



ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION - LOCAL GOVERNMENT SERVICES
ANNUAL FINANCIAL REPORT
Special Purpose District

Fiscal Year End:	<u>6/30/2020</u> <small>00/00/0000</small>
Entity #	<u>101604</u> <small>000000</small>
Big Sky County Water & Sewer District No. 363	
<small>Entity Name</small>	
<u>PO Box 160670</u>	
<small>Address</small>	
<u>Big Sky</u>	<u>MT</u> <u>59716</u>
<small>City</small>	<small>State</small> <small>Zip</small>

Name Correction: _____

Address Correction: _____

The annual financial report must be completed and submitted within 6 months of your fiscal year end. If your year end is June 30th, the report is due by December 31st. Please NOTE: A monetary penalty may be assessed if the report is not submitted by due date.

This report must be submitted to the Department of Administration - LGSB in one of the following ways:

Standard Mail

Montana Department of Administration
 Mitchell Building - Room 270
 PO Box 200547
 Helena, MT 59620-0547

electronically by uploading it at this website:

<http://sfsd.mt.gov/LGSB/LGSPortal>

or by emailing it to this address:

LGSPortalRegistration@mt.gov

For other forms or information: Please see our website at:

<http://sfsd.mt.gov/lgsb>

Questions may be directed to our office at: (406)-444-9101 or

LGSPortalRegistration@mt.gov

Alternative Report Formats:

You may submit computer-generated reports (such as a Balance Sheet and a Profit & Loss or Income Statement; or an audit) as long as similar information is provided.

NOTE: Page's 1 & 2 of this form must be attached to all reports, and no matter the format, the report is due within 6 months of your fiscal year-end.

ENTITY CONTACT INFORMATION REQUIRED

Name: Terry Smith

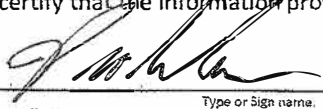
E-mail: terry@wsd363.com

Title: Financial Officer

Phone# 406-995-2660

CERTIFICATION: I hereby certify that the information provided in this report is true and correct to the best of my knowledge.

Board Member


Type or Sign name.

Date: 12/22/20
00/00/00

Title:

Treasurer

ANNUAL FINANCIAL REPORT FILING FEE FORM

Big Sky County Water & Sewer District No. 363
 PO Box 160670
 Big Sky MT 059716

FEE REQUIREMENT: As provided by 2-7-514, MCA, each local government required to have an audit under 2-7-503, MCA, shall pay an annual filing fee to the department; the fee schedule shall be based upon the local government's annual revenue amounts. Administrative Rule 2.4.402 defines "revenue" as all receipts of a local government entity from any source excluding the proceeds from bond issuances and other long-term debt.

AUDIT REQUIREMENT: As provided by 2-7-503, MCA, each local government receiving revenue or financial assistance in excess of \$750,000, regardless of the source of revenue or financial assistance, shall have an audit. "Financial Assistance" is defined as including assistance provided by a federal, state, or local government entity in the form of loans and loan guarantees.

DETERMINATION OF FILING FEE

To determine whether your local government has to pay a filing fee, and if so, the amount of the fee, please complete the following steps:

1. Determine the Total Receipts: Page 3 Line (9) Line A: \$ 5,690,597.00

2. If the amount on Line A is \$750,000 or less, no filing fee is required to be paid. Complete Part II below to determine if there is an audit requirement.

If the amount on Line A is greater than \$750,000, a formula will determine your filing fee from the fee schedule below and place that amount on Line B. If a filing fee is calculated on Line B, your Local government entity will be required to have an audit.

Line B: \$1700

If Line B is greater than \$0, please include a check or warrant made payable to "State Treasurer" in the amount of the required fee.

Part II - Determination of audit requirements with no filing fee

To the amount on line A, add debt proceeds from page 4, line 14, that your Entity received from a Federal, State, or local Agency. If the resulting amount is more than \$750,000, you will be required to have an Audit. This does not include funds used only to refinance prior debt.

Line A	\$ <u>5,690,597.00</u>	
Debt Proceeds -Page 4, Line 14	\$ <u> </u>	Audit Required: <u>YES</u>
Total	\$ <u>5,690,597.00</u>	

(If the Total is greater than \$750,000, you will need to have an audit, even though you will pay no filing fee.)

Please remit payment with your annual financial report form to:

Montana Department of Administration
Local Government Services
Mitchell Building - Room 270
PO Box 200547
Helena, MT 59620-0547

LOCAL GOVERNMENT ANNUAL FILING FEE SCHEDULE

Annual Resources In Excess of:	Annual Resources Equal to or Less Than:	Filing Fee
\$0	\$750,000	\$0
\$750,000	\$1,000,000	\$550
\$1,000,000	\$1,500,000	\$800
\$1,500,000	\$2,500,000	\$950
\$2,500,000	\$5,000,000	\$1,300
\$5,000,000	\$10,000,000	\$1,700
\$10,000,000	\$50,000,000	\$2,500
\$50,000,000		\$3,000

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Big Sky County Water & Sewer District No. 363, which comprise the Statements of Net Position as of June 30, 2020 and 2019 and the related Statements of Revenues, Expenses and Changes in Net Position, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Sky County Water & Sewer District No. 363 as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 3-9 and 42-45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2020 on our consideration of Big Sky County Water & Sewer District No. 363's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Sky County Water & Sewer District No. 363's internal control over financial reporting and compliance.



Holmes & Turner

Bozeman, Montana
December 15, 2020

MANAGEMENT DISCUSSION & ANALYSIS

Management Discussion and Analysis
Fiscal Year 7/1/2019 - 6/30/2020

The Big Sky County Water & Sewer District 363 is a public water and sewer system located in Southwest Montana. The District was established in 1994 under Montana Code Annotated Title 7, Chapter 13. The District spans two counties, Gallatin and Madison, and serves approximately 3,100 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 increased by 0.84% in fiscal year 2019-2020. Capital assets net of accumulated depreciation increased from \$43,071,667 to \$43,432,283. The District added to the asset base in excess of the depreciation expense taken on the existing asset base.

The sewer capital assets of the District increased from \$38,766,118 to \$40,021,330. The District spent approximately \$33,000 on sewer manhole monitoring equipment. The District spent approximately \$7,100 on sewer sampling equipment. The District continued work upgrading the components of sewer ponds aeration system spending an additional \$4,200 on parts. The District's chlorine injection system required another \$8,300 to complete in fiscal 2019-2020. The District spent approximately \$69,400 on new motors and pumps for the treatment plan. The District spent \$2,900 on cabinets for sewer extension plans. The District did an addition for the chlorine injection system at pump house one that added \$7,300 in capital costs. The District spent approximately \$1,115,000 on design engineering for the new sewer treatment plant. The District is in the process of upgrading the existing sewer treatment plant. The Sewer Department did not add any donated sewer extensions. The District continues to recognize the Search and Rescue Building on the books of the District. The District added another \$6,000 in fiscal 2019-2020. There is an agreement with the Big Sky Search and Rescue stipulating the circumstances under which the building may eventually revert to the District. However, the District anticipates this to be a perpetual agreement with the Big Sky Search and Rescue Operation.

The water capital assets increased from \$22,337,826 to \$22,591,161. The District spent approximately \$116,000 on engineering and test well drilling for new wells on the mountain. The District spent \$8,400 on well pump replacements. The District spent \$13,400 on new computer equipment for the water department staff as well as a computerized locator. The water department picked up new cabinets and chairs spending approximately \$3,800. The District installed new meter equipment costing approximately \$60,000 and completed the fixed based meter reading system at a cost of \$18,600. The fixed base meter reading system is a cloud-based radio transmitted meter reading system. The fixed base system was completed in fiscal 2019-2020 and is fully operational. The water department spent approximately \$27,000 finishing the rehab project of the Lone Moose Meadow pump house. The District did not add any donated water extension in 2019-2020 fiscal year.

The total long-term liabilities associated with the existing State Revolving Fund Loans of both systems decreased to \$5,669,000 from \$6,876,000 including the current portion of the SRF Loans. The District used low interest rate loans from the State Revolving Loan Program to finance both water and sewer projects. In July of 2013 the District refinanced the three water loans through the State Revolving Loan Program two at 2.00% and the larger dollar loan at 2.25%. The two sewer loans were both refinanced at 2.25% in May of 2013.

The District is a member of the Montana Public Employees Retirement Administration which administers the retirement plan for District employees. The rules for how to account for pensions changed the financial reporting requirements for governmental pensions and now impact the District’s financial statements. The Governmental Accounting Standard’s Board (GASB) introduced two new standards in June of 2012. The two new standard’s GASB 67 and 68 relate to financial statement reporting for public pensions. GASB 67 is applicable to the overall pension system financial statements and GASB 68 effective in fiscal 2015 is applicable to the financial statements of the participating employers. As a result, the District is now booking assets and liabilities and current period non-cash expenses reported to the District by the actuary of the Montana Public Employees Retirement Administration. In fiscal 2019-2020 the District updated the Net Pension Liability (NPL) from \$286,247 to \$286,700. This amount represents the District’s share of the actuarial unfunded liabilities of the pension system in which the District employees participate. Although \$286,700 is a large pension liability, the unfunded liability is currently funded over a thirty-year period. The net pension liability is subject to volatile swings based on financial market movements and any changes in the underlying actuarial assumptions. For fiscal 2019-2020 GASB 68 reporting requirements increased the net pension liability by \$453 and added \$35,140 to current year pension expense. District management does not believe that the current NPL adversely affects the financial statements or financial position of the District. See the attached GASB 68 notes to the financial statements for more detail.

The total liabilities of the District decreased 6.32% due primarily to the reduction in the general obligation bonds. The current liabilities of the District increased from \$3,528,338 to \$4,162,375. The District’s Performance bonds and retainage payable increased from \$2,133,276 to \$2,415,397 and the current portion of the long-term liabilities increased to \$1,234,000 from \$1,207,000. The accounts payable and accrued expenses increased from \$188,062 to \$512,978. The accounts payable increase was due primarily to larger expenses associated with the new treatment plant costs at fiscal year-end.

Year	Total Assets	Growth Rate	Total Liabilities	Growth Rate
2015-2016	\$56,873,268	3.47%	\$11,947,122	-4.10%
2016-2017	\$58,963,862	3.68%	\$11,746,890	-7.10%
2017-2018	\$60,031,311	1.93%	\$10,763,391	-8.37%
2018-2019	\$61,169,177	1.90%	\$9,607,328	-10.74%
2019-2020	\$62,651,174	2.42%	\$9,000,267	-6.32%

Operating Revenue/Non-Operating Revenue

The total operating revenues of the District increased from \$3,099,744 to \$3,260,877. The total sewer operating revenue increased from \$1,737,973 to \$1,836,590. The total water operating revenue increased from \$1,361,771 to \$1,424,287. The sewer operating revenue increase was due primarily to the 5% rate increase effective 1/1/2020. The sewer usage was up marginally by 0.21% or approximately 219,000 gallons. The increase in water operating revenue was due to the 4% rate increase effective 1/1/2020. The water usage was down approximately 3.03% or approximately 4,500,000 gallons. The sewer system had an additional seventy hookups representing an increase of approximately 2.40% in sewer hookups.

The water department had an additional eighty-three hookups representing an increase of approximately 2.80% in water hookups.

The District has a plant investment charge on the sewer plant and water system investment charge on the water plant. The plant investment charge and system investment charge are calculated based on the size of the property and collected through the permitting process. This is the fourth year of the water system investment charge which was effective October 1, 2016. The total non-operating revenue includes tax receipts for bond payments, plant investment charges, water system investment charges, interest income, Resort Tax appropriation and other non-operating income. The Total non-operating revenue, net of interest expenses and other non-operating expenses of the District increased from \$1,654,726 to \$2,279,499. The District collected \$1,310,370 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 sewer treatment plant. Plant investment fees increased from \$292,295 to \$471,948 due to an increase in the number of single family equivalents (SFE's) on the submitted sewer permits in the fiscal year. The water system investment charges increased from \$53,754 to \$92,227 for the same reason as the sewer system increase. Interest income decreased from \$286,356 to \$214,380 due to steadily decreasing interest rates. The District was awarded \$250,000 from the Resort Tax Board to use towards engineering costs for the new treatment plant.

Year	Total Revenues	Growth Rate	Total Expenses	Growth Rate
2015-2016	\$4,267,858	6.57%	\$2,996,991	6.56%
2016-2017	\$4,998,521	17.12%	\$3,109,615	3.75%
2017-2018	\$5,311,792	6.26%	\$3,233,550	3.99%
2018-2019	\$4,925,166	-7.27%	\$3,428,324	6.02%
2019-2020	\$5,434,597	10.34%	\$3,629,448	5.87%

Operating Expenses/Non-Operating Expenses

The total operating expense for the District increased to \$3,485,227 from \$3,257,628. The total general and administrative expense increased to \$600,489 from \$559,493. The total sewer general and administrative expense increased to \$269,693 from \$253,939. Total sewer operation expense increased from \$1,180,232 to \$1,343,675. The total water general and administrative expense decreased from \$461,539 to \$414,992. The total water operating expense increased from \$802,425 to \$856,378. The total operating expense increased \$227,599 from last fiscal year, a 6.99% increase. The increase in operating expenses is due to general price inflation, repairs and maintenance on the sewer treatment plant and additional wastewater monitoring. In addition, there were two unforeseen events that increased operating expenses. The first was a valve failure in the sewer filter building causing approximately \$33,000 dollars in damage. The second was an earth movement on the sewer outfall line that includes a water line. The cost to repair the earth movement was approximately \$33,000 as well. Both events were covered by insurance, however, insurance proceeds are recorded in non-operating revenues. In the non-operating expense category, the main item is the interest expense on the State Revolving Fund Loans. In fiscal 2019-2020 the District made principal payments in the amount of \$1,207,000 with total payments amounting to \$1,353,226. The District paid \$146,336 in interest on those loans.

Year	Total Operating Revenues	Growth Rate	Total Operating Expenses	Growth Rate
2015-2016	\$2,703,452	5.18%	\$2,736,955	8.03%
2016-2017	\$2,977,755	10.17%	\$2,736,955	8.03%
2017-2018	\$2,977,755	10.17%	\$3,047,875	5.16%
2018-2019	\$3,099,744	4.01%	\$3,257,628	6.88%
2019-2020	\$3,260,877	5.20%	\$3,485,277	6.99%

Capital Assets

The District did not receive any donated capital assets in the form of water and sewer extensions in fiscal 2019-2020. Donated capital assets are the water and sewer extensions as well as other infrastructure required to install and complete new construction projects and subdivisions within the District. All donated capital assets are acquired by the District through formal transfer agreements which are recorded at the appropriate county office. The District requires a two-year warranty on the assets transferred to the District. The warranty is in the form of cash or letter of credit. The warranty security amount is 10% of the cost basis of the assets transferred to the District. The contributed assets are then recorded as either water or sewer assets on the books of the District and depreciated accordingly. The recorded value of the asset is recognized as income in the year of acceptance. The District also booked an additional \$6,000 in donated capital assets for the Big Sky Search & Rescue Building agreement. However, the District does not record the depreciation expense for the Search and Rescue Building in the District accounting records.

The District’s Total Net Position at June 30, 2020 was \$53,721,878. The total amount includes \$37,763,283 invested in capital assets, net of related debt, \$15,316,885 in unrestricted assets which includes cash, and \$641,710 restricted cash for debt service. The total represents an increase of \$2,061,147 over the prior fiscal year total. The invested in capital assets, net of related debt increased by \$1,567,616 due to more assets added then the debt reduction and asset depreciation. The unrestricted portion increased by \$533,848 due primarily to an increase in cash. The restricted for debt service category decreased to \$641,710 from \$682,027 due to variance in tax receipts.

The District continued the new treatment plant project with Advanced Engineering & Environmental Services, Inc. (AE2S). The District signed a contract to design the new plant with AE2S last fiscal year. Construction on the new plant is expected to start in fiscal 2020-2021. The District implemented new rates based on the rate analysis by AE2S. The District now has water and sewer rate categories for residential, commercial, irrigation and reuse water. The rate study included an evaluation of the plant investment fees charged on both the sewer and water system. The current plant investment fee/system investment fee study is expected to be completed in fiscal 2020-2021. The last study performed regarding plant investment fees/system investment fees was completed in 2016 by Tischler Bise.

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 2019-2020 water operating revenues were insufficient to cover operating expenses. The water department had an operating loss of \$147,328. The sewer operating revenues were insufficient to cover sewer operating expenses as well. The sewer department had operating loss of \$77,023. Water operating revenue increased by 4.59% and sewer operating revenue increased by 5.67%. The operating expenses increased by 6.99% leaving a total deficit of \$224,350 for water and sewer operations.

The rate study done by AE2S was implemented by the District as of 1/1/2020. As a result, the change in rates will not have a full fiscal year to measure until 2020-2021. In addition, within the first Quarter of 2020 a global pandemic was declared. The District is still assessing how to move forward with rates and charges. The District's new MBR plant is still moving forward and funding for the new plant has expanded beyond the State Revolving Fund program to include private sector funding options.

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

Rates Fiscal Year	Water Base	Growth Rate	Water Usage	Growth Rate	Sewer Base	Growth Rate	Sewer Usage	Growth Rate
2006-2007	\$14.25	0%	\$2.35	0%	\$22.04	0%	\$3.85	0%
2007-2008*	\$14.25	0%	\$2.35	0%	\$22.04	0%	\$3.85	0%
2008-2009	\$14.89	4.49%	\$2.42	2.98%	\$23.03	4.49%	\$4.81	24.94%
2009-2010	\$15.46	3.83%	\$2.49	2.89%	\$23.91	3.82%	\$5.82	21.00%
2010-2011	\$15.46	0%	\$2.49	0%	\$23.91	0%	\$5.82	0%
2011-2012	\$15.46	0%	\$2.49	0%	\$23.91	0%	\$5.82	0%
2012-2013	\$15.46	0%	\$2.49	0%	\$23.91	0%	\$5.82	0%
2013-2014	\$15.61	1%	\$2.51	1%	\$24.15	1%	\$5.88	1%
2014-2015	\$15.77	1%	\$2.54	1%	\$24.39	1%	\$5.94	1%
2015-2016	\$15.93	1%	\$2.57	1%	\$24.63	1%	\$6.00	1%
2016-2017*	\$16.57	4%	\$2.67*	4%	\$26.35	7%	\$6.42	7%
2017-2018*	\$16.73	1%	\$2.70*	1%	\$26.62	1%	\$6.48	1%
2018-2019*	\$16.90	1%	\$2.73*	1%	\$26.88	1%	\$6.55	1%
2019-2020**	\$17.58	4%	\$2.98**	9%	\$28.22	5%	\$6.88**	5%

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

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

**Beginning January 1, 2020, the District instituted separate rate codes for commercial and residential water and sewer usage. In addition, a separate rate code for irrigation water and reuse water (treated wastewater) usage. Water tiers were lowered and separate tier levels for residential, commercial, irrigation and reuse were established. Residential 0-20,000 gallons, 20,000 to 40,000 gallons, 40,000 to 60,000 gallons, 60,000 gallons and above as follows: 2020 \$2.98, \$4.47, \$6.26 and \$8.76. Commercial 0-30,000 gallons, 30,000 to 60,000 gallons, 60,000 to 80,000 gallons, 80,000 gallons and above as follows: 2020 \$2.98, \$4.47, \$6.26 and \$8.76. Irrigation 0-20,000 gallons, 20,000 to 40,000 gallons, 40,000 gallons and above as follows: 2020 \$4.47, \$6.26 and \$8.76. Reuse usage does not yet have a volumetric charge. However, the District will review reuse charges on an annual basis. The sewer commercial usage rate is \$7.21 per thousand gallons.

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

Budget/Actuals

The budget for fiscal 2019-2020 at year-end had Total Revenues 105.14% of budget, Total Expenses 103.55% of budget and Total Net Revenue 108.07% of budget. The District did not receive any contributed assets from developers. The District did book \$6,000 for the Search and Rescue building accrual. Income before developer contributions was \$2,055,152.

The Operating Revenues were at 99.17% of budget and Operating Expenses were at 102.95% of budget. As a result, there was a \$224,350 operating deficit. The District budget for 2019-2020 projected an operating deficit of \$97,317. Administrative expenses for general administration were 98.53% of budget. As a result, general and administrative expenses were within budget tolerance of plus or minus five percent of budget. The water department administration and sewer department administration came in at 94.00% of budget and 80.39% of budget respectively. The sewer operations expense was at 112.73% of budget. The water operations expense was 106.09% of budget. The sewer and water department's operating budgets are separated into seven categories: Vehicles, Operating Expenses, Repairs and Maintenance, Professional Services, Miscellaneous, Asset Replacement & Depreciation and Special Projects.

The sewer department operations were outside budget tolerance in all categories except vehicles, miscellaneous, asset replacement and depreciation and special projects. In the sewer operating expense category was 113.91% of budget. Three major energy line items were all under budgeted. The power costs for the recirculating pumps, the treatment plant, and filter building accounted for the overage. Fiscal 2020-2021 budget will be amended accordingly. In the sewer repairs and maintenance category it was 145.85% of budget. The costs for both the filter building flood and the earth movement accounted for the majority of this category's overage. Fortunately, both events were covered by insurance and the recovered funds are reflected in non-operating income category. In the sewer professional service category 408.80% of budget. The District engaged several engineering firms for additional services that were not budgeted. The District spent additional funds on engineering for sewer pipeline easements, review Yellowstone Mountain Club's new pond, pipeline realignments and general engineering. However, the overall sewer budget was marginally over the budgetary tolerance of plus or minus five percent at 105.63% of budget.

The water department operations were within budget tolerance in all categories except vehicles and repairs & maintenance. In the vehicle's category which was at 128.08% of budget. Both fuel for the vehicles and fuel for the booster stations were under budgeted. In addition, there were repairs to three of the four employee water vehicles that were not budgeted. In the repairs and maintenance category it was 126.61% of budget. There were more repairs done to the distribution system than budgeted. However, the overall water budget was within budgetary tolerance of plus or minus five percent at 101.82% of budget.

Total Non-Operating Revenues were at 114.41% of budget and Non-Operating Expenses were at 120.69% of budget. The combined water and sewer tax receipts from both Madison and Gallatin County were within budget tolerance. The sewer plant investment fee sub-category was budgeted at \$250,000 however, \$471,948 was collected. The water system investment fee sub-category was budgeted at \$75,000 however, \$92,227 was collected. The District budgeted \$150,000 in developer capital contributions; however, none were received. The water debt service Interest costs were underestimated and came in at 114.64% of budget. The sewer debt service interest costs were underestimated and came in at 107.71% of budget. The increase in the non-operating revenue line items resulted in Net Non-Operating Revenues of \$2,279,500 114.03% of budget.

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 \$5,669,000 including the current portion of the long-term debt. The District services the debt through bi-annual payments. The main source for debt service is the ad-valorem tax established each year based on the actual debt service payments made each January 1, and July 1. The District reassesses debt service funding alternatives in every budget cycle.

Conclusion

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,224,030	\$ 6,357,222
Investments	10,392,902	10,227,726
Accounts receivable, net	744,829	706,299
Prepaid expenses	102,027	8,492
Water meter inventory	113,393	115,744
Total current assets	18,577,181	17,415,483
Noncurrent assets		
Restricted cash and cash equivalents	641,710	682,027
Nondepreciable capital assets	1,131,806	1,125,806
Depreciable capital assets, net	42,300,477	41,945,861
Total noncurrent assets	44,073,993	43,753,694
Total assets	62,651,174	61,169,177
DEFERRED OUTFLOWS OF RESOURCES		
Montana Public Employees Retirement System	\$ 92,979	\$ 110,265

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020	2019
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 512,978	\$ 188,064
Performance bonds and retainage payable	2,415,397	2,133,276
Current portion of long-term liabilities	1,234,000	1,207,000
Total current liabilities	4,162,375	3,528,340
Long-term liabilities		
Compensated absences payable	116,192	123,741
Net pension liability	286,700	286,247
General obligation bonds	4,435,000	5,669,000
Total long-term liabilities	4,837,892	6,078,988
Total liabilities	9,000,267	9,607,328
DEFERRED INFLOWS OF RESOURCES		
Montana Public Employees Retirement System	22,008	11,385
NET POSITION		
Net investment in capital assets	37,763,283	36,195,667
Unrestricted	15,316,885	14,783,035
Restricted for debt service	641,710	682,027
Total net position	\$ 53,721,878	\$ 51,660,729

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUE		
Sewer services	\$ 1,836,590	\$ 1,737,973
Water services	1,424,287	1,361,771
Total operating revenue	3,260,877	3,099,744
OPERATING EXPENSES		
General and administrative		
Advertising	24	-
Dues and subscriptions	3,065	4,770
Education expenses	9,712	2,685
Insurance	148,551	158,526
Janitorial and carpet services	3,094	3,088
Meetings	5,065	8,049
Miscellaneous	6,462	3,595
Office building repair and maintenance	6,597	724
Office supplies and expenses	28,231	21,276
Payroll taxes and benefits	60,521	57,008
Professional fees	36,185	19,880
Telephone and computer maintenance	17,298	18,191
Salaries	267,137	254,701
Utilities	4,512	4,356
Vehicle expenses	4,035	2,644
Total general and administrative	\$ 600,489	\$ 559,493

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING EXPENSES (CONTINUED)		
Sewer general and administrative		
Salaries and wages	\$ 157,741	\$ 149,573
Insurance	69,704	59,713
Payroll taxes and benefits	35,209	33,031
Dues and subscriptions	800	1,318
Telephone	5,277	5,832
Office supplies	257	676
Education expense	705	3,796
Total sewer general and administrative	269,693	253,939
Sewer plant expenses		
Chemicals	69,427	72,356
Depreciation	684,901	674,100
Engineering	63,363	6,988
Fuel - equipment and vehicles	9,567	11,005
Lab testing equipment	527	276
Maintenance and repairs - building and grounds	82,130	69,960
Miscellaneous	210	2,536
Safety equipment	1,172	911
Sewer repairs and maintenance	84,251	64,251
Treatment plant repairs and maintenance	9,187	39,307
Electric and utilities	295,066	194,520
Travel and vehicle expense	14,670	11,256
Waste water monitoring	29,204	32,766
Total sewer plant expenses	\$ 1,343,675	\$ 1,180,232

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING EXPENSES (CONTINUED)		
Water general and administrative		
Salaries and wages	\$ 256,688	\$ 272,756
Insurance	75,700	100,392
Payroll taxes and benefits	56,822	62,504
Dues and subscriptions	2,550	2,928
Telephone	9,789	8,963
Office supplies	1,329	1,570
Education expense	7,686	8,562
Public water supply fee	4,428	3,864
Total water general and administrative	414,992	461,539
Water plant expenses		
Depreciation	463,034	455,911
Fuel - equipment and vehicles	12,173	15,027
Lab testing equipment	6,868	1,512
Miscellaneous	657	943
Professional services	816	3,735
Repairs and maintenance	141,937	131,166
Special projects	24,265	14,773
Safety equipment	2,583	2,466
Electric and utilities	179,607	160,446
Travel and vehicle expense	24,438	16,446
Total water plant expenses	856,378	802,425
Total operating expenses	3,485,227	3,257,628
Operating income (loss)	\$ (224,350)	\$ (157,884)

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
NONOPERATING REVENUES AND (EXPENSES)		
Interest expense	\$ (132,941)	\$ (159,586)
Other nonoperating expense	(11,280)	(11,110)
Tax receipts for bond payments	1,310,370	1,175,119
Plant investment charges	471,948	292,295
Water system investment charges	92,227	53,754
Interest income	214,380	286,356
Resort tax appropriation	250,000	-
Other nonoperating revenue	84,795	17,898
Total nonoperating revenues and (expenses)	2,279,499	1,654,726
Income before contributions	2,055,149	1,496,842
Contributed capital	6,000	765,658
Increase (decrease) in net position	2,061,149	2,262,500
Net position, beginning of year	51,660,729	49,398,229
Net position, end of year	\$ 53,721,878	\$ 51,660,729

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 3,146,098	\$ 3,084,772
Payments to suppliers and employees	(2,006,504)	(2,173,579)
Net cash flows from operating activities	1,139,594	911,193
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating resort tax appropriation	250,000	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on capital debt	(1,207,000)	(1,182,000)
Purchases of capital assets	(1,502,550)	(1,349,920)
Interest paid on capital debt	(132,941)	(159,586)
Taxes collected for bond payments	1,310,370	1,175,119
Other receipts (payments)	637,690	352,837
Net cash flows from capital and related financing activities	(894,431)	(1,163,550)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest	214,380	286,356
Proceeds from performance bonds and fees	282,121	104,808
Purchases of investments	(165,173)	(10,226,029)
Net cash flows from investing activities	331,328	(9,834,865)
Net increase (decrease) in cash	826,491	(10,087,222)
Cash and cash equivalents, beginning of year	7,039,249	17,126,471
Cash and cash equivalents, end of year	7,865,740	7,039,249
CASH AND CASH EQUIVALENTS AS PRESENTED ON THE STATEMENT OF NET POSITION		
Cash and cash equivalents	7,224,030	6,357,222
Restricted cash and cash equivalents	641,710	682,027
	\$ 7,865,740	\$ 7,039,249

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (224,350)	\$ (157,884)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,147,935	1,130,011
(Increase) decrease in current assets:		
Accounts receivable	(38,530)	(37,725)
Prepaid expenses	(93,535)	330
Inventory	2,351	23,902
Deferred outflows of resources	17,286	22,423
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	324,910	(66,620)
Compensated absences payable	(7,549)	(7,129)
Net pension liability	453	(5,121)
Deferred inflows of resources	10,623	9,006
Net cash flows from operating activities	\$ 1,139,594	\$ 911,193
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest in building	\$ 6,000	\$ 6,000
Water and Sewer Extensions	-	759,658
Total	\$ 6,000	\$ 765,658

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity

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

b. Measurement Focus and Basis of Accounting

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

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

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Revenues and Expenses

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

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

d. Water and Wastewater user Charges

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

e. Use of Restricted/Unrestricted Net Position

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

f. Cash and Investments

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

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

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Restricted Cash

As of June 30, 2020 and June 30, 2019, according to a bond resolution, cash in the amount of \$641,710 and \$682,027 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 cost incurred before the end of a construction period is recognized as an expense in the period in which the cost is incurred.

j. Compensated Absences

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Net Position

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

Proprietary fund net position is divided into three components:

i. Net investment in capital assets

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

ii. Restricted

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

iii. Unrestricted

All other net position is reported in this category.

l. Tax Revenue

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

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Tax Revenue (Continued)

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

m. Budget

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

n. Use of Estimates

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

o. Tax Exempt Status

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

2. CASH AND INVESTMENTS

As of June 30, 2020 and June 30, 2019, the carrying amount of the District's deposits (cash and interest-bearing money market accounts) at local banks was \$7,865,740 and \$7,039,249, respectively. The bank balance as of June 30, 2020 and June 30, 2019 was \$7,847,160 and \$7,142,761, respectively. Of the bank balance, \$750,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by the pledging banks' agents in the District's name.

At June 30, 2020, 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, 2020 and June 30, 2019 was \$10,392,902 and \$10,227,726.

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2020:

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, 2020 and 2019 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 2020 are disclosed in STIP's financial statements. An unaudited copy of the STIP fiscal year 2020 financial statements is available online at the Montana Board of Investments' website.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

3. CAPITAL ASSETS

Capital assets for the year ended June 30, 2020:

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

3. CAPITAL ASSETS (CONTINUED)

Capital assets for the year ended June 30, 2019:

	Balance			Balance	
	June 30, 2018	Additions	Disposals	June 30, 2019	
Nondepreciable capital assets:					
Land	\$ 1,061,689	\$ 6,000	\$ -	\$ 1,067,689	
Land improvements	58,117	-	-	58,117	
Total nondepreciable capital assets	<u>1,119,806</u>	<u>6,000</u>	<u>-</u>	<u>1,125,806</u>	
Depreciable capital assets:					
Buildings	708,219	-	-	708,219	
Sewer infrastructure	35,946,753	1,143,013	-	37,089,766	
Water infrastructure	21,213,585	966,565	-	22,180,150	
Total depreciable capital assets	57,868,557	2,109,578	-	59,978,135	
Accumulated depreciation	<u>(16,902,263)</u>	<u>(1,130,011)</u>	<u>-</u>	<u>(18,032,274)</u>	
Depreciable capital assets, net	<u>40,966,294</u>	<u>979,567</u>	<u>-</u>	<u>41,945,861</u>	
Total capital assets, net	<u>\$ 42,086,100</u>	<u>\$ 985,567</u>	<u>\$ -</u>	<u>\$ 43,071,667</u>	



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

4. LONG-TERM DEBT

The District has issued general obligations bonds which consist of the following at June 30:

	2020	2019
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.	\$ 119,000	\$ 151,000
2.25% State of Montana General Obligation Bonds, Wastewater Revolving Fund Program totaling \$3,739,000, dated April 29, 2013, is a refinancing of Series 2002 bonds used to finance construction of the water treatment plant. Payable in 21 remaining semi-annual installments of approximately \$232,000 until July 1, 2023.	1,566,000	1,991,000
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.	420,000	535,000
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.	1,343,000	1,709,000
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.	2,221,000	2,490,000
Total long-term debt	5,669,000	6,876,000
Less: current portion	(1,234,000)	(1,207,000)
Long-term portion of debt	\$ 4,435,000	\$ 5,669,000

The general obligation bonds are to be repaid semi-annually through 2027 with a mill levy approved in 2004, District plant investment charges, and operating revenue and reserves.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

4. LONG-TERM DEBT (CONTINUED)

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Amounts due within one year</u>
Bonds payable:					
SRF Treatment Plant	\$ 1,991,000	\$ -	\$ (425,000)	\$ 1,566,000	\$ 435,000
SRF Water Meters	151,000	-	(32,000)	119,000	33,000
SRF Water Tank	535,000	-	(115,000)	420,000	117,000
GO Bonds Treatment Plant	1,709,000	-	(366,000)	1,343,000	374,000
Improvements	2,490,000	-	(269,000)	2,221,000	275,000
Total bonds payable	6,876,000	-	(1,207,000)	5,669,000	1,234,000
Compensated absences	123,741	-	(7,549)	116,192	-
Net pension liability	286,247	453	-	286,700	-
Total long-term debt	<u>\$ 7,285,988</u>	<u>\$ 453</u>	<u>\$ (1,214,549)</u>	<u>\$ 6,071,892</u>	<u>\$ 1,234,000</u>

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>	<u>Amounts due within one year</u>
Bonds payable:					
SRF Treatment Plant	\$ 2,407,000	\$ -	\$ (416,000)	\$ 1,991,000	\$ 425,000
SRF Water Meters	183,000	-	(32,000)	151,000	32,000
SRF Water Tank	648,000	-	(113,000)	535,000	115,000
GO Bonds Treatment Plant	2,067,000	-	(358,000)	1,709,000	366,000
Improvements	2,753,000	-	(263,000)	2,490,000	269,000
Total bonds payable	8,058,000	-	(1,182,000)	6,876,000	1,207,000
Compensated absences	130,870	-	(7,129)	123,741	-
Net pension liability	291,368	-	(5,121)	286,247	-
Total long-term debt	<u>\$ 8,480,238</u>	<u>\$ -</u>	<u>\$ (1,194,250)</u>	<u>\$ 7,285,988</u>	<u>\$ 1,207,000</u>



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

4. LONG-TERM DEBT (CONTINUED)

Debt service requirements at June 30, 2020, were as follows.

Year	Principal	Interest	Total
2021	\$ 1,234,000	\$ 67,031	\$ 1,301,031
2022	1,261,000	51,519	1,312,519
2023	1,289,000	35,669	1,324,669
2024	802,000	19,475	821,475
2025	301,000	12,600	313,600
Thereafter	782,000	14,769	796,769
	<u>\$ 5,669,000</u>	<u>\$ 201,063</u>	<u>\$ 5,870,063</u>

Sewer System General Obligation Bonds - Debt Restrictions

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

The District was in compliance with the bond covenants at June 30, 2020.

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, 2020 and 2019, the District had a liability of \$286,700 and \$286,247, respectively, for its proportionate share of the net pension liability. See Note 5 for more information.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the nonemployer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). Employers are required to record and report their proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of resources associated with pensions.

a. Net Pension Liability

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2019, was determined by taking the results of the June 30, 2018, actuarial valuation and applying standard roll forward procedures. The roll forward procedures uses a calculation that adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

i. Special Funding

The state of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as special funding. Those employers who received special funding are all participating employers.

ii. Not Special Funding

Per Montana law, state agencies and universities paid their own additional contributions. These employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions.

iii. Contributions

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

The proportionate shares of the employer's and the state of Montana's NPL for the June 30, 2019, and 2018, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of \$286,700 and the employer's proportionate share was 0.0137 percent.

As of Measurement Date	Net Pension Liability as of June 30, 2019	Net Pension Liability as of June 30, 2018	Percent of Collective NPL as of June 30, 2019	Percent of Collective NPL as of June 30, 2018	Change in Percent of Collective NPL
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 286,700	\$ 286,247	0.0137	0.0137	-
State of Montana Proportionate Share associated with Employer	99,839	101,712	0.0048	0.0049	(0.0001)
Total	\$ 386,539	\$ 387,959	0.0185	0.0186	(0.0001)

b. Changes in actuarial assumptions and methods:

There were no changes in assumptions or other inputs that affected the measurement of the TPL.

c. Changes in benefit terms:

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

d. Changes in proportionate share:

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

e. Pension expense

As of Measurement Date	Pension Expense as of June 30, 2019	Pension Expense as of June 30, 2018
Big Sky Co Water & Sewer Dist #363 Proportionate Share	\$ 47,405	\$ 52,572
Employer Grant Revenue - State of Montana Proportionate Share for Employer	678	6,788
Employer Grant Revenue - State of Montana State Appropriation for employer	6,100	-
Total	<u>\$ 54,183</u>	<u>\$ 59,360</u>

At June 30, 2019, the employer recognized \$47,405 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$678 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of \$6,100 from the State Statutory Appropriation from the General Fund.

f. Recognition of Deferred Inflows and Outflows

At June 30, 2019, the employer reported its proportionate share of Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

As of Measurement Date	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$ 13,595	\$ 13,490
Projected Investment Earnings vs. Actual Investment Earnings	3,476	-
Changes in Assumptions	12,171	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	8,518
Employer Contributions Subsequent to the Measurement Date	63,737	-
Total	<u>\$ 92,979</u>	<u>\$ 22,008</u>



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

f. Recognition of Deferred Inflows and Outflows (Continued)

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

For the Measurement Year Ended June 30:	Recognition of Deferred Inflows in Future years as an increase or (decrease) to Pension Expense	
2020	\$	13,248
2021		(10,426)
2022		1,293
2023		3,120
2024		-
Thereafter	\$	-

g. Plan Description

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, MCA. This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

h. Summary of Benefits

i. Eligibility for benefit

Service retirement:

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

Early retirement, actuarially reduced:

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

ii. Vesting

5 years of membership service..

iii. Member's highest average compensation (HAC)

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

h. Summary of Benefits (Continued)

iv. Compensation Cap

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

v. Monthly benefit formula

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

vi. Guaranteed Annual Benefit Adjustment (GABA)

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

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



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

i. Overview of Contributions

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

Fiscal Year	Member		Local Government	
	hired <07/01/11	hired after >07/01/11	Employer	State of Montana
2020	7.9000	7.9000	8.6700	0.1000
2019	7.9000	7.9000	8.5700	0.1000
2018	7.9000	7.9000	8.4700	0.1000
2017	7.9000	7.9000	8.3700	0.1000
2016	7.9000	7.9000	8.2700	0.1000
2015	7.9000	7.9000	8.1700	0.1000
2014	7.9000	7.9000	8.0700	0.1000
2012-2013	6.9000	7.9000	7.0700	0.1000
2010-2011	6.9000	-	7.0700	0.1000
2008-2009	6.9000	-	6.9350	0.1000
2000-2007	6.9000	-	6.8000	0.1000

- Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Employer contributions to the system:
 - Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
 - Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

i. Overview of Contributions (Continued)

- Non Employer Contributions:

- Special Funding

- The State contributed 0.1% of members' compensation on behalf of local government entities.
 - The State contributed 0.37% of members' compensation on behalf of school district entities.
 - The State contributed a Statutory Appropriation from the General Fund of \$33,615,000.

j. Stand-Alone Statements

The financial statements of the Montana Public Employees Retirement Board (PERB) Comprehensive Annual Financial Report (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at <http://mpera.mt.gov>.

k. Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2018, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2019. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2018. Among those assumptions were the following.

- Investment return (net of admin expense) 7.65%
- Admin expense as a % of payroll 0.26%
- General wage growth * 3.50%
- *Includes inflation at 2.75%
- Merit increases 0 to 6.3%
- Postretirement benefit increases

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% of members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

k. Actuarial Assumptions (Continued)

- 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
- 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members were based on RP 2000 Combined Mortality Tables with no projections.

l. Discount Rate

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 0.1% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

m. Target Allocations

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions 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 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 by adding expected inflation.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

m. Target Allocations (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019, are summarized below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash equivalents	3.0000	4.0900
Domestic equity	36.0000	6.0500
Foreign equity	18.0000	7.0100
Fixed income	23.0000	2.1700
Private equity	12.0000	10.5300
Real estate	8.0000	5.6500
Total	<u>100.0000 %</u>	

n. Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of Measurement Date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Big Sky Co Water & Sewer Dist #363's Net Pension Liability	\$ 411,906	\$ 286,700	\$ 181,480



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

o. Summary of Significant Accounting Policies

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

p. PERS Disclosure for the Defined Contribution Plan

The Authority contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

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

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to the individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

p. PERS Disclosure for the Defined Contribution Plan (Continued)

At the plan level for the measurement period ended June 30, 2019, the PERS-CRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 320 employers that have participants in the PERS-DCRP totaled \$714,024.

6. COMMITMENTS AND CONTINGENCIES

a. Risk Management

The District faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability (i.e. errors and omissions), d) environmental damage, and e) workers' compensation (i.e., employee injuries). The District participates in a risk pool, which provides general liability insurance, auto liability insurance, crime/bond coverage, errors and omissions insurance, earthquake insurance, and property insurance. This pool purchases commercial insurance to cover the members' risks; the District does not assume the liabilities of other entities. Workers' compensation insurance coverage is provided through a commercial policy.

b. Yellowstone Mountain Club Agreement

On March 28, 2001, the District signed an agreement with the Yellowstone Mountain Club and other related entities owned by a developer for the sale of water, treatment of wastewater, and right to use land for the storage and disposal of treated wastewater. The developer shall construct lined ponds for the storage of treated wastewater, on its property, with a total combined storage capacity of 130,000,000 gallons. The District shall have the right to dispose up to 160,000,000 gallons of treated wastewater per year on land owned by the developer in exchange for a capital asset commitment of approximately \$18 million. The developer will construct storage ponds and a golf course irrigation system totaling approximately \$6.6 million.

c. Interlocal Agreement with Big Sky Resort Area District for the WRRF Phase I Project, Canyon Project and Financing

On February 4, 2020, the District and Big Sky Resort Area District entered into an interlocal agreement with respect to the WRRF Phase I Project, the Canyon Project and the payment or financing of the costs thereof. Under the agreement the Resort Area District agreed to cause a mail ballot election for the imposition of the Infrastructure Resort Tax (an additional 1% tax), with the proceeds to be used to pay a portion of the costs of the WRRF Phase I Project and the Canyon Project. The election was held on May 5, 2020 and passed.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

c. Interlocal Agreement with Big Sky Resort Area District for the WRRF Phase I Project, Canyon Project and Financing (Continued)

i. WRRF Phase I Project

The WRRF Phase I Project, excluding interest and financing costs, is estimated to be \$35,000,000 and the District originally planned to finance the project with the proceeds of a loan obtained from the Wastewater Pollution Control State Revolving Loan Program, administered by the Department of Natural Resources and Conservation of the State of Montana. However, subsequent to year end the District was notified that the loan program would not finance the project costs and the District is in the process of obtaining a private loan.

Under the WRRF Phase I Project, the Resort Area District agrees to pay the WRRF Contribution which is 60% of the principal and interest. Prior to commencing construction on the WRRF Phase I Project, the parties will agree on a payment schedule. The parties agree that all revenues collected by the Resort Area District under the Infrastructure Resort Tax shall be paid to the Water and Sewer District to satisfy the WRRF contribution first, and then to satisfy the Canyon Project Contribution.

ii. Canyon Project

The Canyon Project consists of a lift station near the intersection of U.S. Route 191 and Highway 64; a wastewater forcemain up the Highway 64 corridor to the WRRF; a pipeline conveying treated water back to the Canyon Area; and related improvements which will provide wastewater treatment capacity to properties located within the Resort Area District in Gallatin Canyon.

The Resort Area District agrees to fund all costs of the Canyon Project from revenues collected from the Infrastructure Resort Tax (the "Canyon Project Contribution"); however, in no event shall the contribution exceed \$12,000,000.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 15, 2020, the date on which these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION



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

As of Measurement Date, Year Ended June 30:	Employer's Proportion of NPL (%)	Employer's NPL	State's NPL	Total	Employer's Covered Payroll	Employer's Proportionate Share as a % of Covered Payroll	Plan Fiduciary NPL as a % of TPL
2019	0.0137	\$ 286,700	\$ 99,839	\$ 386,539	\$ 226,307	126.6900	73.8500
2018	0.0137	286,247	101,712	387,959	225,549	126.9100	73.4700
2017	0.0150	291,368	11,820	303,188	185,583	157.0000	73.7500
2016	0.0145	247,117	3,019	250,136	173,777	142.2000	74.7100
2015	0.0138	192,784	2,368	195,152	160,947	119.7800	78.4000
2014	0.0112	\$ 139,967	\$ 1,709	\$ 141,676	\$ 156,510	111.2200	79.8700

*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
SCHEDULE OF CONTRIBUTIONS
FOR THE LAST TEN FISCAL YEARS*

As of Reporting Date, Year Ended June 30:	Contractually Required DB Contributions	Plan Choice Rate Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2020	\$ 18,565	\$ -	\$ 18,565	\$ -	\$ 214,123	8.6700 %
2019	19,464	-	19,464	-	226,307	8.6000
2018	19,104	-	19,104	-	225,549	8.4700
2017	15,533	-	15,533	-	185,583	8.3700
2016	14,525	9,465	23,990	-	173,777	13.8100
2015	\$ 13,263	\$ 14,568	\$ 27,831	\$ -	\$ 160,947	17.2900 %

*The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Changes of Benefit Terms

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

2017:

Working Retiree Limitations – for PERS

Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

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

Lump-sum payouts

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

Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

CHANGE IN ACTUARIAL ASSUMPTIONS AND METHODS

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 2016 Experience Study:

General Wage Growth *	3.50%
Investment Rate of Return *	7.65%
* includes inflation at	2.75%
Merit salary increases	0% to 6.30%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Mortality (Healthy Members)	For males and females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using BB, males set back 1 year
Mortality (Disabled Members)	For males and females: RP 2000 Combined Mortality Table, with no projections
Admin Expense as a % of Payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Big Sky County Water & Sewer District No. 363, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Big Sky County Water & Sewer District No. 363's basic financial statements, and have issued our report thereon dated December 15, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Sky County Water & Sewer District No. 363's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Holmes & Turner

Bozeman, Montana
December 15, 2020



BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2020

Current Year Findings:

None.

Prior Year Findings:

None.