

BIG SKY TRANSPORTATION DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

BIG SKY TRANSPORTATION DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
Independent auditor's report	1-3
Basic financial statements:	
Statement of net position	4
Statement of activities	5
Balance sheet – governmental fund	6
Reconciliation of the balance sheet of the governmental fund to the statement of net position	7
Statement of revenues, expenditures, and changes in fund balance – governmental fund	8
Reconciliation of the statement of revenues, expenditures and changes in fund balance of the governmental fund to the statement of activities	9
Notes to the financial statements	10-14
Schedule of expenditures of federal awards	15
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 <i>Government Auditing Standards</i>	16-17
Independent auditor's report on compliance for each major program and on internal control over compliance required by OMB Circular A-133	18-19
Schedule of findings and questioned costs	20-22
Summary schedule of prior audit findings and corrective action plan	23



CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1283 NORTH 14TH STREET, SUITE 201
BOZEMAN, MONTANA 59715
(406) 587-4265
FAX (406) 586-3111

INDEPENDENT AUDITOR'S REPORT

To the Big Sky Transportation District Board
Big Sky Transportation District
Big Sky, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Big Sky Transportation District (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 major fund of the Big Sky Transportation District as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Big Sky Transportation District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

February 15, 2015
Big Sky Transportation District Board
Page three

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2015 on our consideration of the Big Sky Transportation 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 Transportation District's internal control over financial reporting and compliance.

Holmes & Turner

February 15, 2015

BIG SKY TRANSPORTATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

Assets

Grants receivable	\$ 157,832
Prepaid expenses	27,210
Capital assets (net of depreciation)	<u>599,721</u>
Total assets	<u>784,763</u>

Liabilities

Accounts payable	6,001
Bank overdraft	147,371
Payroll liabilities	<u>1,357</u>
Total liabilities	<u>154,729</u>

Net position

Net investment in capital assets	599,721
Unrestricted	<u>30,313</u>
Total net position	<u>\$ 630,034</u>

See the accompanying notes to the basic financial statements.

**BIG SKY TRANSPORTATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Expenses:	
Public works - public transportation	<u>\$ 1,481,087</u>
Program revenues:	
Charges for services	99,220
Operating grants and contributions	727,129
Capital grants and contributions	<u>77,918</u>
Total program revenues	<u>904,267</u>
Net program expense	<u>(576,820)</u>
General revenues:	
Resort tax revenue	310,000
Other local revenue	242,432
Interest revenue	<u>161</u>
Total general revenues	<u>552,593</u>
Change in net position	<u>(24,227)</u>
Net position, beginning	640,683
Prior period adjustment	<u>13,578</u>
Net position, beginning - restated	<u>654,261</u>
Net position, ending	<u>\$ 630,034</u>

See the accompanying notes to the basic financial statements.

**BIG SKY TRANSPORTATION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2014**

Assets

Prepaid expenses	\$ 27,210
Grants receivable	<u>157,832</u>

Total assets	<u>\$ 185,042</u>
--------------	-------------------

Liabilities and fund balance

Liabilities

Accounts payable	\$ 6,001
Bank overdraft	147,371
Payroll liabilities	<u>1,357</u>

Total liabilities	<u>154,729</u>
-------------------	----------------

Fund balance

Unassigned	<u>30,313</u>
------------	---------------

Total liabilities and fund balance	<u>\$ 185,042</u>
------------------------------------	-------------------

See the accompanying notes to the basic financial statements.

**BIG SKY TRANSPORTATION 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	\$ 30,313
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>599,721</u>
Net position of governmental activities	<u>\$ 630,034</u>

See the accompanying notes to the financial statements.

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

Revenues	
Charges for services	\$ 99,220
Federal grants	802,376
Other local revenue	242,432
Resort tax revenue	310,000
State grants	2,671
Interest revenue	161
Total revenues	<u>1,456,860</u>
Expenditures	
Current:	
Public works - public transportation	1,361,159
Capital outlay	<u>89,995</u>
Total expenditures	<u>1,451,154</u>
Excess (deficiency) of revenues over expenditures	<u>5,706</u>
Fund balance, beginning	11,029
Prior period adjustment	<u>13,578</u>
Fund balance, beginning - restated	<u>24,607</u>
Fund balance, ending	<u>\$ 30,313</u>

See the accompanying notes to the basic financial statements.

**BIG SKY TRANSPORTATION 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	\$ 5,706
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 depreciation which exceeds capital outlays for current period.	<u>(29,933)</u>
Change in net assets of governmental activities	<u>\$ (24,227)</u>

See the accompanying notes to the financial statements.

**BIG SKY TRANSPORTATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

On November 18, 1991 the Big Sky Transportation District (the District) was created under MCA 7-14-203. The purpose of the District is to provide transportation services within the District. It is a separate political entity, the affairs of which are governed and managed by an elected Board. The District is not a component unit of another entity and 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 activity) report information on all the activities of the District. Governmental activities, which are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. For the fiscal 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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include program-specific grants and contributions arising from mandatory and voluntary nonexchange transactions with other governments, organizations or individuals and charges for services. Resort tax revenue, other local revenue, and interest income are reported as general revenues.

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

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 and 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.

**BIG SKY TRANSPORTATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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

E. Grants Receivable

The District receives grant monies, on a reimbursement basis, to operate the public transportation system. Grants receivable is the amount for which the District has submitted a request for reimbursement, but has not received the funds.

F. Capital Assets

Capital assets, which include vehicles and bus shelters, are reported on the statement of net position. The District uses the Federal guidelines regarding capitalization of equipment. Capitalized 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.

The vehicles are depreciated using the straight-line method over seven to ten years; the bus shelters are depreciated using the straight-line method over 20 years.

G. 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.

**BIG SKY TRANSPORTATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Fund Balance (Continued)

GASB 54 *requires* the fund balance amounts to be properly reported within one of the following fund balance categories:

1. Nonspendable – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact;
2. Restricted – constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation;
3. Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the district’s highest level of decision-making authority, the board;
4. Assigned – amounts that are constrained by the district’s intent, through board approval, to be used for specific purposes, but are neither restricted nor committed; and
5. Unassigned – residual classification for the district’s general fund and includes all spendable amounts not contained in other classifications.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District’s policy is to first use restricted resources. Likewise, when an expense is incurred for purposes for which committed, assigned and unassigned resources are available, the District’s policy is to use the resources in the following order: committed, assigned, and then unassigned.

H. Budget

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

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.

**BIG SKY TRANSPORTATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Capital assets being depreciated:			
Vehicles	\$ 918,570	\$ 89,995	\$ 1,008,565
Bus shelters	<u>45,441</u>	<u>-</u>	<u>45,441</u>
 Total capital assets being depreciated	 964,011	 89,995	 1,054,006
 Accumulated depreciation	 <u>(334,357)</u>	 <u>(119,928)</u>	 <u>(454,285)</u>
 Net depreciable capital assets	 <u>629,654</u>	 <u>(29,933)</u>	 <u>599,721</u>
 Total capital assets	 <u>\$ 629,654</u>	 <u>\$ (29,933)</u>	 <u>\$ 599,721</u>

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

Public works – public transportation	<u>\$ 119,928</u>
--------------------------------------	-------------------

These vehicles were purchased using funding provided by the Department of Transportation, which was passed through Montana Department of Transportation. The District holds the title to these vehicles with Montana Department of Transportation being the first secured party.

NOTE 3. CONCENTRATION

The District received approximately 55% of its total funding for the year ended June 30, 2014 from grants passed through the Montana Department of Transportation. The District received approximately 21% of its total funding for the year from allocations of local resort tax revenues collected by the Big Sky Resort Area District. The District is also dependent on these funds to match the federal monies received.

NOTE 4. RISK MANAGEMENT

The District requires proof of public liability and property damage liability insurance from the contractor for transportation services. The contractor is also required to provide proof of workers' compensation insurance coverage. In addition, the District also maintains a Board errors and omissions insurance policy. Finally, the District provides workers' compensation insurance on its employee, as required by law.

**BIG SKY TRANSPORTATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 5. COMMITMENTS

The District has contracted with a Montana corporation (Contractor) to provide the District personnel, equipment and supplies necessary to operate a public transportation service. The term of the contract was extended to June 30, 2017. The hourly rates through June 30, 2015 are as follows:

Contractor driving District's vehicles	\$ 35.31
Contractor driving Contractor's vehicles	\$ 62.50
Maintenance	\$ 46.00

The hourly rates shown above will be increased by four percent for the second year, and another four percent the third year. The Contractor sends an invoice to the District monthly. The District may terminate or reduce the scope of the contract if available funding is reduced for any reason.

The Montana Department of Transportation desires to have each FTA Section 5311 provider designate a "Coordinator" to provide planning and operation expertise to the transit system, and to coordinate with other transportation providers in the area. The District has contracted with an entity to provide these services for the District. The term of the contract was extended to June 30, 2015. At the beginning of each new contract year, the District determines a project budget and is billed according to this budget and the services performed. During the fiscal year ended June 30, 2014, the District paid approximately \$40,000 to this entity for services provided. The amendment dated June 26, 2014 allows the District to pay up to \$50,000 during the fiscal year ending June 30, 2015. The District or the entity may terminate the contract in whole or in part without cause with 60 days written notice.

NOTE 6. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2014, the District recognized prepaid insurance; this item was deemed immaterial in the past and, therefore was not recorded. When this adjustment was made, a portion of the reduction of expenses was attributable to prior years and resulted in a prior period adjustment of \$13,578.

**BIG SKY TRANSPORTATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Transportation			
Federal Transit Administration			
Passed through Montana Department of Transportation Planning Division:			
Section 5311			
Formula Grants for Other than Urbanized Areas	20.509	107034	\$ 409,287
Section 5311			
Formula Grants for Other than Urbanized Areas	20.509	107035	288,855
Section 5311			
Formula Grants for Other than Urbanized Areas	20.509	MT18-X052	77,918
Section 5311			
Formula Grants for Other than Urbanized Areas	20.509	MT18-X052	<u>14,285</u>
Total program			<u>790,345</u>
Section 5316			
Job Access Reverse Commute	20.516	107394	<u>12,031</u>
Total program			<u>12,031</u>
Total expenditures of federal awards			<u>\$ 802,376</u>

NOTE 1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of the Big Sky Transportation District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

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 Big Sky Transportation District Board
Big Sky Transportation 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 major fund of Big Sky Transportation District (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 and have issued our report thereon dated February 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies [2014-001 and 2014-002].

Compliance and Other Matters

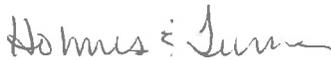
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Big Sky Transportation District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The 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.



February 15, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

To the Big Sky Transportation District Board
Big Sky Transportation District
Big Sky, Montana

Report on Compliance for Each Major Federal Program

We have audited Big Sky Transportation District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2014. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 that we consider to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Holmes & Turner

February 15, 2015

**BIG SKY TRANSPORTATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

Section I - Summary of Auditor's Results

Financial Statements

The auditor's report expresses an unmodified opinion on the financial statements of Big Sky Transportation District.

Internal control over financial reporting:

- There were no material weaknesses identified.
- There were two significant deficiencies identified.
- No instances of noncompliance material to the financial statements of Big Sky Transportation District were disclosed during the audit.

Federal Awards:

Internal control over the major program:

- There were no material weaknesses identified.
- There were two significant deficiencies identified.

The auditor's report on compliance for the major federal award program for Big Sky Transportation District expresses an unmodified opinion on the major federal program.

Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

The program tested as a major program is as follows:

CFDA #20.509 U.S. Department of Transportation
Passed-through Montana Department of Transportation
Section 5311, Formula Grants for Other than Urbanized Areas

The \$300,000 threshold was used in distinguishing between Type A and Type B programs.

Big Sky Transportation District was not determined to be a low-risk auditee.

**BIG SKY TRANSPORTATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014
(CONTINUED)**

Section II – Financial Statement Findings

Significant Deficiencies

2014-001 Segregation of duties

Criteria: Internal controls should be in place to allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Condition: The District has one person who handles all of the accounting functions and who has sole access to the accounting software.

Content: In planning and performing our audit of the financial statements, we considered Big Sky Transportation District's internal control over financial reporting to determine our audit procedures. While obtaining an understanding of the District's internal controls, we found the lack of segregation of duties.

Effect: Misstatements may not be detected and corrected in a timely manner.

Cause: It would be inefficient, considering the size of the District, for the District to hire additional personnel to achieve optimal internal controls.

Recommendation: We recommend that the Board and Coordinator be as involved as possible in reviewing the daily accounting.

Response: The District has taken several steps to involve Board members and the Coordinator to obtain the best internal controls possible using the resources available to the District.

2014-002 Fare revenue

Criteria: Internal controls should be in place to ensure that fare revenue is complete in the District's financial statements.

Condition: The District contracts with a company to provide the District personnel and equipment to operate the transportation system. During the fiscal year ended June 30, 2014, this company did not have procedures in place to ensure that fares were properly reported to the District.

Content: In planning and performing our audit of the financial statements, we considered Big Sky Transportation District's internal control over financial reporting to determine our audit procedures. While obtaining an understanding of the District's internal controls, we found the lack of internal controls over fare revenue.

Effect: Fare revenue may be understated and federal revenue may be overstated.

Cause: Collecting fares in the manner which they are collected for the District was fairly new to the contractor and proper procedures had not been established.

**BIG SKY TRANSPORTATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014
(CONTINUED)**

2014-002 Fare revenue (continued)

Recommendation: We recommend that fares collected be reconciled on a daily basis to the number of rides given that day.

Response: The contractor has established reconciliation procedures.

Section III – Federal Award Findings and Questioned Costs

Department of Transportation

2014-001 Section 5311, Formula Grants for Other than Urban Areas – CFDA No. 20.509; Grant Numbers 107034, 107035, and MT18-X052; Grant period – year ended June 30, 2014

Significant Deficiency. As discussed in Finding 2014-01, the District has one person who handles all of the accounting functions and who has sole access to the accounting software. Because of this lack of segregation of duties, misstatements may not be detected and corrected in a timely manner. The Board and Coordinator need to be as involved as possible in reviewing the daily accounting.

2014-002 Section 5311, Formula Grants for Other than Urban Areas – CFDA No. 20.509; Grant Numbers 107034, 107035, and MT18-X052; Grant period – year ended June 30, 2014

Significant Deficiency. As discussed in Finding 2014-02, the District contracts with a company to provide the District personnel and equipment to operate the transportation system. During the fiscal year ended June 30, 2014, this company did not have procedures in place to ensure that fares were properly reported to the District. Because of this lack of controls over fares collected, fare revenue may be understated and federal revenue may be overstated. Procedures should be implemented to daily reconcile the fares collected to the number of rides given.

**BIG SKY TRANSPORTATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2014**

PRIOR YEAR FINDINGS – FINANCIAL STATEMENTS AUDIT

Significant Deficiencies

2013-001 Segregation of duties

Condition: The District has one person who handles all of the accounting functions and who has sole access to the accounting software.

Response: The District has taken several steps to involve Board members and the Coordinator to obtain the best internal controls possible using the resources available to the District.

Current status: See current year comment 2014-001.

CORRECTIVE ACTION PLAN

Not applicable.



CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1283 NORTH 14TH STREET, SUITE 201
BOZEMAN, MONTANA 59715
(406) 587-4265
FAX (406) 586-3111

February 15, 2015

To the Big Sky Transportation District Board
Big Sky Transportation District
Big Sky, Montana

We have audited the financial statements of the governmental activities and major fund of Big Sky Transportation 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, if applicable, Government Auditing Standards and OMB Circular A-133), 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 October 23, 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 Transportation 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 the fiscal year ended June 30, 2014. We noted no transactions entered into by the governmental unit 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 District's financial statements was:

Management's estimate of the useful lives of the buses is based on Montana Department of Transportation's estimate. We evaluated the key factors and assumptions used to develop the useful lives of the buses 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 a concentration in Note 3 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached “adjusting” journal entries, which include several material misstatements detected as a result of our audit procedures, were accepted and posted in QuickBooks. The attached “potential” journal entry is an uncorrected potential misstatement of the financial statements. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 February 15, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the 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.

February 15, 2015
Big Sky Transportation District Board
Page three

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board and management of Big Sky Transportation 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 TRANSIT DISTRICT
Adjusting Journal Entries

BSSTRANSIT

Page 1

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
AJE1	Adjusting	06/30/14				
		1340.00	Other Revenues	5,000.00		
		1298.00	Retained Fund Balance		5,000.00	
		1401.00	Coordinator contract	6,310.48		
		1298.00	Retained Fund Balance		6,310.48	
		1298.00	Retained Fund Balance	5,552.79		
		1205.00	Accounts Payable		5,552.79	
		1298.00	Retained Fund Balance	1,960.68		
		1560.00	Other Admin Expenses		1,513.06	
		1205.00	Accounts Payable		447.62	
			Reconcile beginning fund balance. \$447.62 relates to First Interstate Bank.			
AJE10	Adjusting	06/30/14				
		1380.0	Local Revenue	4,005.00		
		1360.00	Cash Fares		4,005.00	
			Reclass fare revenue.			
AJE11	Adjusting	06/30/14				
		1110.00	Accounts Receivable	17,500.00		
		1380.0	Local Revenue		17,500.00	
			Receivable from Big Sky Resort			
AJE12	Adjusting	06/30/14				
		1330.00	Federal Grants	2,670.61		
		1335.00	State grants		2,670.61	
			Reclass state funds received.			
AJE13	Adjusting	06/30/14				
		1120.00	Prepaid expenses	25,952.77		
		1298.00	Retained Fund Balance		13,577.58	
		1504.00	Insurance - Genl , Board E &		12,375.19	
			Adjsut prepaid insurance.			
AJE2	Adjusting	06/30/14				
		1800.00	Reserves & Capital	77,917.67		
		1170.000	Investment in general fixed ass		77,917.67	
		1152.00	Other equipment	77,917.67		
		1330.00	Federal Grants		77,917.67	
		1800.00	Reserves & Capital	12,077.33		
		1170.000	Investment in general fixed ass		12,077.33	

Prepared by _____

BIG SKY TRANSIT DISTRICT
Adjusting Journal Entries

BSSTRANSIT

Page 2

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
			Adjust capital outlay.			
AJE3	Adjusting	06/30/14				
		1170.000	Investment in general fixed ass:	119,928.47		
		1160.000	Accumulated depreciation		119,928.47	
			Record depreciation			
AJE4	Adjusting	06/30/14				
		1330.00	Federal Grants	7,375.11		
		1330.00	Federal Grants	15,501.25		
		1110.00	Accounts Receivable		22,876.36	
			Correct A/R for revenue posted in the CY.			
AJE5	Adjusting	06/30/14				
		1380.0	Local Revenue	1,918.16		
		1110.00	Accounts Receivable		1,918.16	
			Reclass revenue posted to A/R.			
AJE6	Adjusting	06/30/14				
		1305.00	Resort Tax Revenues	43,750.00		
		1380.0	Local Revenue		43,750.00	
			Reclass receipts from YC.			
AJE7	Adjusting	06/30/14				
		1380.0	Local Revenue	310,000.00		
		1305.00	Resort Tax Revenues		310,000.00	
			Reclass resort tax.			
AJE8	Adjusting	06/30/14				
		1110.00	Accounts Receivable	95,517.05		
		1110.00	Accounts Receivable	38,462.77		
		1110.00	Accounts Receivable	6,351.94		
		1330.00	Federal Grants		140,331.76	
			Record grants receivable.			
AJE9	Adjusting	06/30/14				
		1405.00	Karst Contract	46,617.06		
		1360.00	Cash Fares		46,617.06	

Prepared by _____

BIG SKY TRANSIT DISTRICT
Adjusting Journal Entries

BSSTRANSIT

Page 3

Reviewed by _____

Reference	Type	Date Account Number	Description	Debit	Credit	Misstatement
			Adjust fare revenue for fares retained by Karst.			
PJE1	Potential	06/30/14				
		1419.00	Payroll Expenses	3,985.03		
		1212.00	Payroll Liabilities		3,985.03	
			Accrued compensated absences.			
RJE1	Adjusting	06/30/14				
		1330.00	Federal Grants	1.00		
		1340.00	Other Revenues		1.00	
			Reclass \$1 to tie federal funds.			
		TOTAL		<u>926,272.84</u>	<u>926,272.84</u>	



CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

1283 NORTH 14TH STREET, SUITE 201
BOZEMAN, MONTANA 59715
(406) 587-4265
FAX (406) 586-3111

February 15, 2015

To the Big Sky Transportation District Board
Big Sky Transportation District
Big Sky, Montana

In planning and performing our audit of the financial statements of Big Sky Transportation District for the year ended June 30, 2014, we considered its internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

However, during our audit, we noticed an opportunity to strengthen your internal controls and operating efficiency. We have enclosed a recommended change for your review. This letter does not affect our report, dated February 15, 2015, on Big Sky Transportation 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 this recommendation.

Sincerely,

HOLMES & TURNER

William B. Hebron

Enclosure:

As stated

Management Letter Recommendations

Compensated absences

The District has policies which state how hours accrue for vacation and sick leave. We were unable to obtain a summary of the hours that have accrued and that have been taken to date to calculate the liability as of June 30, 2014. We recommend that the amount of leave earned for each pay period be calculated in QuickBooks and that the bookkeeper is notified of when vacation and sick leave are taken so she can account for these in QuickBooks. Then, QuickBooks will calculate the amount of vacation and sick leave that have accrued at any point in time. These can also be printed on the employee's check stub, so he can verify the calculations.