

BIG SKY RESORT AREA DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019

BIG SKY RESORT AREA DISTRICT

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Big Sky Resort Area District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Big Sky Resort Area District, as of June 30, 2019, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-6 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 the 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 financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019, on our consideration of Big Sky Resort Area District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Amatics CPA Group

Bozeman, Montana
November 4, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

The discussion and analysis of the Big Sky Resort Area District's (District's) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Using this Annual Financial Report

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

Certain fiscal year 2018 balances have been reclassified to conform to the fiscal year 2019 presentation.

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

Statement of Net Position and the Statement of Activities

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

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

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds. \$100,000 and \$876,278 of the general fund balance has been committed to emergency and sinking funds, respectively. Committed fund balances can only be used for specific purposes.

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

Financial Highlights

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

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

Table 1 provides a summary of the District's net position at June 30, 2019.

(Table 1)
Net Position

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Assets		
Current and other assets	\$ 9,619,614	\$ 9,149,766
Capital assets, net	<u>151,070</u>	<u>155,828</u>
Total assets	<u>9,770,684</u>	<u>9,305,594</u>
Liabilities		
Current liabilities	1,243,523	8,000,235
Noncurrent liabilities	<u>7,874</u>	<u>4,230</u>
Total liabilities	<u>1,251,397</u>	<u>8,004,465</u>
Net position		
Invested in capital assets	151,070	155,828
Unrestricted	<u>8,368,217</u>	<u>1,145,301</u>
Total net position	<u>\$ 8,519,287</u>	<u>\$ 1,301,129</u>

Total assets increased 5% from FY 2018. This is mostly attributable to the District placing more funds in higher interest CDs and the timing of appropriation requests. The balance of unappropriated funds was significantly higher from FY 2018. Also, the taxes receivable increased 83% due to the District's compliance efforts, timing of collections and continued growth in the Big Sky economy.

Current liabilities decreased 84%. However, this is due to the timing of when the FY 2019 appropriations were recorded. A prior period adjustment was recorded in FY 2019 for the correction of the accounting error. See Note 11 for more information.

Noncurrent liabilities represent accrued vacation and sick leave. This increased due to the District's increase in employees during the year.

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

Table 2 shows the changes in net assets for the fiscal year 2019 and corresponds to the Statement of Activities on page 9.

(Table 2)
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
General Revenues		
Resort tax revenue	\$ 7,609,274	\$ 6,582,443
Interest & penalties on tax delinquencies	50,057	6,877
Investment income	<u>60,325</u>	<u>40,961</u>
Total General Revenues	<u>7,719,656</u>	<u>6,630,281</u>
Program Expenses		
General government	499,891	324,471
Community development	<u>7,818,153</u>	<u>7,818,153</u>
Total program expenses	<u>8,318,044</u>	<u>8,142,624</u>
Change in net position	(598,388)	(1,512,343)
Net position, beginning	1,301,129	2,469,305
Prior period adjustment	<u>7,816,546</u>	<u>344,167</u>
Net position, ending	<u>\$ 8,519,287</u>	<u>\$ 1,301,129</u>

Resort tax revenue increased 15.6% from FY 2018. This is mostly due to the District's compliance and monitoring efforts and growth of Big Sky's economy.

Similar to tax revenue, the penalties and interest significantly increased. The increase from FY 2018 was approx. 627.9% which was mostly due to the District's compliance and monitoring efforts. During the period, the District pursued unreported revenues and worked with local business owners to become compliant.

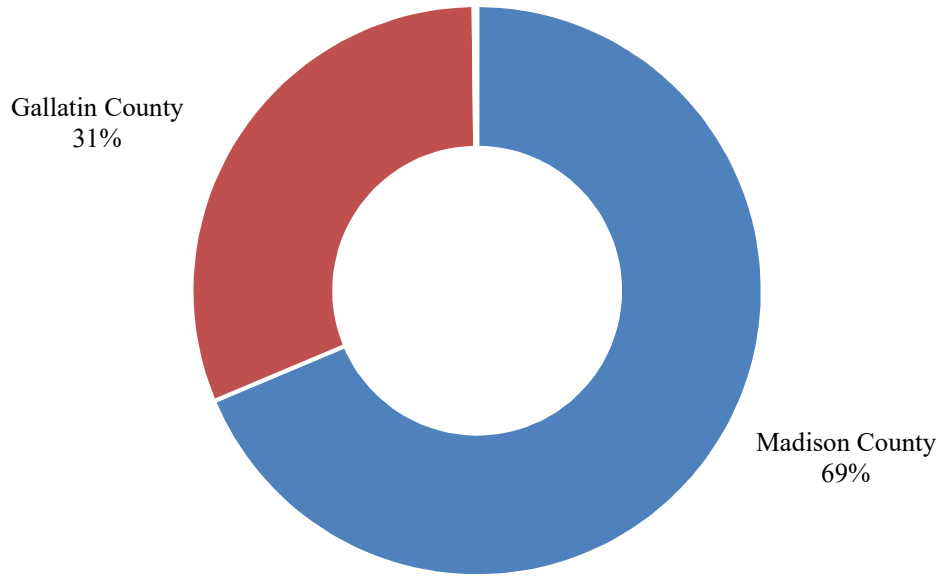
Investment income increased 47.1% due to the District's decision to place funds in liquid investment options with higher interest rates than previous years.

General government expenses increased 54%. During the year, the District reorganized and added several positions to assist with the increased monitoring and compliance efforts. The District grew from two employees to five which caused increases in personnel costs. Professional fees also increased significantly in FY 2019 mostly due to legal and accounting fees.

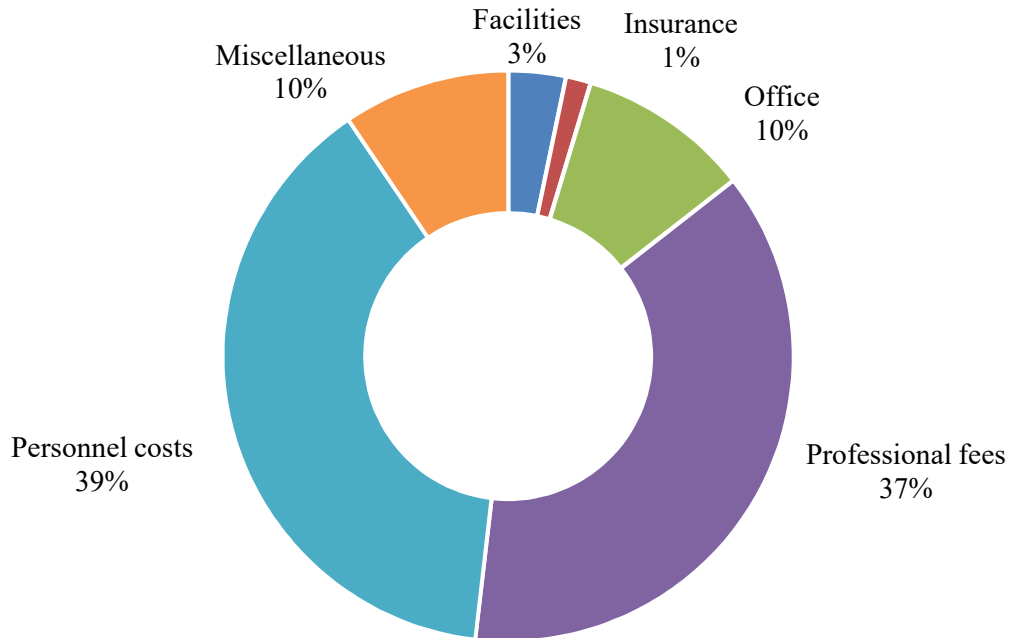
Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

There was no change in community development from FY 2018. However, as mentioned above, a prior period adjustment was recorded in FY 2019 to correct the accounting error. See Note 11 for more information. This balance represents the appropriations of resort taxes collected for the period.

Tax Revenue by Business Area



General Government Expenses



BASIC FINANCIAL STATEMENTS

BIG SKY RESORT AREA DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Current assets	
Cash and investments	\$ 9,072,390
Taxes receivable	547,224
Total current assets	9,619,614
Noncurrent assets	
Capital assets, net of accumulated depreciation	151,070
Total assets	9,770,684
LIABILITIES	
Current liabilities	
Accounts payable	2,051
Payroll taxes payable	8,916
Employee benefits payable	3,406
Appropriations payable	1,229,150
Total current liabilities	1,243,523
Noncurrent liabilities	
Compensated absences	7,874
Total liabilities	1,251,397
NET POSITION	
Net investment in capital assets	151,070
Unrestricted	8,368,217
Total net position	\$ 8,519,287

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Expenses	Net (Expense) Revenue and Changes in Net Position
		Governmental Activities
FUNCTIONS/PROGRAMS:		
Governmental activities		
General government	\$ 499,891	\$ (499,891)
Community development	7,818,153	(7,818,153)
Total governmental activities	8,318,044	(8,318,044)
General revenues		
Resort tax revenue		7,609,274
Interest and penalties on tax delinquencies		50,057
Investment earnings		60,325
Total general revenues and transfers		7,719,656
Change in net position		(598,388)
Net position, beginning		1,301,129
Prior period adjustment		7,816,546
Net position, beginning (as restated)		9,117,675
Net position, ending		\$ 8,519,287

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2019

	General Fund
ASSETS	
Cash and investments	\$ 9,072,390
Taxes receivable	547,224
Total assets	\$ 9,619,614
LIABILITIES	
Accounts payable	\$ 2,051
Payroll taxes payable	8,916
Employee benefits payable	3,406
Appropriations payable	1,229,150
Total liabilities	1,243,523
DEFERRED INFLOWS OF RESOURCES	
Unavailable tax revenue	98,698
FUND BALANCE	
Committed	976,278
Unassigned	7,301,115
Total fund balance	8,277,393
Total liabilities and fund balance	\$ 9,619,614

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
 RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND TO THE
 STATEMENT OF NET POSITION
 JUNE 30, 2019

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

Total fund balance, governmental funds	\$ 8,277,393
Capital assets used in governmental activities are not current financial resources and, therefore are not reported in the governmental funds balance sheet.	151,070
Some liabilities, including compensated absences, are not due and payable in the current period and therefore, are not included in governmental funds.	(7,874)
Unavailable tax revenue is recorded in the funds, but is not recorded under the measurement focus used in the statement of net position.	<u>98,698</u>
Total net position of governmental activities	<u><u>\$ 8,519,287</u></u>

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund
REVENUES	
Resort tax revenue	\$ 7,510,576
Interest and penalties on tax delinquencies	50,057
Investment earnings	60,325
Total revenues	7,620,958
EXPENDITURES	
Current	
General government	487,259
Community development	7,818,153
Total expenditures	(8,305,412)
Net change in fund balance	(684,454)
Fund balance, beginning	1,145,301
Prior period adjustment	7,816,546
Fund balance, beginning (as restated)	8,961,847
Net position, ending	\$ 8,277,393

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds	\$	(684,454)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense in the current period.		(4,758)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.		98,698
Increase in compensated absences. The governmental fund reflects this activity when it will be paid with measurable and available resources. The change from prior year balances is reflected in the statement of activities and changes in net position.		(7,874)
Change in net position of governmental activities in the statement of activities	\$	<u>(598,388)</u>

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Big Sky Resort Area District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

a. Reporting entity

The District was created on April 7, 1998. With the formation of the District, all collection and administration responsibilities with respect to the resort tax were transferred from the Counties. The District has sole responsibility for collection of the resort tax from area businesses.

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

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

b. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the primary government. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. For the year ended June 30, 2019, the District did not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. For the year ended June 30, 2019, the District did not receive any program revenues. Taxes and other items are reported as general revenues.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned with the exception of tax revenue that is not measurable. Tax revenue does not become measurable until the vendors submit a tax remittance form, which reports the amount of resort tax due to the District.

Revenue is recognized for tax remittance forms received within 60 days of the fiscal year end; any tax revenue that has been earned but for which a tax remittance form has not been submitted is not measurable after this time. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

The District reports the following major governmental fund:

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

d. Cash and investments

The District is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchased agreements, and the State Short-Term Investment Pool (STIP).

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined annually, and requires the use of valuation techniques, a specific method or combination of methods using one or more of three approaches: market, cost or income approach.

e. Taxes receivable

Taxes receivable are recognized for revenue that has been earned and is measurable, but for which payment has not been received. Taxes that are recorded as receivable as of June 30, 2019, but were not received within 60 days of the fiscal year end are reported as unavailable tax revenue on the balance sheet – governmental fund.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Capital assets

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

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

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

Asset	Est. Life
Buildings	40
Furniture and fixtures	7-10
Equipment	5

g. Fund balance

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

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

i. Nonspendable fund balance

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

ii. Restricted fund balance

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

iii. Committed fund balance

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

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Fund balance (Continued)

iv. Assigned fund balance

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

v. Unassigned fund balance

All amounts not included in other spendable classifications.

h. Use of restricted and unrestricted net position

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

i. Use of estimates

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

j. Budget

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

k. Compensated absences

The District accrues accumulated unpaid vacation and sick leave when earned by the employee. An employee may accumulate vacation leave up to two times the eligible accrual rate per year. There is no limit for the number of sick leave hours an employee may accrue. The accumulated unpaid balance is reported only as a general long-term obligation in the government-wide statement of net position and represents a reconciling item between the fund and government-wide presentations.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

2. CASH AND INVESTMENTS

The District voluntarily participates in the Short Term Investment Program (STIP) administered by the Montana Board of Investments (MBOI). A local government's STIP ownership is represented by shares, the prices of which are fixed at \$1.00 per share, and participants may buy or sell shares with one business days' notice. STIP administrative expenses are charged daily against the STIP income, which is distributed on the first calendar day of each month. Shareholders have the option to automatically reinvest their distribution income in additional shares.

Short Term Investment Program (STIP) is not registered with the Securities and Exchange Commission. STIP is not FDIC-insured or otherwise insured or guaranteed by the federal government, the State of Montana, the MBOI or any other entity against investment losses, and there is no guaranteed rate of return on funds invested in STIP shares. The MBOI maintains a reserve fund to offset possible losses and limit fluctuations in STIP's valuation. The STIP investment portfolio consists of securities with maximum maturity of 2 years.

Information on investments held in the STIP can be found in the Annual Report on the MBOI website at <http://investmentmt.com/AnnualReportsAudits>.

a. Custodial credit-risk deposits

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover pledged (collateral) securities that are in the possession of an outside party. To minimize custodial credit risk in relation to the District's deposits, it is the District's policy to have uninsured deposits covered by collateral held by the pledging bank's agent in the District's name.

As of June 30, 2019, the District had \$200 cash on hand. The carrying amount of the District's deposit balance (cash and an interest-bearing money market account) was \$9,072,390, and the bank balance was \$9,125,868. Of the bank balances, \$7,053,538 was covered by federal depository insurance and approximately \$2,072,330 was covered by collateral held by the pledging banks' agents in the District's name. The uninsured deposit balance as of June 30, 2019 was \$10,714, which was the balance invested in the Short Term Investment Pool (STIP).

b. Risks related to STIP

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – *Deposit and Investment Risk Disclosures*. The unaudited financial statements as of June 30, 2019 have disclosures pertaining to STIP's exposure to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and legal and credit risk.

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

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

c. Security lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year ended June 30, 2019 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2019 financial statements is available online at the Montana Board of Investments' website.

3. CAPITAL ASSETS

All of the District's capital assets are depreciated as described in Note 1. Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings	\$ 190,324	\$ -	\$ -	\$ 190,324
Equipment	2,641	-	(2,641)	-
Furniture and fixtures	3,122	-	(1,500)	1,622
Total	<u>196,087</u>	<u>-</u>	<u>(4,141)</u>	<u>191,946</u>
Less accumulated depreciation for:				
Buildings	(34,496)	(4,758)	-	(39,254)
Equipment	(2,641)	-	2,641	-
Furniture and fixtures	(3,122)	-	1,500	(1,622)
Total accumulated depreciation	<u>(40,259)</u>	<u>(4,758)</u>	<u>4,141</u>	<u>(40,876)</u>
Capital assets, net	<u>\$ 155,828</u>	<u>\$ (4,758)</u>	<u>\$ -</u>	<u>\$ 151,070</u>

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

Governmental activities:

General government	\$ 4,758
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4. APPROPRIATIONS PAYABLE

In approximately June of each year, the Board of Directors pass a resolution to appropriate the taxes collected during the year. Appropriations payable as of June 30, 2019 represents the remaining balance of appropriations from the board resolution approved on June 18, 2018. The agencies have until July 15th to submit requests for reimbursement. On July 10, 2019, the board approved resolution No. 2019-01R authorizing the appropriation of resort tax funds for fiscal year ending June 30, 2020. See note 12 for more information.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

5. RETIREMENT PLAN

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

During the 2019 calendar year, the maximum contribution that the participant can make to the Plan is \$19,000. The District is not required to contribute to the plan but may match up to 6.8% of the participant's earnings. As of June 30, 2019, the District elected to match the max percentage of 6.8%.

During the fiscal year ended June 30, 2019, both the participant and District each contributed \$9,864 to the plan.

6. RELATED PARTY TRANSACTIONS

In fiscal year ended June 30, 2019, the District distributed \$319,197 in appropriations to entities that had Board or family members in common at the time of the appropriation. At June 30, 2019, \$21,374 of appropriations were payable to these organizations.

7. CONCENTRATION

Two taxpayers provided approximately 53% of the total resort tax revenue received by the District during the fiscal year ended June 30, 2019.

8. INSURANCE

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

9. GOVERNMENTAL FUND BALANCES

At June 30, 2019, governmental fund balances in the amount of \$976,278 were committed to general government for the following purposes.

Emergency fund	\$ 100,000
Sinking fund	\$ 876,278

BIG SKY RESORT AREA DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019

10. INTERLOCAL AGREEMENT

During the year ended June 30, 2017, the Board signed an Interlocal Agreement (Agreement) with Gallatin and Madison Counties to equitably allocate funding for law enforcement services in Gallatin and Madison Counties to provide for public health, safety and welfare for the entire Big Sky Resort Area District.

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

Year ended	Amount
June 30, 2019	\$ 847,820
June 30, 2020	\$ 866,460

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

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

11. PRIOR PERIOD ADJUSTMENT

The appropriations resolution for fiscal year ended June 30, 2019 was approved in June 2018 and initially reported in the financial statements for fiscal year ended June 30, 2018. However, the contract period for the appropriations is for the period of July 1, 2018 through June 30, 2019. The fund balance and net position as of the beginning of the fiscal year have been adjusted to report the appropriations in the correct period. The correction increased community development expenses and expenditures by \$7,818,153 for the current fiscal year. The cumulative effect of the correction is listed below.

	Fund Balance	Net Position
Beginning balance, as previously reported	\$ 1,145,301	\$ 1,301,129
FY19 appropriations	7,818,153	7,818,153
Miscellaneous	(1,607)	(1,607)
Beginning balance, as restated	<u>\$ 8,961,847</u>	<u>\$ 9,117,675</u>

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

12. SUBSEQUENT EVENTS

The District has evaluated all subsequent events through November 4, 2019, the date the financial statements were available to be issued.

On July 10, 2019, the Board approved resolution number 2019-01R authorizing appropriations for the period of July 1, 2019 to June 30, 2020. The resolution authorizes the following appropriations:

FY19 rollover appropriations	\$ 1,200
FY20 appropriations	8,441,851
Bonding authority	<u>939,449</u>
Total Appropriations	<u><u>\$ 9,382,500</u></u>



**INDEPENDENT AUDITORS' 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**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of Big Sky Resort Area District, Montana, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 4, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2019-1 and 2019-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Amatics CPA Group

Bozeman, Montana
November 4, 2019

BIG SKY RESORT AREA DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

The results of our tests disclosed no instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, and two internal control deficiencies considered to be material weaknesses, which were required to be reported under *Government Auditing Standards* as of June 30, 2019

Material Weakness

2019-1 Appropriations

Criteria: In accordance with generally accepted accounting principles, the District should record community development appropriations in the proper accounting period based on the underlying award/contract.

Condition: The District awards community development appropriations to applicants within the District on an annual basis. Historically the District has accrued this as a liability and expense at the prior year end, when the appropriations were allocated for the following fiscal year.

Effect: Prior to the proposed audit adjustments, the District's community development expenses and expenditures were understated by \$7,818,153.

Cause: The District initially reported the FY 2018-2019 expenditures in the prior fiscal year; however the contract period for the appropriations is for the period of July 1, 2018 to June 30, 2019.

Recommendation: The District should record the expenditures in the period in which the contract applies.

Response: We agree and have included the cumulative effect of this change in the prior period adjustment explained in Note 11 to the financial statements.

2019-2 Revenues and Receivables

Criteria: In accordance with generally accepted accounting principles, the District should report revenues in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting and in the governmental funds financial statements using the current financial resources measurement focus and the modified accrual basis of accounting.

Condition: The District's revenues are primarily comprised of resort area taxes assessed on businesses' taxable sales, which are due to the District 30 days after the end of the month.

Effect: In the District's unadjusted financial statements, government-wide revenues and receivables were understated by \$245,287. In the District's unadjusted financial statements, general fund receivables were understated by \$245,287, deferred inflows of resources for unavailable tax revenues were understated by \$98,698, and revenues were understated by \$146,589.

Cause: The District was using incorrect reports from the MUNIREvs municipal tax software for financial statement revenue reporting purposes. These reports did not include all revenues posted during the period.

BIG SKY RESORT AREA DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

2019-2 Revenues and Receivables (Continued)

Recommendation: The District should review the reporting generated by MUNIREvs to ensure it captures all necessary elements for financial statement reporting purposes.

Response: We agree and have updated our procedures for reconciling tax revenue to the MUNIREvs system on a monthly basis. The new procedure was completed for each month of FY19 which led to the \$245,287 increase in tax revenues for the period under audit. A large portion of this increase was due to the timing of financial close and the tax revenues that were measurable at the time the previous revenue reconciliation was completed for July 2019 (June 2019 assessments). The government-wide and general fund financial statements have been adjusted to reflect this change including the deferred inflows of resources for unavailable tax revenues.

BIG SKY RESORT AREA DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported during the audit for the year ended June 30, 2018.