

BIG SKY FIRE DEPARTMENT  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Big Sky Fire Department  
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 Fire Department as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department'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.

November 26, 2014  
Big Sky Fire Department  
Page two

### *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 the Big Sky Fire Department as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

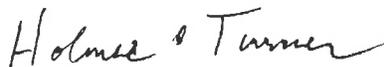
### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 24 through 26, 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 26, 2014 on our consideration of Big Sky Fire Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Sky Fire Department's internal control over financial reporting and compliance.



November 26, 2014

**Big Sky Fire Department**  
Gallatin and Madison County, Montana  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

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The discussion and analysis of the Big Sky Fire Department's (Department) financial performance provides an overall review of the Department's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Department'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 Department exceeded its liabilities by approximately \$2,758,907.
- \$1,819,348 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 Fire Department's basic financial statements. The Big Sky Fire Department'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 Fire Department as a Whole**

**Statement of Net Position and the Statement of Activities**

The Statement of Net Position presents information on all the Big Sky Fire Department'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 Fire Department 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. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Big Sky Fire Department**  
Gallatin County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

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**Fund Financial Statements – Reporting the Big Sky Fire Department's Most Significant Funds**

Fund Financial Statements

Fund financial reports provide detailed information about the Department's major fund. The Department'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 an accounting method called modified accrual basis 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 Department's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government 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.

**Government-wide Financial Analysis – Big Sky Fire Department 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 Department's financial position.

**Big Sky Fire Department**  
**Gallatin County**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

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

(Table 1)  
Net Position

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2014</u>
<b>Assets</b>		
Current and Other Assets	\$ 951,035	\$ 1,102,009
Capital Assets, Net	<u>1,955,584</u>	<u>1,819,348</u>
Total Assets	2,906,619	2,921,357
<b>Liabilities</b>		
Current Liabilities	17,394	66,898
Long Term Liabilities		
Due in more than one Year	<u>76,714</u>	<u>95,552</u>
Total Liabilities	94,108	162,450
<b>Net Position</b>		
Invested in Capital Assets, Net of Related Debt	1,955,584	1,819,348
Unreserved	<u>856,927</u>	<u>939,559</u>
Total Net Position	<u>\$ 2,812,511</u>	<u>\$ 2,758,907</u>

Capital assets make up 62% of the total assets.

**Big Sky Fire Department**  
**Gallatin County**  
 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>
<b>Program Revenues</b>		
Charges for Services	\$ 427,566	\$ 274,402
Capital and Operating Grants	<u>440,600</u>	<u>494,000</u>
Total Program Revenues	<u>868,166</u>	<u>768,402</u>
<b>General Revenues</b>		
Property Taxes	1,002,037	1,254,763
Entitlement Levy Tax	19,110	19,315
Investment Income	4,632	6,059
Other	10,719	14,945
Donation & Contribution	4,445	1,490
Impact Fees	(1,995)	17,000
On-behalf payments	<u>-</u>	<u>270,449</u>
Total General Revenues	<u>1,038,948</u>	<u>1,584,021</u>
Total Revenues	<u>1,907,114</u>	<u>2,352,423</u>
<b>Program Expenses</b>		
Public Safety	<u>1,811,408</u>	<u>2,406,027</u>
Change in net assets	95,706	(53,604)
Net position, beginning	<u>2,716,805</u>	<u>2,812,511</u>
Net position, ending	<u>\$ 2,812,511</u>	<u>\$ 2,758,907</u>

**Big Sky Fire Department**  
Gallatin County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

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This fiscal year was challenging financially as the Department faced an over \$250,000 shortfall in property tax collection in Madison County due to a communication error after a mill levy increase was approved by voters in 2013. To address this, expenditures were restricted as much as possible so that monies did not have to be drawn from reserves to fund department operations.

Major expenditure reductions came from:

- A Deputy Fire Chief position (budgeted at 40% of annual compensation) was not filled until FY 2014-2015 (and the position was then reduced to a Firefighter/EMT), saving roughly \$57,000 in salary and benefits for FY 2013-2014,
- An on-call employee station duty program was not implemented, reducing salary and related benefits by over \$80,000, and
- General Operating and Repair/Maintenance costs were kept \$85,000 below budget.

Ambulance revenues, while exceeding the budgeted \$370,000, were lower overall due to a slight reduction in emergency medical incidents and an increase in bill write offs due to an increased inability to pay by some patients. The overall net income has been reduced by \$129,558 to write off bad debts and increase the bad debt allowance. The remaining outstanding accounts receivable have been turned over to a collections company in an attempt to get payment.

The Department enters FY 2014-2015 in a strong financial position due to the aforementioned expenditure reductions, leaving FY 2013-2014 under budget by \$44,279, as well as the collection of the forgotten portion of the 2013-2014 Madison County property mill levy, which will be added to the Department's fund reserves.

BIG SKY FIRE DEPARTMENT  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 894,690
Receivables:	
Property taxes	118,326
Ambulance fees	64,568
Prepaid expenses	24,425
Capital assets, net of accumulated depreciation, where applicable:	
Land and land easements	132,397
Depreciable buildings and infrastructure, net	<u>1,686,951</u>
Total assets	<u>2,921,357</u>
<b>Liabilities</b>	
Accounts payable	5,313
Credit cards payable	3,284
Accrued salaries and other payroll liabilities	58,301
Long-term liabilities	
Portion due after one year	<u>95,552</u>
Total liabilities	<u>162,450</u>
<b>Net position</b>	
Invested in capital assets	1,819,348
Unrestricted	<u>939,559</u>
Total net position	<u>\$ 2,758,907</u>

See accompanying notes to the financial statements.

BIG SKY FIRE DEPARTMENT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net expense and changes in net assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Governmental Activities</u>
Governmental activities:				
Public safety	\$ 2,406,027	\$ 274,402	\$ 494,000	\$ (1,637,625)
Total governmental activities	<u>\$ 2,406,027</u>	<u>\$ 274,402</u>	<u>\$ 494,000</u>	<u>\$ (1,637,625)</u>
General revenues:				
Taxes				
Property taxes				1,254,763
Entitlement levy tax				19,315
Intergovernmental revenues				
Impact Fees				17,000
On-behalf payments				270,449
Miscellaneous				14,945
Contributions and donations				1,490
Investment earnings				<u>6,059</u>
Total general revenues				<u>1,584,021</u>
Change in net position				(53,604)
Net position - beginning				<u>2,812,511</u>
Net position - ending				<u>\$ 2,758,907</u>

See accompanying notes to the financial statements.

BIG SKY FIRE DEPARTMENT  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2014

	Governmental Fund Type
	General Fund
Assets	
Cash and investments	\$ 894,690
Receivables:	
Property taxes	118,326
Ambulance fees	64,568
Prepaid expenses	24,425
Total assets	\$ 1,102,009
Liabilities	
Accounts payable	\$ 5,313
Credit cards payable	3,284
Accrued salaries and other payroll liabilities	58,301
Total liabilities	66,898
Deferred inflows of resources	
Unavailable revenue-property taxes	15,494
Total deferred inflows of resources	15,494
Fund balance	
Nonspendable	24,425
Unassigned	995,192
Total fund balance	1,019,617
Total liabilities, deferred inflows, and fund balance	\$ 1,102,009

See accompanying notes to the financial statements.

BIG SKY FIRE DEPARTMENT  
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	\$ 1,019,617
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of the governmental fund.	1,819,348
Taxes receivable, which are not expected to be received within 60 days of June 30, 2014, are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis.	15,494
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statement.	<u>(95,552)</u>
Net position of governmental activities	<u>\$ 2,758,907</u>

See accompanying notes to the financial statements.

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

Revenues:

Taxes		
Property taxes	\$	1,247,728
Entitlement levy tax		19,315
Resort taxes		494,000
Intergovernmental revenues		
Impact Fees		17,000
On-behalf payments		270,449
Charges for services		274,402
Miscellaneous		14,945
Contributions and donations		1,490
Investment earnings		<u>6,059</u>
Total revenues		<u>2,345,388</u>

Expenditures:

Current:

Public safety - fire protection		
Personal services		
Salaries and wages		977,981
Overtime		98,904
Employee benefits		680,253
Employer payroll taxes		18,541
Supplies		
Office supplies and materials		17,513
Operating supplies		54,616
Repair and maintenance supplies		81,474
Purchased services		
Communication		138
Publicity, subscriptions and dues		7,723
Utility services		41,140
Professional services		87,195
Training services		17,106
Travel		16,295
Other purchased services		11,911
Fixed charges		
Insurance		26,518
Capital outlay		<u>120,645</u>
Total expenditures		<u>2,257,953</u>

(continued)

See accompanying notes to the financial statements.

BIG SKY FIRE DEPARTMENT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE (CONTINUED)  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

Other financing sources:	
Sale of assets	<u>7,000</u>
Net change in fund balance	94,435
Fund balance - beginning	<u>925,182</u>
Fund balance - ending	<u>\$ 1,019,617</u>

See accompanying notes to the financial statements.

BIG SKY FIRE DEPARTMENT  
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	\$ 94,435
Taxes receivable, which are not expected to be received within 60 days of June 30, 2014, are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund, but are recognized as revenue in the statement of activities.	7,035
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 capital outlay (\$120,645) was exceeded by depreciation (\$249,000) for the current period.	(128,355)
Governmental funds do not report gains or losses on the disposal of assets, whereas in the statement of activities, a gain or loss is recognized for the difference between the sale proceeds and accumulated depreciation. This is the amount of loss recognized as a result of the disposal of assets less the proceeds reported as other financing sources.	(881)
Governmental funds report sale proceeds as other financing sources. This amount is not reported in the statement of activities.	(7,000)
Accrued compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(18,838)</u>
Change in net position of governmental activities	<u>\$ (53,604)</u>

See accompanying notes to the financial statements.

BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Big Sky Fire Department (the Department) is organized and operated under the provisions of Title 7, Chapter 33, Part 21, Montana Code Annotated, to provide fire protection for the rural area in the vicinity of Big Sky, Montana. It is a separate political entity established by the Madison and Gallatin County Commissioners, the affairs of which are governed and managed by an elected Board of Trustees (the Board). The Counties levy and collect taxes to fund the Department's budget, and the Gallatin County Treasurer serves as Treasurer of the Department. The Department is not a component unit of another entity and has no component units.

B. Basis of Presentation – Government-wide 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 Department. Governmental activities, which 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 Department 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 is 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 Department received program revenue from ambulance and fire protection services provided. Taxes and other items are reported as general revenues.

C. Basis of Presentation – Fund Financial Statements

The Department has one fund: the general fund. This fund accounts for all revenues and expenditures of the Department. The fund financial statements provide information about the general fund.

D. 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 and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied and revenue from investments is recognized when earned.

(continued)

BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

E. Cash and Investments

The Department 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).

To minimize credit risk in relation to the Department's investments, the Department invests in the Gallatin County External Investment Pool that is subject to the collateral requirements specified in State statutes.

F. Ambulance Fees Receivable

The Department charges for the ambulance services which it provides. Most of the invoices are submitted to insurance companies and are subject to billing adjustments. Based on the Department's historical percentage of insurance adjustments and collections from patients, the receivable and related revenue have been reduced by \$50,000 as an allowance for billings adjustments.

G. Taxes Receivable

Property tax levies are set by the Counties, in connection with the budget process, and are based on taxable values listed as of January 1 for all real property located in the Department. 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.

(continued)

BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Taxes Receivable (Continued)

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

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

H. Capital Assets

Capital assets, which include land, building and improvements, vehicles, and equipment, are reported on the statement of net position. All capital assets with a purchase price over \$1,000 and a life of at least five years are capitalized. Such assets are recorded at historical cost. Donated property and materials are recorded at their fair market value as of the date of the donation.

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, building improvements, vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	40
Building improvements	10-15
Vehicles	10
Equipment	5-10

I. Compensated Absences

Department employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. The governmental fund type (i.e. the general fund) recognizes the expenditure when the benefits are paid; it is not the policy of the Department to recognize as current expenditures the payments made on accumulated sick and annual leave within sixty days of the end of the fiscal year. The balance of vested employee's vacation and sick leave is recorded as a non-current liability in the statement of net position.

(continued)

BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Compensated Absences (Continued)

Department employees earn vacation leave at the rate of 15 days per year during the first ten years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave, up to the maximum accumulation, at the current rate of pay.

Department employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of sick leave days. However, upon termination, only 25% of accumulated sick leave is paid.

J. Fund balance

The Government Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories: nonspendable, restricted, committed, assigned, and unassigned. With the exception of the amount of prepaid expenses, which is nonspendable, the District classifies its general fund balance as unassigned, which is defined as the total fund balance in the general fund in excess of nonspendable, restricted, committed or assigned.

K. Fire Protection Impact Fee Revenues

Prior to fiscal year 2013, Gallatin County collected fire protection impact fees from subdivisions within the Department's benefit. The impact fees may be used only to pay for planning, land acquisition, engineering, design, construction, construction inspection, equipment purchases, and financing costs associated with a specific project to construct or acquire new or expanded fire protection facilities, buildings, and/or equipment that expand the capacity of the Department to provide fire protection services within the Department and have an average useful life of at least ten years. Any monies in the fire protection impact fee fund that have not been spent or encumbered within ten years of receipt shall be refunded to the land owner with interest accrued at ten percent from the original date of payment.

Upon written request from the Department, the Gallatin County Commissioners will consider the transfer of monies from the impact fee fund to the Department for use on a specific acquisition or construction project. On June 30, 2014, the County held \$3,077 in the impact fee fund. The Department recognizes revenue from impact fees when the Commissioners approve the Department's request to spend the fees.

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BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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.

M. Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB Statement No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by other entities. The District participates in the Montana Retirement System that is administered by the State of Montana. Under this standard, the Department will be required to report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on its proportionate share of the collective amounts for all the governments in the Montana Retirement System plan. The Department will receive the amounts it will be required to report on its financial statements from the Montana Retirement System beginning in fiscal year 2015.

NOTE 2. CASH AND INVESTMENTS

As of June 30, 2014, the Department had \$200 in cash on hand and the following investment:

	<u>Carrying Amount</u>
Gallatin County External Investment Pool	<u>\$ 894,490</u>

The Gallatin County Treasurer manages funds held in the Gallatin County External Investment Pool (Pool). The County Treasurer monitors the Department's cash to make certain that the Department remains in compliance with the state statute in regard to authorized investments. The fair value of the Department's position in this pool is the same as the value of the pool shares. Cash and investments in the custody of the County Treasurer are subject to the collateral requirements specified in State statutes.

Information pertaining to the interest rate risk of this investment is available from Gallatin County's audited financial statements which can be obtained from the County by requesting audited financial statements from Gallatin County Finance Department, 311 West Main Street, room 304A, Bozeman, Montana 59715.

The Pool has not been rated by the Nationally Recognized Statistical Rating Organizations (NRSRO).

(continued)

BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Governmental Activities:				
Land	\$ 132,397	\$ -	\$ -	\$ 132,397
Other capital assets:				
Buildings and improvements	1,879,566	-		1,879,566
Equipment	746,359	75,092	-	821,451
Vehicles	<u>2,379,204</u>	<u>45,553</u>	<u>(41,115)</u>	<u>2,383,642</u>
Totals - other capital assets	<u>5,005,129</u>	<u>120,645</u>	<u>(41,115)</u>	<u>5,084,659</u>
Less accumulated depreciation for:				
Buildings and improvements	(848,940)	(51,756)	-	(900,696)
Equipment	(542,243)	(76,963)	-	(619,206)
Vehicles	<u>(1,790,760)</u>	<u>(120,281)</u>	<u>33,235</u>	<u>(1,877,806)</u>
Total	<u>(3,181,943)</u>	<u>(249,000)</u>	<u>33,235</u>	<u>(3,397,708)</u>
Other capital assets, net	<u>1,823,186</u>	<u>(128,355)</u>	<u>(7,880)</u>	<u>1,686,951</u>
Governmental activities capital assets, net	<u>\$ 1,955,583</u>	<u>\$ (128,355)</u>	<u>\$ (7,880)</u>	<u>\$ 1,819,348</u>

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

Governmental activities:	
General government	<u>\$ 249,000</u>

NOTE 4. LONG-TERM LIABILITIES

Summary of long-term liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Other liabilities:				
Compensated absences	\$ 76,714	\$ 18,838	\$ -	\$ 95,552
Total long-term liabilities	<u>\$ 76,714</u>	<u>\$ 18,838</u>	<u>\$ -</u>	<u>\$ 95,552</u>

(continued)

BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. EMPLOYEE BENEFIT PLAN

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

Public Employees’ Retirement System (PERS)

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

	<u>Years Ended</u>		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<b>Required contribution percentages:</b>			
District	8.07%	7.07%	7.07%
Plan members	7.90%	6.90%	6.90%
State of Montana	0.10%	0.10%	0.10%
 <b>Contribution amounts:</b>			
District	\$ 6,642	\$ 4,164	\$ 3,713
Plan members	\$ 6,502	\$ 4,215	\$ 3,725
State of Montana	\$ 83	\$ 59	\$ 53

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

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

BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 5. EMPLOYEE BENEFIT PLAN (CONTINUED)

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

Firefighter's Unified Retirement System (FURS)

Funding is provided by units of local government, their covered employees and the State of Montana. The Department is required to contribute 14.36% of members' compensation. The Department's contributions to this plan for the years ended June 30, 2014, 2013 and 2012 were \$119,094, \$96,983, and \$85,032, respectively. One hundred percent of the required contributions were made. Plan members are required to contribute 10.7% of monthly compensation, since all firefighters have elected to be covered under the guaranteed annual benefit adjustment (GABA). The State is required to contribute 32.61%, which was \$270,450, \$220,238, and \$193,097 for fiscal years ended June 30, 2014, 2013, and 2012 respectively.

Participants are eligible for benefits after 20 years of service regardless of age or at age 50 after 5 years of service. Participants are vested after five years. To determine benefits, member's compensation is calculated to be the highest average compensation (HAC) for the last consecutive 36 months and members receive 2.5% of HAC per year of service. After a member has completed 12 full months of retirement, the benefit increases by a maximum of 3% each January inclusive of all other adjustments to the member's benefits.

NOTE 6. RISK MANAGEMENT

The Department's risk management activities are recorded in the general fund. Significant losses for public officials, automobile, property and general liability are covered by commercial insurance policies. The Department also participates in the State Unemployment and Workers' Compensation programs for losses due to employee life and health risk. There have been no significant reductions in insurance coverage.

NOTE 7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 26, 2014 the date on which these financial statements were available to be issued.

NOTE 8. RELATED PARTY TRANSACTIONS

The Department purchased vehicle fuel from a local Conoco station owned by a Board Trustee in the amount of \$6,965. The Department hired a landscaping company owned by a Board Trustee in the amount of \$2,676. There were no amounts due to or from any of these related parties at the balance sheet date.

BIG SKY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 9. COMMITMENT

In June 2014, the Department entered into a sixty month operating lease for a copier at a monthly rental of \$250. For the year ended June 30, 2014, lease expense amounted to \$250.

Future minimum lease payments during the next five years ending June 30, 2014 are as follows:

2015	\$ 3,000
2016	3,000
2017	3,000
2018	3,000
2019	<u>2,750</u>
	<u>\$ 14,750</u>

REQUIRED SUPPLEMENTARY INFORMATION

BIG SKY FIRE DEPARTMENT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Taxes				
Property taxes	\$ 1,446,064	\$ 1,446,064	\$ 1,247,728	\$ (198,336)
Entitlement levy tax	17,500	17,500	19,315	1,815
Resort taxes	494,000	494,000	494,000	-
Intergovernmental revenues				
Impact Fees	17,000	17,000	17,000	-
Charges for services	389,100	389,100	274,402	(114,698)
Miscellaneous	20,000	20,000	14,945	(5,055)
Contributions and donations	-	-	1,490	1,490
Sale of capital assets	-	-	7,000	7,000
Investment earnings	3,500	3,500	6,059	2,559
Total revenues	<u>2,387,164</u>	<u>2,387,164</u>	<u>2,081,939</u>	<u>(305,225)</u>
Expenditures:				
Current:				
Public safety:				
Fire protection				
Personal services				
Salaries and wages	1,156,052	1,156,052	977,981	(178,071)
Overtime	70,000	70,000	98,904	28,904
Employee benefits	473,902	473,902	409,804	(64,098)
Employer payroll taxes	25,154	25,154	18,541	(6,613)
Supplies				
Office supplies and materials	10,000	10,000	17,513	7,513
Operating supplies	110,500	110,500	54,616	(55,884)
Repair and maintenance supplies	110,000	110,000	81,474	(28,526)
Purchased services				
Communication	-	-	138	138
Publicity, subscriptions and dues	9,500	9,500	7,723	(1,777)
Utility services	52,250	52,250	41,140	(11,110)
Professional services	105,750	105,750	87,195	(18,555)
Training services	30,000	30,000	17,106	(12,894)
Travel	13,000	13,000	16,295	3,295
Other purchased services	13,400	13,400	11,911	(1,489)
Fixed charges				
Insurance	28,500	28,500	26,518	(1,982)

(continued)

BIG SKY FIRE DEPARTMENT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Capital outlay	<u>129,000</u>	<u>129,000</u>	<u>120,645</u>	<u>(8,355)</u>
Total expenditures	<u>2,337,008</u>	<u>2,337,008</u>	<u>1,987,504</u>	<u>(349,504)</u>
Net change in fund balance	50,156	50,156	94,435	<u>\$ 44,279</u>
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>925,182</u>	
Fund balance - ending	<u>\$ 50,156</u>	<u>\$ 50,156</u>	<u>\$ 1,019,617</u>	
Reconciliation:				
Total revenues per statement of revenues, expenditures, and changes in fund balance			\$ 2,352,388	
Less on behalf payment			<u>(270,449)</u>	
Total revenues, budgetary basis			<u>\$ 2,081,939</u>	
Total expenditures per statement of revenues, expenditures, and changes in fund balance			\$ 2,257,953	
Less on behalf payment			<u>(270,449)</u>	
Total expenditures, budgetary basis			<u>\$ 1,987,504</u>	

BIG SKY FIRE DEPARTMENT  
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION

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BUDGET COMPLIANCE

The Department annually adopts an operating budget for the fiscal year beginning on July 1. The budget cannot be increased except by a public emergency that could not have been reasonably foreseen at the time of its adoption. Expenditures are limited to the amount of the budget appropriation for each line item; however, the budgeted amounts may be adjusted by means of transfers of amounts between line items by resolution of the Board. All budget appropriations lapse at the end of the fiscal year.

BUDGET BASIS OF ACCOUNTING

The budget is prepared on the same basis of accounting used in preparing the Department's fund financial statements, except for noncash on-behalf payments which are not included in the Department's budget.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There was no excess of expenditures over appropriations during the fiscal year.

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 Trustees  
Big Sky Fire Department  
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 Fire Department as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Big Sky Fire Department's basic financial statements and have issued our report thereon November 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Sky Fire Department'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 Fire Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Big Sky Fire Department'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 Fire Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 26, 2014

BIG SKY FIRE DEPARTMENT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2014

None.

BIG SKY FIRE DEPARTMENT  
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2014

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



CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1293 NORTH 14TH STREET, SUITE 201  
BOZEMAN, MONTANA 59715  
(406) 587-4265  
FAX (406) 586-3111

November 26, 2014.

To the Board of Trustees  
Big Sky Fire Department  
Big Sky, Montana

In planning and performing our audit of the financial statements of Big Sky Fire Department 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 the Department'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 Department's internal control. Accordingly we do not express an opinion on the effectiveness of the Department'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 26, 2014, on the Department'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, appearing to read "Wm B Hebron".

William B. Hebron

Enclosure:

As stated

## Management Letter Recommendations

### 14-01 Review of Ambulance Receivables and Allowance for Doubtful Accounts

During our audit, we noted that private pay accounts over ninety (90) days aging amounted to over \$85,000 and the allowance for doubtful accounts was \$25,000. After reviewing the detailed ambulance receivable accounts with Management, it was determined that accounts amounting to \$22,171 should be written off as of June 30, 2014 and sent to collection.

We also noted that there were private pay accounts in the amount of \$34,661 that were making payments, some as low as \$5 per month. We noted several of these payment plans where it would take 30 years for the account balance to be paid off based on the monthly payment plan amount.

After reviewing the remaining ambulance receivable accounts, Management determined that the allowance for doubtful accounts should be increased to \$50,000.

We recommend that the Department prepare written policies and procedures that include allowable payment plan amounts. The allowable payment plan amount should be sufficient for the account balance to be paid off within 2 to 3 years. These written policies should be provided to the third-party provider for the ambulance billing.

We also recommend Management review the detail ambulance receivable accounts at least annually, but preferably each quarter, to determine if additional accounts need to be immediately sent to collection or if the allowance for doubtful accounts is adequate. If this review is done annually, we recommend it's done before the end of each fiscal year.

#### Management's response

With the increase in ambulance rates, which will continue in January of 2015, it has become clear that doubtful accounts and slowly paid outstanding private pay accounts have grown much larger than in the past. Management will address this by bringing a comprehensive policy before the Board for consideration so, once it is approved, that it can be implemented unilaterally by our ambulance billing provider.

### 14-02 Notice of Preliminary or Amended Budget

Montana Code Annotated (MCA) 7-33-2105, *Powers and Duties of Trustees*, provides that the Fire Department's Trustees shall "prepare annual budgets and request special levies for the budgets. The budget laws relating to county budgets, as far as applicable, apply to fire districts" (underscore added).

The budget laws relating to county budgets include MCA 7-6-4021 and MCA 7-1-2121, which require the counties to publish a notice of a public hearing on the preliminary or amended budget and have specific requirements for the content of the notice.

We recommend that the Department consult with their attorney to determine whether the Department is required to publish this notice in a newspaper prior to the Board meeting to approve the preliminary or amended budget.

#### Management's response

The Department has never held a public hearing on its Preliminary or Amended Budgets, although both are published in our public meeting advertisements in local newspapers of record. This has not been identified as an issue before and the current assumption is that the county's budget approval hearings address this requirement. We will consult with our attorney regarding this issue to make sure that we are compliant with MCA 7-33-2105.