

BIG SKY RESORT AREA DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

BIG SKY RESORT AREA DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big Sky Resort Area District
Big Sky, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Big Sky Resort Area District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Big Sky Resort Area District, as of June 30, 2014 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of the Big Sky Resort Area District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Resort Area District's internal control over financial reporting and compliance.



November 12, 2014

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The discussion and analysis of the Big Sky Resort Area District's (District's) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2014 are as follows:

- The assets of the District exceeded its liabilities by approximately \$1,109,664.
- \$213,787 is invested in capital assets.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the Big Sky Resort Area District's basic financial statements. The Big Sky Resort Area District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – Reporting the Big Sky Resort Area District as a Whole

Statement of Net Position and the Statement of Activities

The Statement of Net Position presents information on all the Big Sky Resort Area District's assets and liabilities, with the difference between the two reported as net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the Big Sky Resort Area District is improving or deteriorating. Both the Statement of Net Position and the Statement of Activities use the accrual basis of accounting similar to the accounting used by most private-sector companies. The accrual basis of accounting includes all of the current year's revenues and expenses regardless of when cash is received or paid.

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Fund Financial Statements – Reporting the Big Sky Resort Area District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major fund. The District's major governmental fund is the General fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds. \$100,000 and \$746,100 of the general fund balance has been committed to emergency and sinking funds, respectively. Committed fund balances can only be used for specific purposes.

Government-wide Financial Analysis – Big Sky Resort Area District as a Whole

As noted earlier, the Statement of Net Position looks at the Department as a whole and can prove to be a useful indicator of the District's financial position.

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Table 1 provides a summary of the District's net position at June 30, 2014.

	(Table 1) Net Position	
	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2014</u>
Assets		
Current and Other Assets	\$ 3,465,277	\$ 4,410,731
Capital Assets, Net	<u>220,287</u>	<u>213,787</u>
Total Assets	<u>\$ 3,685,564</u>	<u>\$ 4,624,518</u>
Liabilities		
Current Liabilities	\$ <u>2,999,822</u>	\$ <u>3,514,854</u>
Total Liabilities	\$ <u>2,999,822</u>	\$ <u>3,514,854</u>
Net Assets		
Invested in Capital Assets	\$ 220,287	\$ 213,787
Unreserved	<u>465,455</u>	<u>895,877</u>
Total Net Assets	<u>\$ 685,742</u>	<u>\$ 1,109,664</u>

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Table 2 shows the changes in net assets for the fiscal year 2014 and corresponds to the Statement of Activities on page 9.

(Table 2)
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2014</u>
General Revenues		
Resort tax revenue	\$ 3,145,080	\$ 3,720,835
Interest & penalties on tax delinquencies	8,716	13,178
Investment income	19,679	15,409
Other income	<u>19</u>	<u>-</u>
Total General Revenues	<u>3,173,494</u>	<u>3,749,422</u>
Total Revenues		
Program Expenses		
General government	152,018	138,916
Community development	<u>2,750,181</u>	<u>3,238,979</u>
Total program expenses	<u>2,902,199</u>	<u>3,377,895</u>
Change in net assets	271,295	371,527
Net assets, Beginning	383,364	685,742
Prior period adjustment	<u>31,083</u>	<u>52,395</u>
Net assets, Ending	\$ <u>685,742</u>	\$ <u>1,109,664</u>

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The Big Sky Resort Area District continued fiscal management from the previous fiscal year. This resulted in the District's ability to appropriate resort tax funding. This annual process supports services and programs including tourism development, infrastructure facilities, post office services, ambulance and emergency services, public transportation systems, parks and trails, the community library and other services that provide for the public health, safety and welfare within the Big Sky Resort Area District.

The Resort Tax is a 3% sales tax collected by establishments that sell luxury goods and services within the Resort Area District. Resort tax revenues continue to rise due to the success of Resort Area businesses and lodging establishments. This has again helped to provide necessary local programs and services.

BIG SKY RESORT AREA DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
Assets	
Cash and investments	\$ 4,249,975
Taxes receivable	160,756
Capital assets (net of accumulated depreciation)	213,787
Total assets	4,624,518
Liabilities	
Payroll taxes payable	13,863
Appropriations payable	3,500,991
Total liabilities	3,514,854
Net position	
Invested in capital assets	213,787
Unrestricted	895,877
Total net position	\$ 1,109,664

See accompanying notes to the basic financial statements.

BIG SKY RESORT AREA DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Net Expense and Changes in Net Position Governmental Activities
Governmental activities:		
General government	\$ 138,916	\$ (138,916)
Community development	3,238,979	(3,238,979)
Total governmental activities	3,377,895	(3,377,895)
General revenues:		
Resort tax revenue		3,720,835
Interest and penalties on tax delinquencies		13,178
Investment income		15,409
Total general revenues		3,749,422
Change in net position		371,527
Net position, beginning		685,742
Prior period adjustment		52,395
Net position, beginning, as restated		738,137
Net position, ending		\$ 1,109,664

See accompanying notes to the basic financial statements.

BIG SKY RESORT AREA DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2014

	Governmental Fund
	General Fund
Assets	
Cash and investments	\$ 4,249,975
Taxes receivable, net	160,756
Total assets	\$ 4,410,731
Liabilities	
Payroll taxes payable	\$ 13,863
Appropriations payable	3,500,991
Total liabilities	3,514,854
Fund balances	
Committed	846,100
Unassigned	49,777
Total fund balance	895,877
Total liabilities and fund balance	\$ 4,410,731

See accompanying notes to the basic financial statements.

BIG SKY RESORT AREA DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF
THE GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

Fund balance of the governmental fund	\$ 895,877
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of the governmental fund.	<u>213,787</u>
Net position of governmental activities	<u>\$ 1,109,664</u>

See accompanying notes to the basic financial statements.

BIG SKY RESORT AREA DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

Revenue	
Resort tax revenue	\$ 3,720,835
Interest and penalties on tax delinquencies	13,178
Investment income	15,409
Total revenue	<u>3,749,422</u>
Expenditures	
Current:	
Community development	3,238,980
General government	132,415
Total expenditures	<u>3,371,395</u>
Net change in fund balance	<u>378,027</u>
Fund balance, beginning	465,455
Prior period adjustments	<u>52,395</u>
Fund balance, beginning, as restated	<u>517,850</u>
Fund balance, ending	<u>\$ 895,877</u>

See accompanying notes to the basic financial statements.

BIG SKY RESORT AREA DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - governmental fund	\$ 378,027
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$6,500) exceeded capital outlay for the current period.	<u>(6,500)</u>
Change in net position of governmental activities	<u>\$ 371,527</u>

See accompanying notes to the basic financial statements.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Big Sky Resort Area District (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 on April 7, 1998. With the formation of the District, all collection and administration responsibilities with respect to the resort tax were transferred from the Counties. The District has sole responsibility for collection of the resort tax from area businesses.

County Ordinance 92-01 passed by the County Commissioners of the Gallatin and Madison Counties in Montana created a 5-member Big Sky Resort Area Board of Advisors, whose role is to make recommendations as to the spending of the resort tax monies collected by the District. The District's Board appropriates funds each year and expends it for infrastructure, public services, and for payment of costs associated with the collection and administration of the resort tax. The District's term expires on June 1, 2032.

As required by accounting principles generally accepted in the United States of America, these financial statements present Big Sky Resort Area District (the primary government) and any component units. The District has no component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the primary government. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. For the year ended June 30, 2014, the District did not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. For the year ended June 30, 2014, the District did not receive any program revenues. Taxes and other items are reported as general revenues.

(continued)

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned with the exception of tax revenue that is not measurable. Tax revenue does not become measurable until the vendors submit a tax remittance form, which reports the amount of resort tax due to the District. Revenue is recognized for tax remittance forms received within 60 days of the fiscal year end; any tax revenue that has been earned but for which a tax remittance form has not been submitted is not measurable after this time. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

The District reports the following major governmental fund:

General Fund – This is the District’s primary operating fund. It accounts for all financial resources of the general government.

D. 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, repurchased agreements, and the State Short-Term Investment Pool (STIP).

The District’s investments consist of investments in the Montana State Short-Term Investment Pool (STIP).

E. Taxes Receivable

Taxes receivable are recognized for revenue that has been earned and is measurable, but for which payment has not been received.

Taxes that are recorded as receivable as of June 30, 2014, but were not received within 60 days of the fiscal year end are reported as deferred revenue on the balance sheet – governmental fund.

(continued)

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets, which include building, furniture, and equipment, are reported in the governmental activities column in the government-wide financial statements. The District's capitalization policy requires individual assets to be capitalized if the original cost is at least \$5,000. Such assets are recorded at historical cost.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Building, furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	40
Furniture	7-10
Equipment	5

G. Fund balance

Net position in government-wide financial statements is classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represents constraints on resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors, or imposed by law.

Committed Fund Balance – The portion of fund balance that can only be used for specific purposes imposed by majority vote of the Board of Directors. Any changes or removal of specific purposes requires majority action by the Board of Directors.

Assigned Fund Balance – The portion of fund balance that has been identified by the Board of Directors for a specific purpose.

Unassigned Fund Balance – All amounts not included in other spendable classifications.

(continued)

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Use of Restricted/Unrestricted Net Position

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

I. Estimates

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

J. Budget

The Board of Directors of the District approves a formal expenditure budget in July for the following year. The budget covers operational expenditures as well as appropriations of monies to the community entities. The District is not legally required to adopt a budget; therefore management has decided not to present the budget in the financial statements.

NOTE 2. CASH AND INVESTMENTS

As of June 30, 2014, the District had \$188 cash on hand. The carrying amount of the District's deposits (cash and an interest-bearing money market account) at two local banks was \$1,489,296 and \$2,750,316, and the bank balances were \$1,492,774 and \$2,750,316 respectively. Of the bank balances, \$500,000 was covered by federal depository insurance, and the remaining balances were covered by collateral held by the pledging banks' agents in the District's name.

To minimize custodial credit risk in relation to the District's deposits, it is the District's policy to have uninsured deposits covered by collateral held by the pledging bank's agent in the District's name.

(continued)

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (Continued)

At June 30, 2014, the District's only investment was in the Montana Short-Term Investment Pool (STIP). STIP was created by the State of Montana Board of Investments to allow qualifying funds, per sections 17-6-201, 202 and 204, MCA, to participate in a diversified pool. The carrying amount of this investment as of June 30, 2014 was \$10,175.

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

GASB 31

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

GASB 40

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – *Deposit and Investment Risk Disclosures*. The unaudited financial statements as of June 30, 2014 and 2013 have disclosures pertaining to STIP's exposure to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and legal and credit risk.

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

Security Lending

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

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

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

All of the District's capital assets are depreciated as described in Note 1. Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Buildings	\$247,994	\$ -	\$ -	\$247,994
Equipment	11,636	-	-	11,636
Furniture	3,382	-	-	3,382
Totals at historical cost	<u>263,012</u>	<u>-</u>	<u>-</u>	<u>263,012</u>
Less accumulated depreciation for:				
Buildings	(28,008)	(6,200)	-	(34,208)
Equipment	(11,336)	(300)	-	(11,636)
Furniture	(3,381)	-	-	(3,381)
Total accumulated depreciation	<u>(42,725)</u>	<u>(6,500)</u>	<u>-</u>	<u>(49,225)</u>
Capital assets, net	<u>\$220,287</u>	<u>\$ (6,500)</u>	<u>\$ -</u>	<u>\$213,787</u>

Depreciation expense was charged to the following function/program of the District:

Governmental activities:	
General government	<u>\$ 6,500</u>

NOTE 4. APPROPRIATIONS PAYABLE

In June of each year, the Board of Directors pass a resolution to appropriate the monies collected during the year. Appropriations payable as of June 30, 2014 represents the resolution to appropriate monies as of June 30, 2014 for the following fiscal year. Payments are scheduled throughout the following year to agencies for infrastructure improvements and public services. These commitments are to be paid from collected revenues as of June 30, 2014.

As of June 30, 2014, the District had not received all of the requests for reimbursement for the monies that had been spent during the fiscal year ended June 30, 2014. The agencies have until July 15th to submit these requests for reimbursement.

Appropriations payable in the accompanying balance sheet are as follows:

June 30, 2014 appropriations payable	\$ 3,295,170
June 30, 2013 appropriations payable	<u>205,821</u>
Total appropriations payable	<u>\$ 3,500,991</u>

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. RETIREMENT PLAN

On April 8, 2009, the District entered into an agreement with the Montana Public Employees' Retirement Board to allow its employee to participate in the State of Montana 457 Deferred Compensation Plan (Plan). The agreement was effective as of July 1, 2009. The Plan is sponsored by the Montana Public Employees' Retirement Board and is authorized by Internal Revenue Code Section 457(b) and is subject to specific Internal Revenue Service laws and requirements. The Plan is a defined contribution pension plan.

During the 2014 calendar year, the maximum contribution that the participant could make to the Plan was \$17,500. The District is not required to contribute to the plan but may match up to 6.8% of the participant's earnings.

During the fiscal year ended June 30, 2014, the participant contributed \$2,746 and the District contributed \$2,859 to the plan.

NOTE 6. RELATED PARTY TRANSACTIONS

In fiscal year ended June 30, 2014, the District distributed \$241,280 in appropriations to entities that had Board or family members in common at the time of the appropriation. At June 30, 2014, \$256,804 was payable to these organizations.

NOTE 7. INSURANCE

The District is considered a "local government or political subdivision" as the term is used in Montana Code Annotated (MCA) section 2-9-101(5). MCA limits these types of entities' liability on tort actions for damages suffered as a result of an act or omission of an officer, agent, or an employee of that entity, in an amount not to exceed \$750,000 for each claim and \$1,500,000 per occurrence (MCA Sec. 2-9-108). Accordingly, the District has purchased insurance coverage for adequate coverage.

NOTE 8. CONCENTRATION

Two taxpayers provided approximately 58% of the total resort tax revenue received by the District during the fiscal year ended June 30, 2014. Approximately 36% of taxes receivable are due from one taxpayer.

NOTE 9. GOVERNMENTAL FUND BALANCES

At June 30, 2014, governmental fund balances in the amount of \$846,100 were committed to general government for the following purposes:

\$100,000	Emergency Fund
\$746,100	Sinking Fund

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. PRIOR PERIOD ADJUSTMENTS

On June 30, 2014, there were unused funds that were appropriated in June of 2013 for use in fiscal year 2013/2014. The entities to whom \$52,395 of these funds were appropriated did not ask the Board to roll these funds over to fiscal year 2013/2014.

The following is a summary of the above transactions:

	<u>Fund Balance</u>	<u>Net Assets</u>
Beginning balance, as previously reported	\$ 465,455	\$ 685,742
Funds not used	52,395	52,395
Beginning balance, as restated	\$ 517,850	\$ 738,137

NOTE 11. INTERLOCAL AGREEMENT

During the year ended June 30, 2014, the Board signed an Interlocal Agreement (Agreement) with Gallatin and Madison Counties to equitably allocate funding for law enforcement services in Gallatin and Madison Counties to provide for public health, safety and welfare for the entire Big Sky Resort Area District.

In the agreement, each party agrees to pay one third of the total cost these law enforcement services, which are estimated as follows:

<u>Year ended</u>	<u>Amount</u>
June 30, 2015	\$ 771,997
June 30, 2016	790,409
June 30, 2017	809,886

According to the terms of the Agreement, Gallatin County is responsible for applying for the resort tax funds each year and the District's Board will process the request in accordance with the annual appropriation process.

Each party can terminate its participation in the Agreement upon 90 days written notice to the remaining parties. The remaining parties, if any, shall amend the Agreement by mutual written Agreement within 30 days of the initial termination to account for the loss of the party.

NOTE 12. SUBSEQUENT EVENTS

The District has evaluated all subsequent events through November 12, 2014, the date the financial statements were available to be issued.

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

To the Board of Directors
Big Sky Area Resort District
Big Sky, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Big Sky Resort Area District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Big Sky Resort Area District's basic financial statements and have issued our report thereon dated November 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Sky Resort Area District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Sky Resort Area District's internal control. Accordingly, we do not express an opinion on the effectiveness of Big Sky Resort Area District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency [14-01].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Sky Resort Area District'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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Big Sky Resort Area's Response to Findings

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

Purpose of this Report

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

Holmes & Turner

November 12, 2014

BIG SKY RESORT AREA DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

INTERNAL CONTROL

14-01 Segregation of duties

The District has one employee who handles all of the accounting functions and who has sole access to the accounting software. It would be inefficient, considering the size of the District, for the District to hire additional personnel to achieve optimal internal controls. However, to mitigate this risk, the District has taken several steps to involve Board members and to obtain the best internal controls possible.

Management's response

We concur with the above comment; we feel that effective internal controls are very important. We continue to practice procedures that involve Board oversight and result in efficient internal controls over the District's daily operations and financial reporting.

BIG SKY RESORT AREA DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

IMPLEMENTED

Segregation of duties

N/A



CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1283 NORTH 14TH STREET, SUITE 201
BOZEMAN, MONTANA 59715
(406) 587-4265
FAX (406) 585-3111

November 12, 2014

To the Board of Directors
Big Sky Resort Area District

We have audited the financial statements of the governmental activities and the major fund, of Big Sky Resort Area District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 8, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Big Sky Resort Area District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the need to not establish an allowance for uncollectible receivables is based on management's historical knowledge of collections. We evaluated the key factors and assumptions used in determining the collectability of resort taxes receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of related party transactions in Note 6 to the financial statements, and the concentration of tax revenues in Note 8. These disclosures are based on actual results of operations for the year ended June 30, 2014.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected each of the “adjusting” misstatements and we have passed on the journal entries that are classified as “potential”; the journal entries are attached to this letter.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2014.

Management Consultations with Other Independent Accountants

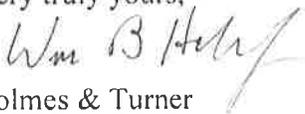
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination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

Other Audit Findings or Issues

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

This information is intended solely for the use of the Board of Directors and management of Big Sky Resort Area District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Holmes & Turner

Prepared by _____

**Big Sky Resort Area District
Adjusting Journal Entries**

BSRESORT

Page 1

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
AJE1	Adjusting	06/30/14				
		100-3000-20	Retained earnings	313,702.23		
		100-3000-10	Opening Equity Balance		380,176.00	
		100-3000-00	Equity (Fund Balance)	66,473.77		
			Reclass fund balance.			
AJE2	Adjusting	06/30/14				
		100-3000-00	Equity (Fund Balance)	3,288.72		
		100-4007-00	Tax Collections - gallatin cou		3,288.72	
			Adjust beginning fund balance to match PY ending fund balance.			
AJE3	Adjusting	06/30/14				
		600-1440-10	Capitalized Equip & Furnishin	88.06		
		100-4007-00	Tax Collections - gallatin cou		88.06	
			Reclass sale proceeds.			
AJE4	Adjusting	06/30/14				
		100-3000-00	Equity (Fund Balance)	465,924.00		
		100-3000-15	Committed fund balance		465,924.00	
			Reclass committee fund balance.			
AJE5	Adjusting	06/30/14				
		600-3050-00	Investment in Fixed Assets	6,499.68		
		600-1500-00	Accumulated depreciation		6,499.68	
			Record 2014 depreciation			
AJE6	Adjusting	06/30/14				
		100-5022-40	Wages	6,677.65		
		100-2610-00	Payroll Liabilities		6,677.65	
			Accrued compensated absences at 6/30/14.			
PJE1	Potential	06/30/14				
		100-4008-00	Tax collections - madison count	1,361.54		
		100-1102-00	Allowance for doubtful accounts		1,361.54	
			Potential uncollectible taxes receivable.			

Prepared by _____

Big Sky Resort Area District Adjusting Journal Entries

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
PJE2	Potential	06/30/14				
		100-1105-00	Taxes receivable	6,318.05		
		100-4009-00	Tax collections - prior years		6,318.05	
			Tax remittance forms received after FYE for FY 13/14.			
PJE3	Potential	06/30/14				
		100-4009-00	Tax collections - prior years	2,564.83		
		100-2700-00	Deferred revenue		2,564.83	
			Amount of potential deferred revenue.			
		TOTAL		<u>872,898.53</u>	<u>872,898.53</u>	



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CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

November 12, 2014

Board of Directors
Big Sky Resort Area District
P.O. Box 160661
Big Sky, Montana 59716

In planning and performing our audit of the financial statements of Big Sky Resort Area District as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Big Sky Resort Area District's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report, dated November 12, 2014, on Big Sky Resort Area District's financial statements.

We will review the status of these comments during our next audit engagement. Please feel free to contact us at your convenience if we may assist you in implementing these recommendations.

Sincerely,

HOLMES & TURNER

A handwritten signature in black ink that reads "Wm B Hebron". The signature is written in a cursive style and is positioned above the printed name.

William B. Hebron

Enclosure:

As stated

Management Letter Recommendations

14-01 Treasurer is not reviewing the bank reconciliations

Currently, the Board Treasurer is reviewing the bank statements each month, but is not reviewing the bank reconciliations. With the lack of segregation of duties, this is an additional procedure that can be performed to add another level of review. We recommend that the Board Treasurer review the bank reconciliations monthly to verify that these tie to the cash presented on the balance sheet and that the reconciling items are reasonable.

Management's response

We have implemented the above recommendation.

14-02 The bookkeeper is accepting tax remittances instead of using the lock-box system

The District's procedure for receiving tax remittances is for payment to be received by the bank via the lock-box system. As we were performing our audit fieldwork, we noticed that tax payments are being accepted at the District's office and then brought to the bank. Whitney is doing this as a favor, since she needs to make a trip to the bank most days, but the purpose of the lock-box system is to protect Whitney and the District if questions arise about tax payments that may not be properly posted in QuickBooks. We recommend that all payments be submitted through the lock-box system.

Management's response

We have implemented the above recommendation.