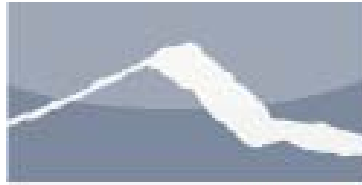


**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**





**BIG SKY**  
OWNERS ASSOCIATION

**FINANCIAL REPORT**

**September 30, 2018 and 2017**



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Big Sky Owners Association, Inc.  
Big Sky, Montana

We have audited the accompanying financial statements of Big Sky Owners Association, Inc. (the Association), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of revenues and expenses, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues and Expenses – Actual and Budget, on pages 11 and 12, for the year ended September 30, 2018, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association’s management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Anderson Zurmuehlen & Co., P.C.*

Butte, Montana  
January 18, 2019

FINANCIAL STATEMENTS

BIG SKY OWNERS ASSOCIATION, INC.  
BALANCE SHEETS  
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 901,534	\$ 722,383
Certificates of deposit	28,000	63,000
Members' assessments receivable, net of allowance for doubtful accounts of \$23,010 and \$3,010, respectively	11,799	5,559
Prepaid expenses and other	<u>6,363</u>	<u>5,110</u>
Total current assets	<u>947,696</u>	<u>796,052</u>
<b>DESIGNATED ASSETS</b>		
Cash and cash equivalents	<u>1,080,337</u>	<u>1,080,337</u>
<b>PROPERTY AND EQUIPMENT</b>		
Office equipment	50,619	50,619
Pond improvements	92,712	92,712
Buildings and improvements	<u>251,062</u>	<u>251,062</u>
	394,393	394,393
Accumulated depreciation	<u>(185,225)</u>	<u>(177,376)</u>
	<u>209,168</u>	<u>217,017</u>
Total assets	<u>\$ 2,237,201</u>	<u>\$ 2,093,406</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 18,468	\$ 4,717
Accrued liabilities	4,507	3,662
Architectural committee performance deposits	773,243	675,246
Accrued vacation	<u>17,627</u>	<u>10,527</u>
Total current liabilities	<u>813,845</u>	<u>694,152</u>
<b>MEMBERS' EQUITY</b>		
Undesignated	343,019	318,917
Designated:		
For future repairs and replacements	<u>1,080,337</u>	<u>1,080,337</u>
	<u>1,423,356</u>	<u>1,399,254</u>
Total liabilities and members' equity	<u>\$ 2,237,201</u>	<u>\$ 2,093,406</u>

The Notes to Financial Statements are an integral part of these statements.

BIG SKY OWNERS ASSOCIATION, INC.  
STATEMENTS OF REVENUES AND EXPENSES  
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>REVENUES AND SUPPORT</b>		
Assessments	\$ 853,372	\$ 847,375
Winter road maintenance - Madison County	74,815	73,106
Architectural fees	27,750	27,500
Compliance penalties	20,000	-
Title company fees	8,650	9,875
Interest	7,522	2,818
Miscellaneous	6,895	1,077
Cross-country ski fees	<u>36,252</u>	<u>40,591</u>
	<u>1,035,256</u>	<u>1,002,342</u>
<b>EXPENSES</b>		
Administrative	414,415	366,979
Activity	124,231	118,947
Capital	7,849	7,852
Road	439,759	421,947
Other expenses (income)	<u>24,900</u>	<u>(52)</u>
	<u>1,011,154</u>	<u>915,673</u>
Excess of revenues over expenses	<u>\$ 24,102</u>	<u>\$ 86,669</u>

The Notes to Financial Statements are an integral part of these statements.



BIG SKY OWNERS ASSOCIATION, INC.  
STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
Years Ended September 30, 2018 and 2017

	<u>Undesignated</u>	<u>Designated for Future Repairs and Replacements</u>	<u>Total</u>
Members' equity, October 1, 2016	\$ 762,248	\$ 550,337	\$ 1,312,585
Excess of revenues over expenses	86,669	-	86,669
Transfers	<u>(530,000)</u>	<u>530,000</u>	<u>-</u>
Members' equity, September 30, 2017	318,917	1,080,337	1,399,254
Excess of revenues over expenses	<u>24,102</u>	<u>-</u>	<u>24,102</u>
Members' equity, September 30, 2018	<u>\$ 343,019</u>	<u>\$ 1,080,337</u>	<u>\$ 1,423,356</u>

The Notes to Financial Statements are an integral part of these statements.

BIG SKY OWNERS ASSOCIATION, INC.  
STATEMENTS OF CASH FLOWS  
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	\$ 24,102	\$ 86,669
Adjustments to reconcile excess of revenues over expenses to net cash flows from operating activities:		
Depreciation	7,849	7,852
Changes in operating assets and liabilities:		
Member assessment receivable	(6,240)	(4,749)
Prepaid expenses and other	(1,253)	295
Accounts payable	13,751	289
Accrued liabilities	847	(5,908)
Accrued vacation	7,100	(841)
Net cash flows from operating activities	<u>46,156</u>	<u>83,607</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Architectural committee performance deposits	97,995	184,640
Redemption of certificates of deposit	<u>35,000</u>	<u>-</u>
Net cash flows from investing activities	<u>132,995</u>	<u>184,640</u>
Net change in cash and cash equivalents	179,151	268,247
Cash and cash equivalents, beginning of year	<u>1,802,720</u>	<u>1,534,473</u>
Cash and cash equivalents, end of year	<u>\$ 1,981,871</u>	<u>\$ 1,802,720</u>
<b>PRESENTED IN THE ACCOMPANYING BALANCE SHEETS UNDER THE FOLLOWING CAPTIONS</b>		
Cash and cash equivalents	\$ 901,534	\$ 722,383
Designated cash and cash equivalents	<u>1,080,337</u>	<u>1,080,337</u>
	<u>\$ 1,981,871</u>	<u>\$ 1,802,720</u>

The Notes to Financial Statements are an integral part of these statements.

BIG SKY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

**NOTE 1. ORGANIZATION**

Big Sky Owners Association, Inc. (the Association) is incorporated as a nonprofit 501(c)(4) corporation in the State of Montana. The Association is a master association type of common interest realty, organized for administering the common property and providing shared services and assessing members of the participating developments for their portion of the related expenses. The Association represents approximately 2,300 membership interests and is located in Big Sky, Montana.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting and Reporting**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

The Association uses the cash basis of accounting to prepare its budget which is used to determine membership assessments.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Association considers all short-term investments with an original maturity of three months or less to be cash equivalents. As of September 30, 2018, the Association did not have any amounts in excess of federal deposit insurance (FDIC) coverage at local financial institutions. As of September 30, 2017, the Association held \$283,393 in excess of FDIC coverage at local financial institutions.

**Income Taxes**

The Association qualifies for tax-exempt status under Internal Revenue Codes §501(c)(4), and has been ruled not to be a private foundation.

**Members' Assessments**

Association members are subject to an annual assessment billed to provide funds for the Association's operating expenses, capital expenditures and future major repairs and replacements.

**Assessments Receivable**

Assessments are billed annually and are due within 30 days. All assessments together with interest, costs, and reasonable attorney's fees, shall be charged on the land, run with the land and shall be a continuing lien upon the property against which each such assessment is made per Association bylaws. The Association uses the allowance method for writing off bad debts and doubtful accounts are based on a review the current status of existing receivables.

BIG SKY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2018 and 2017

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

The Association does not capitalize common property such as land and improvements. These types of expenditures are included in “activities” in the statement of revenues and expenses. Contributed personal property is recorded at estimated fair value at the date of contribution.

The Association capitalizes all purchases of property used for operations with a cost of \$5,000 or more and with an estimated economic life longer than one year.

**Depreciation**

Property and equipment are depreciated using the straight-line method with estimated useful lives as follows:

Office equipment	5 – 7 years
Buildings and other improvements	7 – 39 years

Depreciation expense amounted to \$7,849 and \$7,852 for the years ended September 30, 2018 and 2017, respectively.

**Compensated Leave**

The Association accrues a liability for employees’ compensation for future absences, in accordance with the Association’s personnel policy.

**Deferred Revenue**

Deferred revenue represents cash received in which related expenditures or services have not been incurred or performed.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. 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 management’s current judgment.

**Subsequent Events**

Management has evaluated subsequent events through January 18, 2019, the date which the financial statements were available to be issued.

BIG SKY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2018 and 2017

**NOTE 3. BUILDINGS AND IMPROVEMENTS**

Buildings and improvements consist of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Condominium Unit J	\$ 162,131	\$ 162,131
Building improvements	<u>88,931</u>	<u>88,931</u>
	<u>\$ 251,062</u>	<u>\$ 251,062</u>

The Association holds various parcels of real property which have not been capitalized. These properties are for common use of its members and have various restrictions placed upon them designating their use and the ability to dispose of such properties.

**NOTE 4. EMPLOYEE BENEFITS**

Effective October 1, 1997, the Association adopted a SEP-IRA retirement plan. All employees who are at least 21 years old are eligible. The Association has elected to contribute 7.5% of all eligible employees' wages, subject to Federal statutory rates. Contributions under this plan amounted to \$9,502 and \$10,058 for the years ended September 30, 2018 and 2017, respectively.

**NOTE 5. CONTINGENCIES AND COMMITMENTS**

**Snow Removal**

The Association has contracts for snow removal on approximately 25 miles of roads for a total annual contract price ranging from \$420,583 to \$464,207. The contracts began in fiscal year 2017 and extend through 2021. Snow removal costs were \$433,145 and \$421,080 for years ended September 30, 2018 and 2017, respectively.

**NOTE 6. CROSS-COUNTRY SKIING AGREEMENT**

Annually, the Association enters into an agreement with Lone Mountain Ranch (LMR) to allow access to the LMR's ski trail system to Association members. The Association expensed \$52,000 and \$51,055 as of September 30, 2018 and 2017, respectively. In addition, members pay either LMR or the Association for season passes throughout the ski season, with revenues remitted back to the Association, net of a \$1.50 per pass administration fee.

BIG SKY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2018 and 2017

**NOTE 7. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's reserve policy requires funds to be accumulated for services, contingencies and future major repairs and replacements. The reserve for future repairs and replacement of the common property is funded by excess annual assessments. The Board of Directors reviews the reserve account annually. The reserves may be used to purchase new or replacement assets or major repairs for Association assets. However, the Board may occasionally authorize the use of funds in the reserve account to fund short-term deficits in the operations budget.

The designated funds for future repairs and maintenance were \$1,080,337 as of September 30, 2018 and 2017. The Association's policy is to accumulate interest earned on such funds in the reserve account and not to use it for current operations. The Association estimates remaining useful lives and replacement costs of the common property components. The Association is funding for such major repairs and replacement over the estimated useful lives of the components based on the Board of Directors' best estimate of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, or it may delay major repairs and replacements until funds are available.

SUPPLEMENTARY INFORMATION

BIG SKY OWNERS ASSOCIATION, INC.  
SCHEDULE OF REVENUES AND EXPENSES  
ACTUAL AND BUDGET  
Year Ended September 30, 2018

	Actual	Budget* (unaudited)	Variance
<b>REVENUES</b>			
Assessments	\$ 853,372	\$ 855,635	\$ (2,263)
Snow removal - Madison County	74,815	74,815	-
Architectural fees	27,750	18,000	9,750
Compliance penalties	20,000	-	20,000
Title company fees	8,650	8,000	650
Interest income	7,522	3,500	4,022
Miscellaneous	6,895	900	5,995
Cross-country ski fees	<u>36,252</u>	<u>43,000</u>	<u>(6,748)</u>
	<u>1,035,256</u>	<u>1,003,850</u>	<u>31,406</u>
<b>ADMINISTRATIVE EXPENSES</b>			
Administrative salaries	243,051	243,931	880
Association dues	7,951	7,600	(351)
Bank and credit card fees	4,999	1,600	(3,399)
Employee benefits	52,484	58,918	6,434
Insurance	9,321	11,500	2,179
Meeting expense	3,068	1,500	(1,568)
BSAC miscellaneous	2,760	2,000	(760)
Utilities	9,056	8,514	(542)
Annual meeting	10,711	12,000	1,289
Communications	11,013	3,500	(7,513)
Elections expense	-	3,920	3,920
Legal and compliance costs	31,489	17,000	(14,489)
Office expenses (including equipment)	14,663	13,200	(1,463)
Property taxes	4,253	4,250	(3)
Repairs & maintenance	385	2,050	1,665
Software maintenance	3,529	7,000	3,471
Telephone & internet	3,706	4,513	807
Training - travel	<u>1,976</u>	<u>3,000</u>	<u>1,024</u>
Total administrative expenses	<u>414,415</u>	<u>405,996</u>	<u>(8,419)</u>



BIG SKY OWNERS ASSOCIATION, INC.  
SCHEDULE OF REVENUES AND EXPENSES  
ACTUAL AND BUDGET (CONTINUED)  
Year Ended September 30, 2018

	Actual	Budget* (unaudited)	Variance
<b>ACTIVITY EXPENSES</b>			
BSOA events	1,881	2,000	119
BSOA projects	9,375	8,000	(1,375)
Pond expenses	17,377	50,000	32,623
HCR donation	2,400	2,400	-
BSCO membership donation	15,000	15,000	-
Skyline Bus donation	10,000	10,000	-
Little Coyote bridge expense	3,681	25,000	21,319
In-kind contribution and other	244	-	(244)
Cross-country ski trails	52,000	51,500	(500)
Weed control	<u>12,273</u>	<u>12,000</u>	<u>(273)</u>
Total activity expenses	<u>124,231</u>	<u>175,900</u>	<u>51,669</u>
<b>OTHER EXPENSES (INCOME)</b>			
Provision for bad debts	20,000	-	(20,000)
Contingency	5,190	22,754	17,564
Miscellaneous	<u>(290)</u>	<u>-</u>	<u>290</u>
Total other expenses (income)	<u>24,900</u>	<u>22,754</u>	<u>(2,146)</u>
<b>ROAD EXPENSES</b>			
Signage repair and towing	6,614	2,300	-
Winter road maintenance	<u>433,145</u>	<u>429,700</u>	<u>(3,445)</u>
Total road expenses	<u>439,759</u>	<u>432,000</u>	<u>(3,445)</u>
<b>CAPITAL EXPENSES</b>			
Depreciation	<u>7,849</u>	<u>7,200</u>	<u>(649)</u>
Total capital expenses	<u>7,849</u>	<u>7,200</u>	<u>(649)</u>
Total expenses	<u>1,011,154</u>	<u>1,043,850</u>	<u>32,696</u>
Excess (deficit) of revenues over expenses	<u>\$ 24,102</u>	<u>\$ (40,000)</u>	<u>\$ 64,102</u>

\* Budget amounts are presented on the cash basis. See Note 2.

BIG SKY OWNERS ASSOCIATION, INC.  
SCHEDULE OF FUTURE MAJOR REPAIRS  
AND REPLACEMENTS (UNAUDITED)  
September 30, 2018

The Association has estimated the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on management's estimated costs to repair or replace the common property.

The following information presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Components of Members' Equity at Sept. 30, 2018</u>
Condominium	10-15	\$ 30,000	\$ 30,000
Ponds	0-2	500,000	503,659
Pond Maintenance	5-10	100,000	100,000
Operating	10	250,000	246,678
Roads	0-4	30,000	30,000
Roads and Projects	0-5	150,000	150,000
Legal	0-2	15,000	15,000
Computer	0-2	-	5,000

As of September 30, 2018, the Association has accumulated \$1,088,053 in its reserve fund. This includes \$1,080,337 designated for future repairs and replacements, and \$7,716 in undesignated interest earned to date.



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