financing activities	
Principal paid on capital debt	(1,180,000)
Purchases of capital assets	(447,676)
Interest paid on capital debt	(291,848)
Taxes collected for bond payments	1,057,736
Other receipts (payments)	<u>161,298</u>
Net cash (used) by capital and related financing activities	<u>(700,490)</u>
 Cash flows from investing activities:	
Interest	38,871
Proceeds from performance bonds and fees	<u>18,461</u>
Net cash provided by investing activities	<u>57,332</u>
Net increase in cash and cash equivalents	275,592
Cash and cash equivalents - beginning of the year	<u>12,462,918</u>
Cash and cash equivalents - end of the year	<u>\$ 12,738,510</u>
 Cash and cash equivalents as presented on the statement of net assets:	
Cash and cash equivalents	\$ 12,093,422
Restricted cash and cash equivalents	<u>645,088</u>
	<u>\$ 12,738,510</u>

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

Operating income	\$ <u>45,362</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	941,539
(Increase) decrease in current assets:	
Accounts receivable	(30,662)
Prepaid expenses	(1,076)
Inventory	(437)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(4,560)
Compensated absences payable	15,442
Water reserve payable	<u>(46,858)</u>
	<u>873,388</u>
Net cash provided by operating activities	\$ <u>918,750</u>

Noncash capital and related financing activities:

Interest in building	\$ <u>23,000</u>
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See accompanying notes to financial statements

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 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 2,700 customers.

B. Measurement Focus and Basis of Accounting

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

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

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

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 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

Property owners are assessed sewer and water fees annually based on the number of single-family equivalent units. Most of the accounts have been converted to a metering system. No allowance has been made for uncollectible accounts because the District submits any delinquent accounts to the County Treasurer for collection.

E. Use of Restricted/Unrestricted Net Position

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

F. Cash and Investments

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

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

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

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Restricted Cash

According to a bond resolution, cash in the amount of \$645,088 is restricted; this is the amount that has accumulated in the Debt Service Fund. This restriction is for debt repayment.

H. Inventory

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

I. Capital Assets

The District's capital assets are capitalized at historical cost or estimated historical cost. Contributions of capital assets are recorded at fair market value when received. Depreciation of capital assets is calculated using the straight-line method with estimated useful lives as follows:

Office building	39 years
Water and sewer system and equipment	7-75 years
Vehicles	5 years
Computer equipment and software	3-5 years

Maintenance and repair costs are expensed as incurred. Replacements, which improve or extend the life of a fixed asset, are capitalized. Proceeds received from government or other grantors, for the purchase or construction of fixed assets, are credited to income. All interest costs associated with new construction are capitalized.

J. Compensated Absences

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

K. Net Position

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

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Position (Continued)

Proprietary fund net position is divided into three components:

- **Net investment in capital assets** – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus capital asset related deferred outflows of resources less capital asset related deferred inflows of resources related to those assets.
- **Restricted net position** – consist of assets that are restricted as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – all other net position is reported in this category.

L. Tax Revenue

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

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

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

M. Budget

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

N. Use of Estimates

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

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Tax Exempt Status

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

P. Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* (GASB Statement No. 67), and will be effective for the District in fiscal year 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The District has determined that the adoption of this statement will have no impact on its financial statements.

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

NOTE 2. CASH AND INVESTMENTS

As of June 30, 2014, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$12,738,310 and the bank balance was \$12,809,341. 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, 2014, 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, 2014 was \$1,649.

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2014:

GASB 31

According to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests on the participant's behalf in an investment portfolio. STIP is also classified as a "2a7-like" pool. A 2a7-like pool is an external investment pool that is not registered with the Security and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair market value to report net assets and to compute unit values. The Board of Investments has adopted a policy to treat STIP as a 2a7-like pool and to utilize an amortized cost unit value rather than fair value to report net assets.

GASB 40

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – *Deposit and Investment Risk Disclosures*. The unaudited financial statements as of June 30, 2013 and 2012 have disclosures pertaining to STIP's exposure to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and legal and credit risk.

Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

Security Lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year 2014 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2014 financial statements is available online at <http://www.investmentmt.com/content/STIP/Docs/2014STIPFinancial.pdf>.

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 3. CHANGES IN CAPITAL ASSETS

	As Restated Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 1,014,689	\$ -	\$ -	\$ 1,014,689
Interest in buildings	-	23,000	-	23,000
Land easements	<u>58,117</u>	<u>-</u>	<u>-</u>	<u>58,117</u>
 Total capital assets not being depreciated	 <u>1,072,806</u>	 <u>23,000</u>	 <u>-</u>	 <u>1,095,806</u>
 Capital assets being depreciated:				
Office building	518,259	-	-	518,259
Sewer infrastructure	33,595,579	283,005	(178,565)	33,700,019
Water infrastructure	<u>18,614,272</u>	<u>164,671</u>	<u>(44,588)</u>	<u>18,734,355</u>
 Total capital assets being depreciated	 52,728,110	 447,676	 (223,153)	 52,952,633
Accumulated depreciation	<u>(12,194,017)</u>	<u>(941,539)</u>	<u>223,153</u>	<u>(12,912,403)</u>
 Net depreciable capital assets	 <u>40,534,093</u>	 <u>(493,863)</u>	 <u>-</u>	 <u>40,040,230</u>
 Total capital assets	 <u>\$ 41,606,899</u>	 <u>\$ (470,863)</u>	 <u>\$ -</u>	 <u>\$ 41,136,036</u>

As of June 30, 2014, approximately \$768,064 of interest has been capitalized as capital assets.

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4. OUTSTANDING DEBT

The following is a summary of long-term debt at June 30, 2014:

General obligation bonds

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. \$ 305,000

2.25% State of Montana General Obligation Bonds, Waste-water 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. 3,419,000

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. 1,076,000

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. 3,748,000

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. 3,981,000

Total \$ 12,529,000

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 4. OUTSTANDING DEBT (CONTINUED)

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.

	Balance			Balance	Amounts
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Due within</u>
					<u>One Year</u>
Bonds payable:					
SRF Treatment Plan	\$ 4,353,000	\$ -	\$ (372,000)	\$ 3,981,000	\$ 380,000
SRF Water Meters	332,000	-	(27,000)	305,000	30,000
SRF Water Tank	1,314,000	-	(238,000)	1,076,000	104,000
GO Bonds Treatment Plant	3,739,000	-	(320,000)	3,419,000	326,000
SRF Water System Improvements	<u>3,971,000</u>	<u>-</u>	<u>(223,000)</u>	<u>3,748,000</u>	<u>241,000</u>
Total bonds payable	13,709,000	-	(1,180,000)	12,529,000	1,081,000
Compensated absences	<u>82,422</u>	<u>15,442</u>	<u>-</u>	<u>97,864</u>	<u>97,864</u>
Total long-term liabilities	<u>\$ 13,791,422</u>	<u>\$ 15,442</u>	<u>\$ (1,180,000)</u>	<u>\$ 12,626,864</u>	<u>\$ 1,178,864</u>

Debt service requirements at June 30, 2014, were as follows:

Year Ended	Principal	Interest
June 30,		
2015	\$ 1,081,000	\$ 272,481
2016	1,105,000	248,371
2017	1,129,000	223,704
2018	1,156,000	198,503
2019	1,182,000	172,702
2020-2024	5,793,000	456,260
2025-2028	<u>1,083,000</u>	<u>49,264</u>
Total	<u>\$ 12,529,000</u>	<u>\$ 1,621,285</u>

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 4. OUTSTANDING DEBT (CONTINUED)

Sewer System General Obligation Bonds – Debt Restrictions

- a) The District must establish a debt service fund for money to be set aside to pay the debt of the SRF loan.
- b) Liability insurance must be carried.
- c) All fund properties, buildings, equipment, and fixtures must be adequately insured with a reputable carrier.
- d) The District must maintain adequate accounting records.
- e) The District may invest money in securities, which are fully and unconditionally guaranteed.
- f) The Sewer Fund must be audited on an annual basis.

The District was in compliance with the bond covenants at June 30, 2014.

NOTE 5. UNPAID PLANT INVESTMENT FEES

On October 6, 1997, the District entered into an agreement with Farmhouse Partners – Big Sky Limited Partnership to defer the payment of plant investment charges. Interest was scheduled to be paid at a rate of 1-4% annually until December 31, 2012 at which time the principal would be paid. As of June 30, 2014, the principal balance is still outstanding. The principal balance of this note is offset by delayed plant investment charges.

As of June 30, 2014, the District has accrued penalties of \$18,000 due to late payment. The penalties are recorded as other receivables.

Changes in unpaid plant investment fees were as follows:

	<u>Balance</u>		<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>
			<u>June 30, 2014</u>
Farmhouse	\$ <u>97,800</u>	\$ <u>-</u>	\$ <u>-</u>
			\$ <u>97,800</u>

NOTE 6. NET POSITION – RESTRICTED

Net position is restricted as follows:

Restricted for debt service	\$ <u>645,088</u>
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BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 7. EMPLOYEE BENEFIT PLANS

Public Employees' Retirement System (PERS)

All District employees are provided pension benefits by this multi-employer plan. Funding is provided by participating units of government and their covered employees as summarized in the following table:

	<u>Years Ended</u>		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Required contribution percentages:			
District	8.07%	7.07%	7.07%
Plan members	7.90%	6.90%	6.90%
State of Montana	0.10%	0.10%	0.10%
Contribution amounts:			
District	\$ 42,738	\$ 36,506	\$ 36,441
Plan members	\$ 41,839	\$ 35,629	\$ 35,565
State of Montana	\$ 530	\$ 516	\$ 515

One hundred percent of required contributions were made for all three years.

All full-time District employees participate in one of two statewide cost-sharing multiple-employer retirement benefit plans administered by the Public Employees Retirement Division (PERD). Contributions to the two plans are as required by State statute. Financial information for the two plans is reported in the Public Employees' Retirement Board's published Comprehensive Annual Financial Report for the fiscal year end. It is available from PERD at 100 North Park Avenue, Suite 220, P.O. Box 200131, Helena, MT 59620-0131. The authority to establish, amend and provide cost of living adjustments to the plans is assigned to the State legislature. The authority to establish and amend contribution rates to the plans is also assigned to the State legislature.

Defined Benefit Retirement Plan (DBRP) – Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit for members hired prior to July 1, 2011, with less than 25 years of membership, is 1.785% of the highest average compensation per year of service credit. For 25 or more years of membership service the percentage is increased to 2%. The benefit for those hired on or after July 1, 2011, with more than 5 and less than 10 years of membership service, is 1.5% of the highest average compensation per year of service credit. Membership service of 10 or more years, but less than 30, receive 1.785%; 30 years or more of membership increases to 2%. The benefits are paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 55 and 5 years of service. Rights become vested after 5 years of service.

(continued)

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7. EMPLOYEE BENEFIT PLANS (CONTINUED)

Defined Contribution Retirement Plan (DCRP) – Participants may elect the defined contribution plan, in which the contributions into the plan are known, but the benefit is not. The retirement benefit received is based upon account balance, which is determined by contributions made plus investment earnings, or losses, less administrative costs. Employees become vested in the employer's contributions after 5 years of service and become vested in the employee's contributions immediately.

Deferred Compensation Plan

In February 2009, the District entered into an agreement with the Montana Public Employees' Retirement Board to allow its employees to participate in the State of Montana 457 Deferred Compensation Plan (Plan). The Plan is sponsored by the Montana Public Employees' Retirement Board and is authorized by Internal Revenue Code Section 457(b) and is subject to specific Internal Revenue Service laws and requirements.

During the 2014 and 2013 calendar years, the maximum contribution that a participant could make to the Plan was \$17,500. The District contributes 6.2% of each participant's wages.

During the fiscal years ended June 30, 2014, 2013 and 2012 the District contributed \$29,823, \$28,966 and \$28,817 respectively to the plan. The employees contributed \$42,008, \$41,110 and \$41,219, respectively to the plan.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Risk Management

The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability (i.e. errors and omissions), d) environmental damage, and e) workers' compensation (i.e., employee injuries).

The District participates in a risk pool, which provides general liability insurance, auto liability insurance, crime/bond coverage, errors and omissions insurance, and property insurance. This pool purchases commercial insurance to cover the members' risks; the District does not assume the liabilities of other entities.

Workers' compensation insurance coverage is provided through a commercial policy.

Yellowstone Mountain Club Agreement

On March 28, 2001, the District signed an agreement with the Yellowstone Mountain Club and other related entities owned by a developer for the sale of water, treatment of wastewater, and right to use land for the storage and disposal of treated wastewater. The District shall have the right to dispose up to 160,000,000 gallons of treated wastewater per year on land owned by the developer in exchange for a capital asset commitment of approximately \$18 million. The developer will construct storage ponds and a golf course irrigation system totaling approximately \$6.6 million.

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9. PRIOR PERIOD ADJUSTMENT

In the year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement 65 "Items Previously Reported as Assets and Liabilities". The objective of Statement 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources.

Another aspect of implementing Statement 65 resulted in the reclassification of the beginning net position. The deferred charges for issuance costs of \$87,938 were reclassified as expense of prior periods and resulted in the adjustment below.

A summary of these adjustments is as follows:

Net position at June 30, 2013	\$ 39,900,016
Change in reporting for deferred charges for debt issuance costs	<u>(87,938)</u>
Net position at June 30, 2013, restated	<u>\$ 39,812,078</u>

NOTE 10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2014, the date on which these financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Big Sky County Water and Sewer District No. 363, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Big Sky County Water and Sewer District No. 363's basic financial statements, and have issued our report thereon dated November 18, 2014.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

November 18, 2014
Board of Directors
Page two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Sky County Water and Sewer District No. 363's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and 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.



November 18, 2014

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

None.

BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014

There were no findings, questioned costs, or reportable conditions for the year ended June 30, 2013.