

BIG SKY FIRE DEPARTMENT

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

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Rosie Barndt, CPA, P.C.

3382 Monida Street ♦ Bozeman, Montana ♦ 59718 ♦ 406.209.0411

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and the major fund of Big Sky Fire Department (Department) as of and for the year ended June 30, 2017, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, 2017, 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 on pages 3 - 7 and required supplementary information as listed in the table of contents on pages 30 - 35, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 25, 2017 on my consideration of Big Sky Fire Department's internal control over financial reporting and on my 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 my 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.

Rosie Barnett

October 25, 2017

BIG SKY FIRE DEPARTMENT
GALLATIN AND MADISON COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

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, 2017. 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 2017 are as follows:

The assets and deferred outflows of resources of the Department exceeded its liabilities and deferred inflows of resources by approximately \$2,855,400.

\$2,422,371 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 AND MADISON COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

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 AND MADISON COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

Table 1 provides a summary of the Department's net position at June 30, 2017.

(Table 1)
Net Position

Governmental Activities

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets		
Current assets	\$ 1,145,876	\$ 1,835,667
Capital assets, net	<u>2,422,371</u>	<u>1,631,714</u>
Total assets	<u>3,568,247</u>	<u>3,467,381</u>
Deferred outflows of resources	<u>401,034</u>	<u>255,978</u>
Liabilities		
Current liabilities	54,367	150,243
Long-term liabilities	<u>1,040,755</u>	<u>779,618</u>
Total liabilities	<u>1,095,122</u>	<u>929,861</u>
Deferred inflows of resources	<u>18,719</u>	<u>52,306</u>
Net position		
Net investment in capital assets	2,422,371	1,631,714
Unrestricted net position	<u>433,069</u>	<u>1,109,478</u>
Total net position	<u>\$ 2,855,440</u>	<u>\$ 2,741,192</u>

Capital assets make up 68% of the total assets.

BIG SKY FIRE DEPARTMENT
GALLATIN AND MADISON COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

Table 2 shows the changes in net position for the fiscal year 2017 and corresponds to the Statement of Activities on page 9.

(Table 2)
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
General revenues		
Property taxes	\$ 1,711,743	\$ 1,544,281
Intergovernmental revenues	696,061	542,318
Investment income	13,692	11,272
Other	19,365	36,156
Donations and contributions	<u>1,730</u>	<u>6,375</u>
Total general revenues	<u>2,442,591</u>	<u>2,140,402</u>
Program revenues		
Charges for services	443,631	476,323
Operating grants and contributions	<u>658,850</u>	<u>563,891</u>
Total program revenue	<u>1,102,481</u>	<u>1,040,214</u>
 Total revenue	 <u>\$ 3,545,072</u>	 <u>\$ 3,180,616</u>
Program expenses		
Public safety	\$ 3,430,824	\$ 3,056,056
Less program revenues	<u>(1,102,481)</u>	<u>(1,040,214)</u>
Net expenses	2,328,343	2,015,842
 General revenues	 <u>2,442,591</u>	 <u>2,140,402</u>
 Change in net position	 114,248	 124,560
 Net position - beginning	 <u>2,741,192</u>	 <u>2,616,632</u>
 Net position - ending	 <u>\$ 2,855,440</u>	 <u>\$ 2,741,192</u>

BIG SKY FIRE DEPARTMENT
GALLATIN AND MADISON COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

The hiring of the Deputy Fire Chief and the Administrative Assistant in 2016 has created a much greater ability for oversight of the District's administrative operations. This has led to financial efficiencies and operational streamlining.

From the Master Plan process that concluded in January 2016, the District is pursuing a mill levy increase ballot initiative in November of 2017 to fund the remodeling of both fire stations and an increase in staffing. If approved, the mill levy increase will allow the department to remodel Station 1 and remodel and create living quarters in Station 2.

Once those projects are completed, the funding would shift to create 9 firefighting positions to staff Station 2 as well as the creation of a Fire Prevention Bureau staffed by a Fire Marshal and a Fire Inspector. The Fire Prevention Bureau will not only be of great benefit for the safety of the community by assuming design review, development review and inspection duties, but the Fire Chief and Deputy Fire Chief, who handle those duties on top of their own responsibilities currently, would then be able to be more productive in their primary roles.

BIG SKY FIRE DEPARTMENT
GOVERNMENTAL FUND BALANCE SHEET AND
STATEMENT OF NET POSITION
JUNE 30, 2017

	General <u>Fund</u>	<u>Adjustments</u>	Statement of <u>Net Position</u>
Assets and deferred outflows of resources			
Cash	\$ 747,405	\$ -	\$ 747,405
Receivables, property taxes	152,502	-	152,502
Receivables, ambulance fees, net	221,016	-	221,016
Prepaid expenses	24,953	-	24,953
Capital assets, nondepreciable	-	638,234 a	638,234
Capital assets, depreciable, net	<u>-</u>	<u>1,784,137</u> a	<u>1,784,137</u>
Total assets	<u>1,145,876</u>	<u>2,422,371</u>	<u>3,568,247</u>
Deferred outflows of resources - pension	<u>-</u>	<u>401,034</u>	<u>401,034</u>
 Total assets and deferred outflows of resources	 <u>\$ 1,145,876</u>	 <u>\$ 2,823,405</u>	 <u>\$ 3,969,281</u>
Liabilities, deferred inflows of resources, and fund balance/net position			
Accounts payable	\$ 13,640	\$ -	\$ 13,640
Accrued liabilities	40,727	-	40,727
Long-term liabilities, due after one year	<u>-</u>	<u>1,040,755</u> c	<u>1,040,755</u>
Total liabilities	<u>54,367</u>	<u>1,040,755</u>	<u>1,095,122</u>
Deferred inflows of resources			
Unavailable revenue - property taxes	3,334	(3,334) d	-
Unavailable revenue - ambulance fees	75,378	(75,378) d	-
Pension plan	<u>-</u>	<u>18,719</u> b	<u>18,719</u>
Total deferred inflows of resources	<u>78,712</u>	<u>(59,993)</u>	<u>18,719</u>
Fund balance/net position			
Net investment in capital assets	-	2,422,371 e	2,422,371
Nonspendable	24,953	(24,953) e	-
Unassigned/unrestricted	<u>987,844</u>	<u>(554,775)</u> e	<u>433,069</u>
Total fund balance/net position	<u>1,012,797</u>	<u>1,842,643</u>	<u>2,855,440</u>
 Total liabilities, deferred inflows of resources and fund balance/net position	 <u>\$ 1,145,876</u>	 <u>\$ 2,823,405</u>	 <u>\$ 3,969,281</u>

^a Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.

^b Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental fund.

^c Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statement.

^d Deferred inflows of resources related to taxes and ambulance services are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the governmental fund.

^e Reclassifications to report net position in the required categories.

See accompanying notes to the financial statements.

BIG SKY FIRE DEPARTMENT
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Expenses:			
Public safety - fire protection			
Personal services	\$ 2,524,902	\$ 239,345 a,d	\$ 2,764,247
Supplies	109,573	-	109,573
Purchased services	284,084	-	284,084
Fixed charges	26,831	-	26,831
Depreciation	-	246,089 b	246,089
Capital outlay	<u>1,036,745</u>	<u>(1,036,745) b</u>	<u>-</u>
Total expenses	<u>3,982,135</u>	<u>(551,311)</u>	<u>3,430,824</u>
Program revenues:			
Charges for services	430,724	12,907 c	443,631
Operating grants	<u>658,850</u>	<u>-</u>	<u>658,850</u>
Total program revenues	1,089,574	12,907	<u>1,102,481</u>
Net expense			<u>(2,328,343)</u>
General revenues:			
Taxes	1,710,222	1,521 c	1,711,743
Intergovernmental revenues	432,316	263,745 d	696,061
Miscellaneous	19,365	-	19,365
Contributions and donations	1,730	-	1,730
Investment earnings	<u>13,692</u>	<u>-</u>	<u>13,692</u>
Total revenues/total general revenue	<u>3,266,899</u>	<u>278,173</u>	<u>2,442,591</u>
Changes in fund balance/net position	(715,236)	829,484	114,248
Fund balance/net position - beginning	<u>1,728,033</u>	<u>1,013,159</u>	<u>2,741,192</u>
Fund balance/net position - ending	<u>\$ 1,012,797</u>	<u>\$ 1,842,643</u>	<u>\$ 2,855,440</u>

^a Accrued compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

^b 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.

^c Receivables (taxes and ambulance fees) which are not expected to be received within 60 days of June 30, 2017, 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.

^d Governmental funds report pension contributions as expenditures and the related on-behalf payments by the State of Montana as revenue and expenditures. In the statement of activities, the actuarially calculated cost of the pension benefits is reported as pension expense and the related on-behalf payment as revenue and pension expense.

See accompanying notes to the financial statements.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2017, 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 and include operating grants. For the year ended June 30, 2017, the Department received program revenue from ambulance and fire protection services provided. Taxes and other items are reported as general revenues.

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.

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. 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.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Cash and Investments

Cash is held by the County Treasurer and pooled in the County external investment pool. The fair value of the position in the pool is the same as the value of the pool shares. The County Treasurer invests the pooled cash pursuant to state law (MCA 20-9-213[4]). Allowable investments include time and savings deposits with a bank, savings and loan association, or credit union in the state, obligations of the United States Government, securities issued by agencies of the United States, repurchased agreements, and the State Short-Term Investment Pool (STIP).

The audited financial statements of Gallatin County, which include information about the investment pool, are available at <https://lgs.mt.gov/>.

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.

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.

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.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Building	40
Building improvements	10-15
Vehicles	10
Equipment	5-10

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. The balance of vested employee's vacation and sick leave is recorded as a liability in the statement of net position.

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.

Net Position

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, granters, or laws and regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Department's policy is to apply restricted net position first.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

In accordance with GASB 54, the Department reports fund balance in two general classifications: non-spendable and spendable. Non-spendable represents the portion of fund balance that is not in spendable form such as prepaid expenses. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category contains balances that can be spent only for the specific purposes stipulated by external parties. External parties include granters, debt covenants, votes, and laws and regulations of other governments.

The committed fund balance category includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the Board of Trustees. The Board needs to formally adopt a Resolution in order to establish, modify, or rescind a fund balance commitment.

Amounts in the assigned fund balance are to be used by the Department for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund.

When an expense is incurred for purposes for which both restricted and unrestricted fund balance are available, the Department's policy is to apply restricted fund balance first.

Fire Protection Impact Fee Revenues

Prior to fiscal year 2013, Gallatin County collected fire protection impact fees from subdivisions within the Department's benefit area. 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's benefit area 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. At this time, the Department recognizes revenues from impact fees. On June 30, 2017, the County held \$8,216 in the impact fee fund.

BIG SKY FIRE DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 2. CASH AND INVESTMENTS

As of June 30, 2017, the Department had \$200 in cash on hand and the following investment:

Carrying Amount

Gallatin County External Investment Pool \$ 747,205

The Department participates in an investment pool managed by the Gallatin County Treasurer. The pool is not registered with the Securities and Exchange Commission as an investment company and is not subject to regulatory oversight. Investments of the pool consist primarily of repurchase agreements, the State of Montana's Short-Term Investment Pool (STIP), U.S. Treasury Bills, and securities of the U.S. Government, its agencies, or government sponsored entities and are carried at quoted market prices. The fair value of investments is determined annually, and is based on quoted market prices. The Department's balance in the investment pool is reported as cash in the accompanying financial statements, as the Department has full access to these funds upon request. Interest earnings are allocated to the individual funds of the Department based on the Department's month end balance in relation to the total pool investments.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. Since the Department invests in a pool managed by the County Treasurer, pledged securities for the various individual deposits and repurchase agreements are managed by the County Treasurer.

NOTE 3. CAPITAL ASSETS

Capital asset activity for year ended June 30, 2017 was as follows:

Governmental activities:	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 132,397	\$ 505,837	\$ -	\$ 638,234
Capital assets, being depreciated:				
Buildings and improvements	1,928,177	12,114	-	1,940,291
Equipment	957,112	54,555	(21,525)	990,142
Vehicles	<u>2,433,348</u>	<u>464,239</u>	<u>-</u>	<u>2,897,587</u>
Total	5,318,637	530,908	(21,525)	5,828,020
Less accumulated depreciation	<u>(3,819,319)</u>	<u>(246,089)</u>	<u>21,525</u>	<u>(4,043,883)</u>
Capital assets, being depreciated, net	<u>1,499,318</u>	<u>284,819</u>	<u>-</u>	<u>1,784,137</u>
Governmental activities capital assets, net	<u>\$ 1,631,715</u>	<u>\$ 790,656</u>	<u>\$ -</u>	<u>\$ 2,422,371</u>

BIG SKY FIRE DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 4. LONG-TERM LIABILITIES

Summary of long-term liabilities

Long-term liability activity for the year ended June 30, 2017 was as follows:

	Balance			Balance	Due Within
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>	<u>One Year</u>
Compensated absences	\$ 115,445	\$ 18,512	\$ -	\$ 133,957	\$ -
Net pension liability	<u>771,066</u>	<u>135,732</u>	<u>-</u>	<u>906,798</u>	<u>-</u>
 Total	 <u>\$ 886,511</u>	 <u>\$ 154,244</u>	 <u>\$ -</u>	 <u>\$ 1,040,755</u>	 <u>\$ -</u>

NOTE 5. RETIREMENT PLANS

Plan Description – Firefighter’ Unified Retirement System (FURS)

The Firefighters’ Unified Retirement System (FURS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This plan provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries.

Plan Description –Public Employee Retirement System (PERS)

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

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

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

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

The following information uses the June 30, 2016 and 2015 measurement dates for the June 30, 2017 and 2016 reporting dates, respectively. All dates noted on the following pages are reporting dates, unless otherwise specified.

Summary of Benefits – FURS

Eligibility for benefit

20 years of membership service, regardless of age.
Age 50, 5 years of membership service.

Vesting

Death and disability rights are vested immediately.
5 years of membership service for all other rights.

Member's compensation is defined as

Hired prior to July 1, 1981 and not electing GABA - highest monthly compensation (HMC);
Hired after June 30, 1981 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.

Compensation Cap

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

Monthly benefit formula

Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:

2.5% of HMC per year of service, OR

- i) if less than 20 years of service - 2% of HMC for each year of service;
- ii) if more than 20 years of service - 50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years.

Members hired on or after July 1, 1981 and those electing GABA:

2.5% of HAC per year of membership service.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum Benefit Adjustment (non-GABA)

If hired before July 1, 1997 and member did not elect GABA - the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Summary of Benefits – PERS

Eligibility for benefit

Service retirement:

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

Early Retirement

Early retirement, actuarially reduced:

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

Vesting

5 years of membership service.

Member's highest average compensation (HAC)

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

Compensation Cap

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

Monthly benefit formula

Members hired prior to July 1, 2011

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

Members hired on or after July 1, 2011

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

BIG SKY FIRE DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Summary of Benefits – PERS (continued)

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

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

FURS:

Fiscal Year	Member		Employer	State
	Non-GABA	GABA		
1998-2017	9.500%	10.700%	14.360%	32.610%
1997	7.800%		14.360%	32.610%

PERS:

Fiscal year	Member		Local Government	
	Hired before 7/1/2011	Hired after 7/1/2011	Employer	State
2017	7.90%	7.90%	8.37%	0.10%
2016	7.90%	7.90%	8.27%	0.10%
2015	7.90%	7.90%	8.17%	0.10%
2014	7.90%	7.90%	8.07%	0.10%
2012-2013	6.90%	7.90%	7.07%	0.10%
2010-2011	6.90%		7.07%	0.10%
2008-2009	6.90%		6.94%	0.10%
2000-2007	6.90%		6.80%	0.10%

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

PERS (continued):

Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

Employer contributions to the system:

Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.

Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

The Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan, are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Non Employer Contributions:

Special Funding

The state contributed 0.1% of members' compensation on behalf of local government entities.

Not Special Funding

The state contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

Stand-Alone Statements

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

Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2015 actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2016 (measurement date). There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016 (measurement date) valuation were based on the results of the last actuarial experience study, dated June 2010, for the six- year period July 1, 2003 to June 30, 2009. Among those assumptions were the following.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (continued)

FURS

- Investment Return (net of admin expense) 7.75%
- Admin Expense as % of Payroll 0.19%
- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases

i. Guaranteed Annual Benefit Adjustment (GABA)

Members hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

ii. Minimum Benefit Adjustment (non-GABA)

Members hired before July 1, 1997 and member did not elect GABA - the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvements were assumed.

PERS

- Investment Return (net of admin expense) 7.75%
- Admin Expense as % of Payroll 0.27%
- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Postretirement Benefit Increases

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - a. 1.5% for each year PERS is funded at or above 90%;
 - b. 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
 - c. 0% whenever the amortization period for PERS is 40 years or more.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (continued)

PERS (continued)

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvements were assumed.

Discount Rate

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. For FURS, the State contributed 32.61% of salaries paid by employers; for PERS, the State contributed 0.1% of the salaries paid by local governments. In addition, the state contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The experience study, performed for the period of fiscal years 2003 through 2009, was outlined in a report dated June 2010 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2016, are summarized below.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Target Allocations (continued)

Asset Class	Target Asset Allocation	Real Rate of Return - Arithmetic Basis	Long-term Expected Real Rate of Return
	(a)	(b)	(a)*(b)
Cash equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
Total	100.00%		4.37%
Inflation			3.00%
Portfolio-Return-Expectation			7.37%

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

Sensitivity Analysis

	1.0% Decrease - 6.75%	Current Discount Rate	1.0% Increase - 8.75%
<u>FURS</u>			
Employer's proportion of net pension liability	\$ 1,412,921	\$ 897,329	\$ 473,397
<u>PERS</u>			
Employer's proportion of net pension liability	\$ 13,740	\$ 9,469	\$ 5,790

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Summary of Significant Accounting Policies

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

Net Pension Liability

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

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2016 (measurement date) was determined by taking the results of the June 30, 2015 actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Special Funding

The Plan has a special funding situation in which the state of Montana is legally responsible for making contributions directly to the Plan on behalf of the employers. Due to the existence of this special funding situation, the state is required to report a proportionate share of a local government's collective NPL that is associated with the non-state employer.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Net Pension Liability (continued)

Not Special Funding

The state of Montana, as the non-employer contributing entity, paid to the Plan coal tax contributions that are not accounted for as special funding for all participating employers.

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2017, and 2016, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of \$897,329 and \$9,469 and the employer's proportionate share was .7857% and 0.0006% for FURS and PERS, respectively.

	Net Pension Liability as of 6/30/17	Net Pension Liability as of 6/30/16	Percent of Collective NPL as of 6/30/2017	Percent of Collective NPL as of 6/30/2016	Change in percent of Collective NPL
<u>FURS</u>					
Employer					
Proportionate Share	\$ 897,329	\$ 750,768	0.7857%	0.7341%	0.0516%
State of Montana					
Proportionate Share associated with Employer	<u>2,033,064</u>	<u>1,672,159</u>	<u>1.7801%</u>	<u>1.6349%</u>	<u>0.1452%</u>
Total	<u>\$ 2,930,393</u>	<u>\$ 2,422,927</u>	<u>2.5658%</u>	<u>2.3690%</u>	<u>0.1968%</u>
<u>PERS</u>					
Employer					
Proportionate Share	\$ 9,469	\$ 20,298	0.0006%	0.0015%	-0.0009%
State of Montana					
Proportionate Share associated with Employer	<u>116</u>	<u>249</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>
Total	<u>\$ 9,585</u>	<u>\$ 20,547</u>	<u>0.0006%</u>	<u>0.0015%</u>	<u>-0.0009%</u>

BIG SKY FIRE DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Net Pension Liability (continued)

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the TPL.

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

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL since the previous measurement date.

Pension Expense

	FURS		PERS	
	Pension Expense as of 6/30/17	Pension Expense as of 6/30/16	Pension Expense as of 6/30/17	Pension Expense as of 6/30/16
Employer				
Proportionate Share	\$ 144,827	\$ 101,297	\$ (2,653)	\$ 608
State of Montana				
Proportionate Share associated with Employer	263,569	181,035	10	15
Coal Tax for Employer	-	-	166	487
Total	<u>\$ 408,396</u>	<u>\$ 282,332</u>	<u>\$ (2,477)</u>	<u>\$ 1,110</u>

At June 30, 2017, the employer recognized \$144,827 and \$(2,653) for its proportionate share of the FURS' and PERS' pension expense, respectively. The employer also recognized grant revenue of \$263,569 and \$10 for the state of Montana proportionate share of the pension expense associated with the employer for FURS' and PERS', respectively. Additionally, the employer recognized grant revenue of \$166 from the Coal Severance Tax fund.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Recognition of Deferred Inflows and Outflows

At June 30, 2017, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>FURS</u>		
Differences between actual and expected experience	\$ -	\$ 8,447
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	93,941	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	121,264	-
#Contributions paid subsequent to the measurement date - FY 2017 contributions	176,391	-
Total	\$ 391,596	\$ 8,447
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>PERS</u>		
Differences between actual and expected experience	\$ 51	\$ 31
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	891	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	10,241
#Contributions paid subsequent to the measurement date - FY 2017 contributions	8,496	-
Total	\$ 9,438	\$ 10,272

BIG SKY FIRE DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

Recognition of Deferred Inflows and Outflows (continued)

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018.

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

Year ended June 30:	Recognition of deferred outflows and deferred inflows in future years as an increase or (decrease) to pension expense	
	FURS	PERS
	2018	\$ 6,817
2019	\$ 6,817	\$ 43
2020	\$ 44,900	\$ 506
2021	\$ 28,481	\$ 318
2022	\$ (1,522)	\$ -
Thereafter	\$ -	\$ -

Employer's proportion of FURS and PERS Pension Amounts Combined

	Employer's proportionate share associated with FURS	Employer's proportionate share associated with PERS	Employer's Total Pension
Net pension liability (NPL)	\$ 897,329	\$ 9,469	\$ 906,798
Deferred outflows of resources	\$ 391,596	\$ 9,438	\$ 401,034
Deferred inflows or resources	\$ 8,447	\$ 10,272	\$ 18,719
Pension expense	\$ 144,827	\$ (2,653)	\$ 142,174

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. RETIREMENT PLANS (CONTINUED)

PERS Disclosure for the defined contribution plan

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

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

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

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

At the plan level for the measurement period ended June 30, 2016, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 289 employers that have participants in the PERS-DCRP totaled \$382,656.

Deferred Compensation Retirement Plan

The Department contributed a match of up to 1% of compensation to the State of Montana 457 Deferred Compensation Plan (DCP) for employees that elected to participate in the DCP. The 457 Plan is administered by the Public Employees' Retirement Board, which was established February 1, 1990 and is authorized by Internal Revenue Code (IRC) Section 457(b).

The DCP allows employees to voluntarily contribute a portion of their compensation as traditional pre-tax and/or Roth after-tax contributions and invest them on a tax-deferred basis. The minimum deferral is \$10 a month. Under the governing IRC, the annual deferral limit is the lesser of 100% of includable compensation or \$18,000; there are catch-up contribution provisions that allow up to \$36,000 to be contributed annually.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in the contributions made to their accounts. The IRC allows distribution of funds only upon retirement, separation from service with the participating employer, or attainment of age 70 ½.

The Department, which contributed approximately \$11, 500 to the DCP during the year ended June 30, 2017, does not recognize any net pension liability for the 457 Deferred Compensation Plan.

BIG SKY FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6. OPERATING LEASE

In June 2014, the Department entered into a sixty-month operating lease for a copier at a monthly rental of \$250, expiring June 30, 2019. For the year ended June 30, 2017, lease expense amounted to \$3,000. Future minimum lease payments are as follows:

2018	\$ 3,000
2019	\$ 2,750

NOTE 7. 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 8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 25, 2017 the date on which these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

BIG SKY FIRE DEPARTMENT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE LAST TEN FISCAL YEARS*
YEAR ENDED JUNE 30, 2017

Year ended June 30:	Employer's proportion of the net pension liability as a percentage	Employer's proportionate share of the net pension liability as an amount	State of Montana's proportionate share of the net pension liability associated with the employer	Total	Employer's covered payroll	Employer's proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
<u>FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM</u>							
2017	0.785700%	\$ 897,329	\$ 2,033,064	\$ 2,930,393	\$ 1,106,350	81.11%	75.48%
2016	0.734054%	\$ 750,768	\$ 1,672,159	\$ 2,422,927	\$ 986,459	76.11%	76.90%
2015	0.638463%	\$ 623,245	\$ 1,406,012	\$ 2,029,257	\$ 829,344	75.15%	76.70%
<u>PUBLIC EMPLOYEES RETIREMENT SYSTEM</u>							
2017	0.000600%	\$ 9,469	\$ 116	\$ 9,585	\$ 6,659	142.20%	74.71%
2016	0.001452%	\$ 20,298	\$ 249	\$ 20,547	\$ 16,946	119.78%	78.40%
2015	0.001801%	\$ 22,443	\$ 274	\$ 22,717	\$ 20,389	110.07%	79.90%

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

BIG SKY FIRE DEPARTMENT
 SCHEDULE OF CONTRIBUTIONS
 FOR THE LAST TEN FISCAL YEARS*
 YEAR ENDED JUNE 30, 2017

Year ended June 30:	Contractually required contributions	Contributions in relation to the contractually required contributions	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a % of covered payroll
<u>FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM</u>					
2017	\$ 176,391	\$ 176,391	\$ -	\$ 1,228,350	14.359995%
2016	\$ 158,178	\$ 158,178	\$ -	\$ 1,106,350	14.297284%
2015	\$ 144,412	\$ 144,412	\$ -	\$ 986,459	14.639433%
<u>PUBLIC EMPLOYEES RETIREMENT SYSTEM</u>					
2017	\$ 8,496	\$ 8,496	\$ -	\$ 101,505	8.370031%
2016	\$ 1,927	\$ 1,927	\$ -	\$ 6,659	28.938279%
2015	\$ 3,836	\$ 3,836	\$ -	\$ 16,946	22.636610%

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

BIG SKY FIRE DEPARTMENT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Taxes	\$ 1,605,659	\$ 1,605,659	\$ 1,710,222	\$ 104,563
Charges for services	545,675	545,675	430,724	(114,951)
Operating grants	658,850	658,850	658,850	-
Intergovernmental revenues	-	-	31,650	31,650
Miscellaneous	10,000	10,000	19,365	9,365
Contributions and donations	-	-	1,730	1,730
Investment earnings	5,000	5,000	13,692	8,692
Total revenues	<u>2,825,184</u>	<u>2,825,184</u>	<u>2,866,233</u>	<u>41,049</u>
Expenditures:				
Current:				
Public Safety:				
Fire protection				
Personal services	2,165,623	2,165,623	2,124,236	(41,387)
Other costs	526,750	526,750	420,488	(106,262)
Capital outlay	<u>1,060,950</u>	<u>1,060,950</u>	<u>1,036,745</u>	<u>(24,205)</u>
Total expenditures	<u>3,753,323</u>	<u>3,753,323</u>	<u>3,581,469</u>	<u>(171,854)</u>
Net change in fund balance	<u>\$ (928,139)</u>	<u>\$ (928,139)</u>	(715,236)	<u>\$ 212,903</u>
Fund balance - beginning			<u>1,728,033</u>	
Fund balance - ending			<u>\$ 1,012,797</u>	
Reconciliation:				
Total revenues per statement of revenues, expenditures, and changes in fund balance			\$ 3,266,899	
Less on behalf payment			<u>(400,666)</u>	
Total revenues, budgetary basis			<u>\$ 2,866,233</u>	
Total expenditures per statement of revenues, expenditures, and changes in fund balance			\$ 3,982,135	
Less on behalf payment			<u>(400,666)</u>	
Total expenditures, budgetary basis			<u>\$ 3,581,469</u>	

BIG SKY FIRE DEPARTMENT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017

NOTE 1. BUDGET COMPLIANCE

The Department annually adopts an operating budget for the fiscal year beginning on July 1. The Board may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Without a public hearing, 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 between line items by resolution of the Board. All budget appropriations lapse at the end of the fiscal year.

NOTE 2. 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.

NOTE 3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

NOTE 4. CHANGES OF BENEFIT TERMS

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

2013 Legislative Changes:

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454
Guaranteed Annual Benefit Adjustment (GABA) - for PERS

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

- o 3.0% for members hired prior to July 1, 2007
- o 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- o Members hired on or after July 1, 2013
 - a. 1.5% each year PERS is funded at or above 90%;
 - b. 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

BIG SKY FIRE DEPARTMENT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017

NOTE 4. CHANGES OF BENEFIT TERMS (Continued)

2015 Legislative Changes - PERS:

General Revisions - House Bill 101, effective January 1, 2016

Second Retirement Benefit - for PERS

- 1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and
 - GABA starts again the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and,
 - GABA starts again the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
 - member receives same retirement benefit as prior to return to service;
 - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

BIG SKY FIRE DEPARTMENT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2017

NOTE 4. CHANGES OF BENEFIT TERMS (Continued)

2015 Legislative Changes - FURS:

If a PERS member transfers employment to a FURS covered position and fails to elect FURS membership within 90 days, the default is PERS membership.

NOTE 5. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

Method and assumptions used in calculations of actuarially determined contributions

The following addition was adopted in 2014 based on implementation of GASB Statement 68:

	FURS	PERS
Admin Expense as % of Payroll	0.19%	0.27%

There were no changes following the 2013 Economic Experience study.

The following Actuarial Assumptions were adopted from the June 2010 Experience Study:

	FURS	PERS
General Wage Growth*	4.00%	4.00%
*Includes inflation at	3.00%	3.00%
Merit increase	0% to 7.3%	0% to 6.0%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation	7.75 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of pay, open	Level percentage of pay, open

Rosie Barndt, CPA, P.C.

3382 Monida Street ♦ Bozeman, Montana ♦ 59718 ♦ 406.209.0411

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

I 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, 2017, and the related notes to the financial statements, which collectively comprise the Big Sky Fire Department's basic financial statements and have issued my report thereon October 25, 2017.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my 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, I 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my 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.

Rosie Barndt

October 25, 2017

BIG SKY FIRE DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

None.

BIG SKY FIRE DEPARTMENT
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
YEAR ENDED JUNE 30, 2017

There were no findings, questioned costs, or reportable conditions for the year ended June 30, 2016.