

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

**AUDITED FINANCIAL STATEMENTS**

**June 30, 2015**

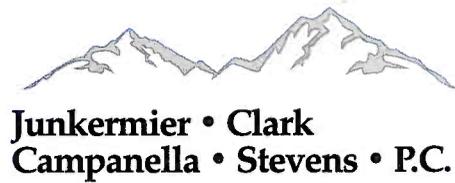


**Junkermier · Clark**

**Campanella · Stevens · P.C.**

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Certified Public Accountants and Business Advisors



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Certified Public Accountants and Business Advisors

December 15, 2015

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

We have audited the financial statements of Big Sky County Water and Sewer District No. 363 for the year ended June 30, 2015. 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 letter to you dated April 27, 2015. 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 Big Sky County Water and Sewer District No. 363 are described in Note 1 to the financial statements. The requirements of GASB 68 were implemented into the financial reporting of the District during 2015. No other new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the Organization 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 estimate affecting the financial statements was:

Management's estimate of the pension liability is based upon the calculations and guidance provided by the State of Montana. We evaluated the assumptions provided by the State of Montana in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

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*Corrected and Uncorrected Misstatements (continued)*

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. See the proposed journal entries in the attached listing that have been corrected by management.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 15, 2015.

*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 Organization's financial statements or a determination of the type of auditors' 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 Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and Management and management of Big Sky County Water and 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,

***Junkermier, Clark, Campanella, Stevens, P.C.***

Kalispell, Montana

# BIG SKY COUNTY WATER & SEWER, NO 363

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and Management  
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, which comprise the statement of net position as of June 30, 2015 and the related statement of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 principles used and the reasonableness of significant 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Sky County Water and Sewer District No. 363, as of June 30, 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, 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 the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Kalispell, Montana  
December 15, 2015

Management's Discussion and Analysis  
Fiscal Year 7/1/2014 - 6/30/2015

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 2,750 water and sewer customers located within the District. The District serves customer properties starting in the Meadow Village area within Gallatin County and extends to the Big Sky Ski Area within Madison County. The difference in elevation of the properties that the District serves creates unique challenges and opportunities for the Big Sky County Water & Sewer District 363.

The Big Sky County Water & Sewer District 363 is accounted for as a governmental enterprise. As a result, the accounting is much the same as a for profit organization with the exception of state and federal income tax. The District is tax exempt. The basic financial statements produced by the District include, the Statement of Net 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 0.34% in fiscal year 2014-2015. Capital assets net of accumulated depreciation decreased from \$41,136,036 to \$40,997,283. The District added new capital assets to the asset base but the amounts added did not exceed the depreciation expense of existing assets.

The sewer capital assets of the District increased from \$35,255,972 to \$35,716,200. The District spent approximately \$49,000 replacing sewer manholes throughout the District. The District obtained video equipment to inspect sewer lines costing \$17,000. The District spent approximately \$51,000 updating the Wastewater Facilities Plan, which is an engineering report that provides the District Board with options for future sewer disposal options. The Montana Department of Environmental Quality (DEQ) required a study and plan for the Districts irrigated wastewater. The District spent approximately \$46,000 in fiscal 2014-2015 on that engineers report. The District continued work on the force main to the Yellowstone Mountain Club reservoir and replaced another pump and reset the existing pumps costing the District approximately \$124,000. The District spent approximately \$63,000 on various replacement parts for the treatment plant and filter building. The District spent approximately \$20,000 on laboratory equipment to perform the DEQ required lab tests in house. One sewer truck was replaced costing approximately \$30,000. The District continues to recognize the Search and Rescue Building on the books of the District. The District added another \$6,000 in fiscal 2014-2015. 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 water capital assets increased from \$18,792,468 to \$19,113,398. The District spent approximately \$5,000 testing the two new Meadow Village Wells number 5 and 6. The District updated the Source Water Capacity Study costing the District approximately \$10,000. The District spent approximately \$12,000 replacing fire hydrants. The District also replaced a truck costing approximately \$29,000. The District updated computer equipment costing the District approximately

\$7,000. The District installed new water meter equipment costing approximately \$63,000. The District spent approximately \$48,000 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's other asset category a note receivable in the amount of \$97,800 from Farmhouse Partners for Plant Investment Fees was paid in full in October of 2014.

The total long-term liabilities associated with the existing State Revolving Fund Loans of both systems decreased from \$12,529,000 to \$11,448,000. The District used low interest rate loans from the State Revolving Loan Program to finance both water and sewer projects. In July of 2013 the District refinanced the three water loans through the State Revolving Loan Program two at 2.00% and the larger dollar loan at 2.25%. The two sewer loans were both refinanced at 2.25% in May of 2013.

The District is a member of the Montana Public Employees Retirement Administration which administers the retirement plan for District employees. Recent changes in the financial reporting requirements for governmental pensions impact the District's financial statements. The Governmental Accounting Standard's Board (GASB) introduced two new standards in June of 2012. The two new standard's GASB 67 and 68 relate to financial statement reporting for public pensions. GASB 67 is applicable to the overall pension system financial statements and GASB 68 effective in fiscal 2015 is applicable to the financial statements of the participating employers. As a result, the District is now booking assets and liabilities reported to the District by the actuary of the Montana Public Employees Retirement Administration. In fiscal 2014-2015 the District booked a Net Pension Liability of \$139,967. This amount represents the District's share of the actuarial unfunded liabilities of the pension system in which the District employees participate. Although \$139,967 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. For fiscal 2014-2015 the introduction of GASB 68 did not adversely affect the financial statements or financial position of the District. See the attached GASB 68 notes to the financial statements for more detail.

The total liabilities of the District decreased 6.62% due primarily to debt service principal payments. The current liabilities of the District increased from \$2,225,630 to \$2,364,460 which includes a increase in accounts payable to \$202,817 from \$350,480 an increase in performance bonds and retainage payable from \$792,883 to \$866,128, a decrease in water reserve payable from \$51,066 to \$42,852 and a decrease in the current portion of long-term debt from \$1,178,864 to \$1,105,000 at 6/30/2015.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
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%
2014-2015	\$54,965,447	0.64%	\$12,859,740	-6.62%

**Operating Revenue/Non-Operating Revenue**

The total operating revenues of the District decreased from \$2,582,750 to \$2,570,264. The total sewer operating revenue decreased from \$1,349,444 to \$1,337,457. The total water operating revenue decreased from \$1,233,306 to \$1,228,849. Both the water operating revenue decrease and sewer operating revenue decrease were due to lower usage numbers. Water had a decrease of 8.18% in

water usage and sewer had a decrease in usage of 1.10% 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. Both the current sewer plant investment charge and a potential water plant investment charge will be reviewed in the next fiscal year. 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 increased to \$1,173,815 from \$966,057. The District collected \$1,062,376 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 increased slightly due to a lower contribution from the District Plant Investment Fund requiring a slightly higher tax levy in August of 2014. Plant investment fees increased from \$155,060 to \$306,950 due to increased development.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
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%
2014-2015	\$4,004,564	4.09%	\$2,812,414	-0.59%

**Operating Expenses/Non-Operating Expenses**

The total operating expense for the District increased to \$2,551,926 from \$2,537,388. The total general and administrative expense increased to \$505,559 from \$478,936. The total sewer general and administrative expense increased to \$200,344 from \$190,512. Total sewer operation expense decreased slightly from \$944,186 to \$942,165. The total water general and administrative expense decreased slightly to \$244,082 from \$246,405. The total water operating expense decreased to \$659,776 from \$677,349. The total operating expense decreased \$16,822 from last fiscal year. The decrease is due primarily to the impact of GASB 68 in the financial statements referenced earlier. 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 \$1,081,000 with total payments amounting to \$1,353,481. The District spent \$260,488 in interest on those loans.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
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%
2014-2015	\$2,570,264	-0.48%	\$2,551,926	0.57%

## **Capital Assets**

The District received donated capital assets in fiscal 2014-2015. Two new water and sewer main extensions, one in the Meadow Village for the Morning Sun Condominium Complex and one in the Town Center for the Town Center Avenue North development project. The total for the sewer system was \$44,890 and the total for the water system was \$171,296. 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 also booked an additional \$6,000 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, 2015 was \$42,105,707. The total amount includes \$28,329,557 invested in capital assets, net of related debt, \$13,171,142 in unrestricted assets which includes cash, and \$605,008 restricted cash for debt service. The total represents an increase of \$1,259,210 over the prior fiscal year total. The invested in capital assets, net of related debt decreased by \$277,479 due to asset depreciation exceeding asset additions. The unrestricted portion increased by \$1,576,769 due primarily to an increase in cash. The restricted for debt service category decreased to \$605,008 from \$645,088 due to variance in tax receipts.

The District is in the process of completing a five year capital improvement plan for both the water system and sewer system. The District engaged two engineering firms to perform a complete analysis of the existing infrastructure and to recommend changes or improvements to the existing water and sewer infrastructure. In addition, the District engaged a third engineering firm, which specializes in impact fees or plant investment charges as the District describes its current impact fee, to perform an analysis on the District's sewer plant investment fee and a possible water plant investment fee. The impact fee analysis and the capital improvement plan studies were at the request of the District's Board of Directors.

## **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 2014-15 water operating revenue exceeded water operating expense by approximately 6.03%, sewer operating expense exceeded sewer operating revenue by approximately 4.17%. The District expected the sewer department to operate in surplus in 2014-2015, however, due to sewer asset additions and lower than expected sewer revenue the sewer continued to operate in a deficit position. The water department continues to operate with a small surplus. The District will implement the final rate increase in fiscal 2015-2016 and expect the sewer department to operate without a deficit.

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.

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%
2015-2016**	\$15.93	1%	\$2.57**	1%	\$24.63	1%	\$6.00	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: 2015-2016 \$2.57, \$3.85, \$5.14, \$6.43

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 2014-2015 at year-end had Total Revenues 105.96% of budget, Total Expenses 98.96% of budget and Total Net Revenue 127.14% of budget. The District received contributed assets from developers totaling \$216,186 in water and sewer main extensions and \$6,000 for the Search and Rescue building accrual. Net Income was \$1,414,339 which was 130.03% of budget.

The Operating Revenues were at 100.36% of budget and Operating Expenses were at 99.59% of budget. As a result, there was \$18,338 in operating income. Administrative expenses for general administration were 104.04% of budget. The water department administration and sewer department administration came in at 93.90% of budget and 99.92% of budget respectively. The sewer operations expense was at 100.98% of budget. The water operations expense was 97.15% 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 on budget in all categories except Miscellaneous. In the miscellaneous category the property tax for fire and road service was not properly budgeted. The

section with Depreciation was on budget; however, a 2.79% variance amounted to \$16,743. The overall sewer department budget came in at 100.79% of budget which was within plus or minus 5% which is the Districts budgetary tolerance level.

The water department operations were under budget or within the Districts budgetary tolerance level in all categories.

The District ended the water system operating agreement with the Spanish Peaks Water System. As of May 1, 2015, the Spanish Peaks Water System was operated by Spanish Peaks staff. The District continues to lend assistance to the Spanish Peaks Water System through the transition period. The District's water operators and the Districts billing department have provided paid services through the final stages of the transition.

The District started work on the new water system ultraviolet light treatment facility. The project construction cost was revised down from \$774,500 to \$644,500 due to a change in equipment. The construction project should be completed in fiscal 2015-2016.

Total Non-Operating Revenues were at 117.75% of budget and Non-Operating Expenses were at 99.81% of budget. The Tax receipts from both Gallatin and Madison County were on budget. The Plant Investment Fee sub-category was budgeted at \$100,000; however, \$306,950 was collected. The District budgeted \$150,000 in developer capital contributions, however, \$222,186 were received. Both the Water and Sewer Debt Service Interest costs were on budget or under budget. As result, Net Non-Operating Revenues were \$1,151,337.

### **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 \$11,448,000 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 in the past were ad-valorem taxes and the Plant Investment Fees (sewer only). The District did not include Plant Investment Fees for fiscal 2015-2016 debt service. As a result, debt service in fiscal 2015-2016 will be fully paid by ad-valorem taxes. The District will reassess debt service funding alternatives in every budget cycle. The District used approximately \$300,000 in plant investment fees to service the sewer debt in fiscal 2014-2015

### **Conclusion**

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

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

**Assets**

**Current Assets**

Cash and cash equivalents	\$ 12,667,726
Investments	1,652
Accounts receivable, net	608,120
Prepaid expenses	9,240
Water meter inventory	<u>37,283</u>

**Total Current Assets** 13,324,021

**Noncurrent Assets**

Restricted cash and cash equivalents:	
Debt service fund	605,008
Capital assets, net of accumulated depreciation, where applicable:	
Nondepreciable	1,101,806
Depreciable buildings and infrastructure, net	<u>39,895,477</u>

Pension deferred inflows 39,135

**Total Capital Assets** 41,641,426

**Total Assets** \$ 54,965,447

See accompanying independent auditors' report and notes to audited financial statements

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

**Liabilities and Net Position**

**Current Liabilities**

Accounts payable and accrued expenses	\$ 350,480
Performance bonds and retainage payable	866,128
Water reserve payable	42,852
Current portion of long-term debt	<u>1,105,000</u>

**Total Current Liabilities**

2,364,460

**Long-Term Liabilities**

Compensated absences payable	116,110
General obligation bonds	10,343,000
Pension deferred outflows	<u>36,170</u>

**Total Long-Term Liabilities**

10,495,280

**Total Liabilities**

12,859,740

**Net Position**

Invested in capital assets, net of related debt	28,329,557
Unrestricted	13,171,142
Restricted for debt service	<u>605,008</u>

**Total Net Position**

42,105,707

**Total Liabilities and Net Position**

\$ 54,965,447

See accompanying independent auditors' report and notes to audited 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, 2015**

**Operating Revenue**

Sewer services	\$ 1,337,457
Water services	1,228,849
Pension grant revenue	<u>3,958</u>
 <b>Total operating revenue</b>	 <u><u>2,570,264</u></u>

**Operating Expenses:**

**General and Administrative:**

Advertising	524
Directors' expense	3,087
Dues and subscriptions	1,784
Education expenses	2,905
Insurance	124,853
Janitorial and carpet services	1,093
Meetings	1,722
Miscellaneous	21,223
Office building repair and maintenance	8,632
Office supplies and expense	18,609
Payroll taxes and benefits	33,280
Professional fees	25,978
Salaries	236,713
Telephone and computer maintenance	12,796
Utilities	5,600
Vehicle expense	<u>6,760</u>
 <b>Total general and administrative</b>	 <u><u>\$ 505,559</u></u>

See accompanying independent auditors' report and notes to audited 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, 2015**

**Operating Expenses (continued):**

**Sewer General and Administrative:**

Salaries and wages	\$ 129,569
Workers' compensation insurance	39,747
Payroll taxes and benefits	20,992
Dues and subscriptions	336
Telephone	5,191
Office supplies	1,281
Education expense	<u>3,228</u>
 <b>Total sewer general and administrative</b>	 <u>200,344</u>

**Sewer Plant Expense:**

Chemicals	43,310
Depreciation expense	616,743
Engineering	-
Fuel - equipment and vehicles	8,549
Lab testing equipment	8,616
Maintenance and repairs - building and grounds	23,023
Miscellaneous	4,968
Safety equipment	662
Sewer repairs and maintenance	41,859
Treatment plant repairs and maintenance	29,832
Electric and utilities	138,473
Travel and vehicle expense	5,989
Waste water monitoring	<u>20,141</u>
 <b>Total sewer plant expense</b>	 <u>\$ 1,142,509</u>

See accompanying independent auditors' report and notes to audited 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, 2015**

**Operating Expenses (continued):**

**Water General and Administrative:**

Salaries and wages	\$ 165,464
Workers' compensation insurance	47,159
Payroll taxes and benefits	17,203
Dues and subscriptions	2,050
Telephone	6,159
Office supplies	63
Education expense	2,192
Public water supply fee	<u>3,792</u>

<b>Total water general and administrative</b>	<u>244,082</u>
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**Water Plant Expense:**

Depreciation expense	350,162
Fuel - equipment and vehicles	7,968
Lab testing equipment	1,674
Miscellaneous	1,390
Professional services	-
Repairs and maintenance	120,598
Safety equipment	36
Special projects	403
Electric and utilities	168,958
Travel and vehicle expense	<u>8,587</u>

<b>Total water plant expense</b>	<u>903,858</u>
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<b>Total operating expenses</b>	<u>2,551,926</u>
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<b>Operating Income</b>	<u>\$ 18,338</u>
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See accompanying independent auditors' report and notes to audited 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, 2015**

<b>Non-Operating Revenues and (Expenses)</b>	
Interest expense	\$ (260,488)
Other nonoperating revenue	21,999
Interest income	42,978
Plant investment charges	306,950
Tax receipts for bond payments	<u>1,062,376</u>
<b>Total non-operating revenues and (expenses)</b>	<u><b>1,173,815</b></u>
<b>Income before contributions</b>	1,192,153
<b>Contributed capital</b>	<u>222,186</u>
<b>Increase in net position</b>	<u>1,414,339</u>
<b>Net Position, Beginning of Year</b>	40,846,496
<b>Prior period adjustment</b>	<u>(155,128)</u>
<b>Net position, beginning of year, as restated</b>	<u>40,691,368</u>
<b>Net position, end of year</b>	<u><u>\$ 42,105,707</u></u>

See accompanying independent auditors' report and notes to audited financial statements

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**STATEMENT OF CASH FLOWS FOR THE YEARS ENDED**  
**JUNE 30, 2015**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 2,653,250
Pension grant revenue	3,958
Payments to suppliers	(1,079,851)
Payments to employees	(603,221)
<b>Net Cash Flows From Operating Activities</b>	<u>974,136</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Principal paid on capital debt	(1,081,000)
Purchases of capital assets	(605,970)
Interest paid on capital debt	(260,488)
Taxes collected for bond payments	1,062,376
Other receipts (payments)	328,947
<b>Net Cash Flows From Capital and Related Financing Activities</b>	<u>(556,135)</u>
<b>Cash Flows From Investing Activities</b>	
Interest	42,978
Proceeds from performance bonds and fees	73,245
<b>Net Cash Flows From Investing Activities</b>	<u>116,223</u>
<b>Net Increase (Decrease) in Cash</b>	534,224
<b>Cash and cash equivalents - beginning of year</b>	<u>12,738,510</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 13,272,734</u>
<b>Cash and cash equivalents as presented on the statement of net assets:</b>	
Cash and cash equivalents	\$ 12,667,726
Restricted cash and cash equivalents	605,008
	<u>\$ 13,272,734</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 18,338
Adjustments to reconcile net income to cash provided by operating activities	
Depreciation	966,905
(Gain)/Loss on disposal of assets	-
(Increase) decrease in current assets	
Accounts receivable	86,944
Prepaid expenses	(8,164)
Other current assets	(30,826)
Increase (decrease) in current liabilities	
Accounts payable and accrued expenses	(69,093)
Compensated absences payable	18,246
Water reserve payable	(8,214)
<b>Net Cash Flows From Operating Activities</b>	<u>\$ 974,136</u>
<b>Noncash Capital and Related Financing Activities</b>	
Interest in building	<u>\$ 222,186</u>

See accompanying independent auditors' report and notes to audited financial statements

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**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.

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.

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.

Revenue Recognition

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.

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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.

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.

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.

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.

Inventory

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

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.

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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.

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.

Invested 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

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 516 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.

Budget

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

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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.

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).

Recent Accounting Pronouncements

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 received the amounts it was 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, 2015, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$13,272,534 and the bank balance was \$13,581,269. 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, 2015, 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 17-6-20 1, 202 and 204, MCA, to participate in a diversified pool. The carrying amount of this investment as of June 30, 2015 was \$1,652. At the time that this report was issued, the following information was available regarding this investment as of June 30, 2015:

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.

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 2. Cash and Investments (continued)**

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, 2015 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 2015 are disclosed in STIP's financial statements. An unaudited copy of the STIP fiscal year 2015 financial statements is available online at

<http://www.investment.com/content/STIP/Docs/2015STIPFinancial.pdf>.

**NOTE 3. Capital Assets**

	<b>Balance June 30, 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2015</b>
Capital assets not being depreciated:				
Land	\$ 1,037,689	\$ 6,000	\$ -	\$ 1,043,689
Land easements	<u>58,117</u>	<u>-</u>	<u>-</u>	<u>58,117</u>
Total capital assets not being depreciated	<u>1,095,806</u>	<u>6,000</u>	<u>-</u>	<u>1,101,806</u>
Capital assets being depreciated:				
Office building	708,220	-	-	708,220
Sewer infrastructure	33,609,616	472,786	(18,554)	34,063,848
Water infrastructure	<u>18,634,794</u>	<u>349,370</u>	<u>(28,440)</u>	<u>18,955,724</u>
Total capital assets being depreciated:	52,952,630	822,156	(46,994)	53,727,792
Accumulated depreciation	<u>(12,912,404)</u>	<u>(966,905)</u>	<u>46,994</u>	<u>(13,832,315)</u>
Net depreciable capital assets	<u>40,040,226</u>	<u>(144,749)</u>	<u>-</u>	<u>39,895,477</u>
Total capital assets	<u><u>\$ 41,136,032</u></u>	<u><u>(138,749)</u></u>	<u><u>-</u></u>	<u><u>\$ 40,997,283</u></u>

As of June 30, 2015, 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, 2015**

**NOTE 4. Restriction of Net Position**

Net position is restricted as follows:

Restricted for debt service	<u>\$ 605,008</u>
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**NOTE 5. 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, 2015**

**NOTE 6. Long-Term Debt**

General Obligation Bonds

The District has issued general obligation bonds which consist of the following at June 30, 2015.

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.	\$ 275,000
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.	3,093,000
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.	972,000
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.	3,601,000
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.	<u>3,507,000</u>
Total long term debt	11,448,000
Less current portion	<u>(1,105,000)</u>
Long-term debt, net of current portion	<u>\$ 10,343,000</u>

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 6. Long-Term Debt (continued)**

General Obligation Bonds (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.

Compensated Absences Payable

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

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

At June 30, 2015, the District recorded a liability of \$139,967 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportion of the net pension liability was based on the employer's contributions received by PERS during the measurement period July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of the PERS' participating employers. At June 30, 2014 the District's proportion was .011233%.

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>	<u>Amounts due within One Year</u>
Bonds payable:					
SRF Treatment Plan	\$ 3,981,000	\$ -	\$ (380,000)	\$ 3,601,000	\$ 389,000
SRF Water Meters	305,000	-	(30,000)	275,000	30,000
SRF Water Tank	1,076,000	-	(104,000)	972,000	106,000
GO Bonds Treatment Plant Improvements	3,419,000	-	(326,000)	3,093,000	334,000
	<u>3,748,000</u>	<u>-</u>	<u>(241,000)</u>	<u>3,507,000</u>	<u>246,000</u>
Total bonds payable	12,529,000	-	(1,081,000)	11,448,000	1,105,000
Compensated absences	97,864	18,246	-	116,110	116,110
Net pension liability	<u>155,128</u>	<u>-</u>	<u>(15,161)</u>	<u>139,967</u>	<u>139,967</u>
Total long-term liabilities	<u>\$ 12,626,864</u>	<u>\$ 18,246</u>	<u>\$ (1,081,000)</u>	<u>\$ 11,564,110</u>	<u>\$ 1,221,110</u>

Debt service requirements at June 30, 2015, were as follows

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,105,000	\$ 248,371	\$ 1,353,371
2017	1,129,000	223,703	1,352,703
2018	1,156,000	198,503	1,354,503
2019	1,182,000	172,703	1,354,703
2020	1,207,000	146,337	1,353,337
Thereafter	<u>5,669,000</u>	<u>359,188</u>	<u>6,028,188</u>
	<u>\$ 11,448,000</u>	<u>\$ 1,348,805</u>	<u>\$ 12,796,805</u>

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 6. Long-Term 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, 2015.

**NOTE 7. 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 was still outstanding and included accrued penalties of \$18,000. As of June 30, 2015, the District has paid the unpaid plant investment fees.

Changes in unpaid plant investment fees were as follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Farmhouse	\$ 97,800	\$ -	\$ (97,800)	\$ -

**NOTE 8. Employee Benefit Plan**

Public Employees' Retirement System (PERS)

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, Montana Code Annotated (MCA). This plan covers the State, local governments, 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 may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit 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). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8. Employee Benefit Plan (continued)**

Public Employees' Retirement System (PERS)

Plan Description (continued)

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. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

Members are eligible for benefits:

Service retirement	Hired prior to July 1, 2011	Age 60, 5 years of membership service; or 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; or Age 70, regardless of membership service
Early retirement, actuarially reduced	Hired 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
	Vesting	Age 55, 5 years of membership service

A member's highest average compensation (HAC) is:

- Hired prior to July 1, 2011 - the highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 - the highest average compensation during any consecutive 60 months;
- Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a member's highest compensation.

The monthly benefit formula is:

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.

The guaranteed annual benefit adjustment (GABA)\* is:

- 3% for members hired prior to July 1, 2007;
- 1.5% for members hired on or after July 1, 2007.

\*At this time, as a result of permanent injunction issued in the AM RPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8. Employee Benefit Plan (continued)**

Public Employees' Retirement System (PERS) - continued

Plan Description - continued

Summary of Benefits - continued

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. Total number of members (employees) covered by benefit terms as of June 30, 2015:

Active plan members: 28,237

Inactive members entitled to but not yet receiving benefits or a refund:

Vested: 2,925/Non-Vested: 8,839

Inactive members and beneficiaries currently receiving benefits:

Service retirements: 20,080

Disability retirements: 176

Survivor benefits: 425

Overview of Contributions

- Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
- Member contributions to the system:
  - Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
  - The 7.90% member contributions is 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 following the reduction of both the additional employer and additional member contribution rates.
- Employer contributions to the system:
  - State and University System employers are required to contribute 8.27% of members' compensation.
  - Local government entities are required to contribution 8.17% of members' compensation.
  - School district employers contributed 7.90% of members' compensation.
  - Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased.
  - Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1 % a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
  - Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
  - 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 AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8. Employee Benefit Plan (continued)**

Public Employees' Retirement System (PERS) - continued

Plan Description - continued

Summary of Benefits - continued

- Non employer contributions:
  - Special funding
    - The State contributes 0.1 % of members' compensation on behalf of local government entities.
    - The State contributes 0.37% of members' compensation on behalf of school district entities.
  - Not special funding
    - The State contributes from the Coal Tax Severance fund.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, 406-444-3154.

CAFR information including PERS stand alone financial statements can be found at <http://mpera.mt.gov/annualReports.shtml>. The latest actuarial valuation and experience study can be found at <http://mpera.mt.gov/actuarialvaluations.shtml>.

Actuarial Assumptions

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

General wage growth*	4.00%
*includes inflation at	3.00%
Merit increases	0% to 6.0%
Investment return	7.75%
Post retirement benefit increases	3% for members hired prior to July 1, 2007 1.5% for members hired on or after July 1, 2007

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.

\*At this time, as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8. Employee Benefit Plan (continued)**

Public Employees' Retirement System (PERS) - continued

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1 % of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease (-6.75%)	Current Discount Rate	1.0% Increase (-8.75%)
PERS Net Pension Liability	\$1,982,274,732	\$1,246,010,898	\$625,044,646
Big Sky County Water & Sewer District proportion	222,673	139,967	70,213

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8. Employee Benefit Plan (continued)**

Public Employees' Retirement System (PERS) - continued

Discount Rate - continued

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
District Proportionate Share	\$180,116	\$139,967	0.011233%
State of Montana Proportionate Share associated with District	2,200	1,709	0.014270%
Total	\$182,316	\$141,676	0.025503%

At June 30, 2015, the District recorded a liability of \$139,967 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportion of the net pension liability was based on the employer's contributions received by PERS during the measurement period July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of the PERS' participating employers. At June 30, 2014 the District's proportion was .011233%.

Changes in actuarial assumption and methods: There were no changes in assumption or other inputs that affected the measurement of the Total Pension Liability.

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

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8. Employee Benefit Plan (continued)**

Public Employees' Retirement System (PERS) - continued

Net Pension Liability - continued

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the District's reporting date that are expected to have a significant effect on the District's proportionate share of the collective NPL.

Pension Expense

	Pension Expense as of 6/30/14
District's Proportionate Share	\$10,377
State of Montana Proportionate Share associated with District	3,958
Total	\$14,335

At June 30, 2015, the District recognized a Pension Expense of \$14,335 for its proportionate share of the FURS' Pension Expense. The District also recognized grant revenue of \$3,958 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the District.

Recognition of Beginning Deferred Outflow

At June 30, 2015, the District recognized a beginning deferred outflow of resources for the District's year ended June 30, 2014 contributions of \$25,039.

Deferred Inflows and Outflows

At June 30, 2015, the District reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	-	36,165
Changes in proportion differences between District and contributions and proportionate share of contributions	10,632	5
Difference between actual and expected contributions	-	-
# Contributions paid to FURS subsequent to the measurement date - FY 2015 calculations	28,503	-
Total	\$ 39,135	\$ 36,170

# Amounts reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8. Employee Benefit Plan (continued)**

Public Employees' Retirement System (PERS) - continued

Deferred Inflows and Outflows - continued

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	\$2,289	\$7,788	\$(5,499)
2017	2,289	7,788	(5,499)
2018	3,764	12,805	(9,041)
2019	N/A	N/A	N/A
2020	N/A	N/A	N/A
Thereafter	N/A	N/A	N/A

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 2015 and 2014 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 year ended June 30, 2015, the District contributed \$30,737 to the plan and employees contributed \$43,777.

**NOTE 9. Prior Period Adjustment**

In the year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement 68 "Accounting and Financial Reporting for Pensions". The objective of Statement 68 is to improve accounting and financial reporting by state and local governmental employers about financial support for pensions that is provided by other entities. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. Implementing Statement 68 resulted in the reclassification of the beginning net position for June 30, 2014. The unfunded pension obligation in the amount of \$155,128 were reclassified as expense of prior periods and resulted in the adjustment below.

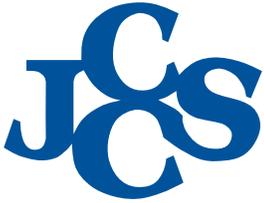
A summary of these adjustments is as follows:

Net position at June 30, 2014	\$ 40,846,496
Change in reporting for the net pension liability	<u>(155,128)</u>
Net position at June 30, 2014, restated	<u>\$ 40,691,368</u>

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10. Subsequent Events**

Management has evaluated subsequent events through December 15, 2015, the date on which the financial statements were available to be issued.



Junkermier • Clark  
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INDEPENDENT AUDITORS' 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*

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

We have audited, 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, the financial statements of Big Sky County Water and Sewer District No. 363 ("the District"), as of and for the year ended June 30, 2015, 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 December 15, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. See Finding 2010-1.

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. We did not identify any findings we would consider to be significant deficiencies.

### **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 of 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*.

### **Responses to Findings**

Big Sky County Water and Sewer District No. 363's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Big Sky County Water and Sewer District No. 363's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Kalispell, Montana  
December 15, 2015

**BIG SKY COUNTY WATER AND SEWER DISTRICT NO. 363  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015**

**CURRENT YEAR COMMENTS:**

No findings are reported in the current year audit.

**PRIOR YEAR COMMENTS:**

None.