

BIG SKY RESORT AREA DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020

BIG SKY RESORT AREA DISTRICT

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JUNE 30, 2020

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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, 2020, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2020, 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 3-7 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 5, 2020, 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 5, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

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, 2020. 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 section 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.

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.

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

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, 2020.

(Table 1)
Net Position

| | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| Assets | | |
| Current and other assets | \$ 8,985,910 | \$ 9,619,614 |
| Capital assets, net | <u>167,198</u> | <u>151,070</u> |
| Total assets | <u>9,153,108</u> | <u>9,770,684</u> |
| Liabilities | | |
| Current liabilities | 1,702,920 | 1,243,523 |
| Noncurrent liabilities | <u>678,433</u> | <u>7,874</u> |
| Total liabilities | <u>2,381,353</u> | <u>1,251,397</u> |
| Net position | | |
| Invested in capital assets | 167,198 | 151,070 |
| Restricted | 146,470 | - |
| Unrestricted | <u>6,458,087</u> | <u>8,368,217</u> |
| Total net position | <u>\$ 6,771,755</u> | <u>\$ 8,519,287</u> |

Total assets decreased 6% from FY 2019. This is mostly attributable to an increase in appropriations and the impact COVID-19 had on collections. Capital assets increased approximately 11% due to the leasehold improvements for the new office suite.

Current liabilities increased 37%. This is due to the increase in appropriations for FY20 and timing of when the organizations submit requests for payment. See Note 5 for more information.

Noncurrent liabilities increased significantly due to the issuance of the 2019A and 2019B bonds during the year. See Note 6 for more information.

Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

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>2020</u> | <u>2019</u> |
| General Revenues | | |
| Resort tax revenue | \$ 7,533,344 | \$ 7,609,274 |
| Interest & penalties on tax delinquencies | 26,258 | 50,057 |
| Investment income | <u>79,940</u> | <u>60,325</u> |
| Total General Revenues | <u>7,639,542</u> | <u>7,719,656</u> |
| Program Expenses | | |
| General government | 909,542 | 499,891 |
| Community development | 8,381,770 | 7,818,153 |
| Interest | <u>18,168</u> | <u>-</u> |
| Total program expenses | <u>9,309,480</u> | <u>8,318,044</u> |
| Special item - Big Sky Relief | <u>718,676</u> | <u>-</u> |
| Change in net position | (2,388,614) | (598,388) |
| Net position, beginning | 8,519,287 | 1,301,129 |
| Prior period adjustment | <u>641,082</u> | <u>7,816,546</u> |
| Net position, ending | <u>\$ 6,771,755</u> | <u>\$ 8,519,287</u> |

Resort tax revenue decreased 1% from FY 2019. This is mostly due to the impacts of COVID-19 during March through June 2020. Tax collections were up approximately 1% prior to the pandemic. Beginning in March, the District experienced a 3% decrease in tax collections for the remainder of the fiscal year.

Interest & penalties decreased approximately 48% from FY 2019. The large amount in FY 2019 was mostly due to the District's compliance and monitoring efforts during that year. Less noncompliance was identified in FY2020 which led to a decrease in assessed interest & penalties.

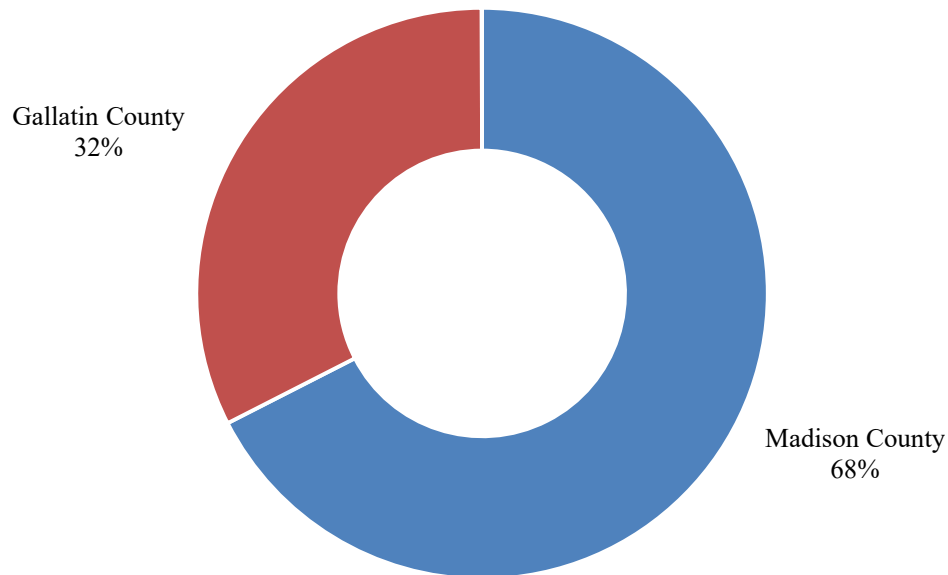
Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

General government expenses increased approximately 82%. During the year, the District incurred approximately \$180,000 in additional professional fees; \$170,000 of additional personnel costs; and \$50,000 for Big Sky Strategic plan costs. The increase in professional fees was mostly attributable to legal fees associated with the 2019A and 2019B bonds (Note 6); interlocal agreement with the Big Sky County Water and Sewer (Note 7); the administrative process to establish the 1% infrastructure tax; and the approval of amendments to District ordinances 98-01 and 2008-01. Personnel costs increased as a result of this being the first fiscal year with a full staff.

Community development increased approximately 7%. This was a result of Resolution No. 2019-01R that authorized appropriations for fiscal year ended June 30, 2020. In addition, the District used its bonding authority to issue series 2019A and 2019B bonds for an additional \$914,000 in appropriations. As a result of the bond issuance noted above, the District incurred \$18,168 in interest expense. See Note 6 for more information related to these projects.

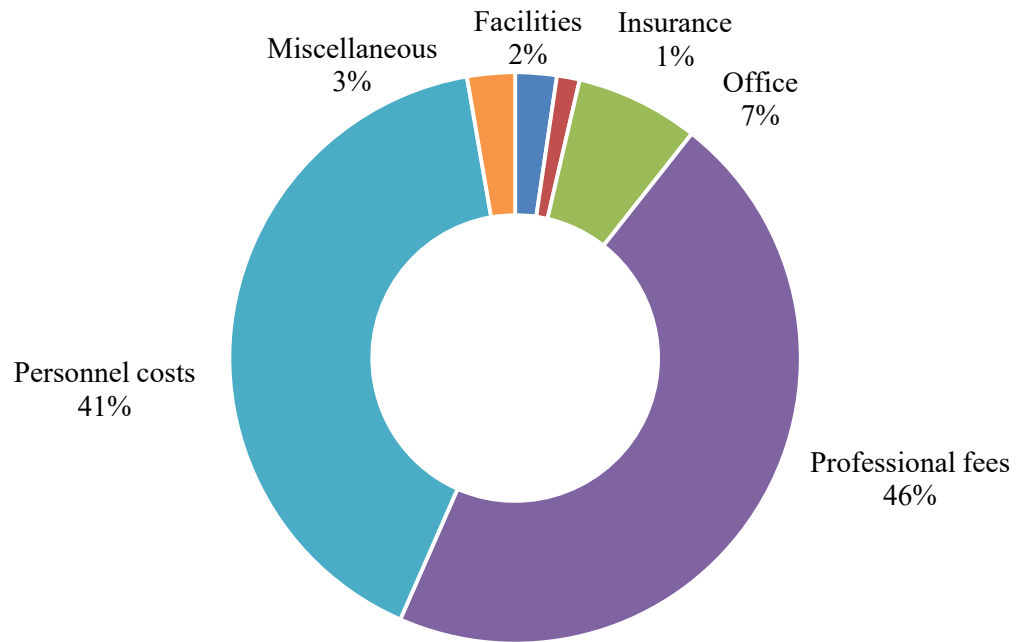
During the year the District incurred approximately \$719,000 in Big Sky Relief expenses. These expenses were considered special items due to their infrequent occurrence. See Note 11 for more information.

Tax Revenue by Business Area



Big Sky Resort Area District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

General Government Expenses



BASIC FINANCIAL STATEMENTS

BIG SKY RESORT AREA DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2020

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Current assets | |
| Cash and investments | \$ 8,312,465 |
| Taxes receivable | 518,767 |
| Prepaid expenses | 8,208 |
| Total current assets | 8,839,440 |
| Noncurrent assets | |
| Restricted cash | 146,470 |
| Capital assets, net of accumulated depreciation | 167,198 |
| Total noncurrent assets | 313,668 |
| Total assets | 9,153,108 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | 6,106 |
| Payroll taxes payable | 8,914 |
| Employee benefits payable | 1,044 |
| Accrued interest payable | 13,130 |
| Appropriations payable | 1,501,365 |
| Current portion of long-term debt | 172,361 |
| Total current liabilities | 1,702,920 |
| Noncurrent liabilities | |
| Compensated absences | 30,197 |
| Long-term debt | 648,236 |
| Total noncurrent liabilities | 678,433 |
| Total liabilities | 2,381,353 |
| NET POSITION | |
| Net investment in capital assets | 167,198 |
| Restricted | 146,470 |
| Unrestricted | 6,458,087 |
| Total net position | \$ 6,771,755 |

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

| | Expenses | Net (Expense) Revenue and Changes in Net Position |
|---|------------|--|
| | | Governmental Activities |
| FUNCTIONS/PROGRAMS: | | |
| Governmental activities | | |
| General government | \$ 909,542 | \$ (909,542) |
| Community development | 8,381,770 | (8,381,770) |
| Interest | 18,168 | (18,168) |
| Total governmental activities | 9,309,480 | (9,309,480) |
| General revenues | | |
| Resort tax revenue | | 7,533,344 |
| Interest and penalties on tax delinquencies | | 26,258 |
| Investment earnings | | 79,940 |
| Total general revenues | | 7,639,542 |
| Special item - Big Sky Relief | | (718,676) |
| Change in net position | | (2,388,614) |
| Net position, beginning | | 8,519,287 |
| Prior period adjustment | | 641,082 |
| Net position, beginning (as restated) | | 9,160,369 |
| Net position, ending | | \$ 6,771,755 |

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2020

| | General Fund |
|--------------------------------------|--------------|
| ASSETS | |
| Cash and investments | \$ 8,312,465 |
| Restricted cash | 146,470 |
| Taxes receivable | 518,767 |
| Prepaid expenses | 8,208 |
| Total assets | \$ 8,985,910 |
| LIABILITIES | |
| Accounts payable | \$ 6,106 |
| Payroll taxes payable | 8,914 |
| Employee benefits payable | 1,044 |
| Appropriations payable | 1,501,365 |
| Total liabilities | 1,517,429 |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable tax revenue | 21,467 |
| FUND BALANCE | |
| Nonspendable | 8,208 |
| Restricted | 146,470 |
| Committed | 496,067 |
| Unassigned | 6,796,269 |
| Total fund balance | 7,447,014 |
| Total liabilities and fund balance | \$ 8,985,910 |

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, 2020

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

| | | |
|--|----|-----------|
| Total fund balance, governmental funds | \$ | 7,447,014 |
| Capital assets used in governmental activities are not current financial resources and, therefore are not reported in the governmental funds balance sheet. | | 167,198 |
| Some liabilities, including compensated absences, are not due and payable in the current period and therefore, are not included in governmental funds. | | (30,197) |
| Long-term debt obligations are not due and payable in the current period and therefore are not reported in the funds. These liabilities are reported in the statement of net position. | | (820,597) |
| Unavailable tax revenue is recorded in the funds, but is not recorded under the measurement focus used in the statement of net position. | | 21,467 |
| Interest accrued on long-term debt obligations is reported as a liability in the statement of net position but does not get reported in the fund statements. | | (13,130) |
| | | (13,130) |
| Total net position of governmental activities | \$ | 6,771,755 |

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, 2020

| | General Fund |
|---|--------------|
| REVENUES | |
| Resort tax revenue | \$ 7,610,575 |
| Interest and penalties on tax delinquencies | 26,258 |
| Investment earnings | 79,940 |
| Total revenues | 7,716,773 |
| EXPENDITURES | |
| Current | |
| General government | 882,118 |
| Community development | 8,381,770 |
| Debt service | |
| Principal | 93,588 |
| Interest | 5,038 |
| Capital outlay | |
| Capital expenditures | 21,229 |
| Total expenditures | 9,383,743 |
| Excess (deficiency) of revenues over expenditures | (1,666,970) |
| OTHER FINANCING SOURCES (USES) | |
| Issuance of bonds | 914,185 |
| SPECIAL AND EXTRAORDINARY ITEMS | |
| Big Sky Relief | (718,676) |
| Net change in fund balance | (1,471,461) |
| Fund balance, beginning | 8,277,393 |
| Prior period adjustment | 641,082 |
| Fund balance, beginning (as restated) | 8,918,475 |
| Fund balance, ending | \$ 7,447,014 |

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, 2020

| | |
|---|----------------|
| Net change in fund balances - total governmental funds | \$ (1,471,461) |
| 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. | |
| Depreciation expense | (5,101) |
| Capital outlay | 21,229 |
| Proceeds from issuance of long-term debt are reported as other financing sources in the fund statements but are not reported on the statement of activities in the government-wide statements. | |
| | (914,185) |
| Governmental funds report principal repayments on debt obligations as an expenditure. However, the repayment of principal has no effect on the net position. | |
| | 93,588 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds. | |
| Increase (decrease) in taxes receivable | (77,231) |
| Accrued interest on long-term debt obligations is reported in the governmental activities but is not reported in the government fund statements. This is the increase in accrued interest expense. | |
| | (13,130) |
| 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. | |
| | (22,323) |
| Change in net position of governmental activities in the statement of activities | \$ (2,388,614) |

See accompanying notes to the financial statements.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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, 2020, 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, 2020, 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, 2020

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, 2020, 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, 2020

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. 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.

h. Long-term debt

In the government-wide financial statements long term debt and other long term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond issuance costs are expensed at issuance.

In the fund financial statements, the face amount of debt issued is reported as other financing sources.

i. 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:

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Fund balance (Continued)

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.

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.

j. 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.

k. 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.

l. 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.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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, 2020, 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 \$8,312,465, and the bank balance was \$8,458,734. Of the bank balances, \$8,447,847 was covered by federal depository insurance. The uninsured deposit balance as of June 30, 2020 was \$10,887, 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, 2020 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.

c. Security lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year ended June 30, 2020 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2020 financial statements is available online at the Montana Board of Investments' website.

BIG SKY RESORT AREA DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2020

3. RESTRICTED CASH

As of June 30, 2020, restricted cash was comprised of the following:

| | Balance |
|---|------------|
| Debt service | \$ 70,128 |
| Community Center Project - 2019A Bond | 67,468 |
| Public Safety Communications Project - 2019B Bond | 8,874 |
| Total restricted cash | \$ 146,470 |

4. 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, 2020 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|------------------------------------|----------------------|-----------|-----------|-------------------|
| Buildings | \$ 190,324 | \$ - | \$ - | \$ 190,324 |
| Leasehold improvements | - | 17,623 | - | 17,623 |
| Furniture and fixtures | 1,622 | 3,606 | - | 5,228 |
| Total | 191,946 | 21,229 | - | 213,175 |
| Less accumulated depreciation for: | | | | |
| Buildings | (39,254) | (4,758) | - | (44,012) |
| Leasehold improvements | - | (257) | - | (257) |
| Furniture and fixtures | (1,622) | (86) | - | (1,708) |
| Total accumulated depreciation | (40,876) | (5,101) | - | (45,977) |
| Capital assets, net | \$ 151,070 | \$ 16,128 | \$ - | \$ 167,198 |

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

| | |
|--------------------------|----------|
| Governmental activities: | |
| General government | \$ 5,101 |

5. APPROPRIATIONS PAYABLE

On July 10, 2019, the board approved resolution No. 2019-01R authorizing the appropriation of resort tax funds for fiscal year ended June 30, 2020. The appropriations payable balance as of June 30, 2020 represents the remaining balance of appropriations that were requested and paid prior to the July 15th deadline. Unspent funds that were not rolled over in accordance with Ordinance 99-01 were removed from the appropriations payable balance as of June 30, 2020. See Note 14 for more information.

BIG SKY RESORT AREA DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2020

6. LONG-TERM DEBT

During 2019, the District issued revenue bonds in the amount of \$914,185. The bonds were issued to provide funds for the Community Center Project (Series 2019A) totaling \$500,000 and the Public Safety Communications Project (Series 2019B) totaling \$414,185. The bonds carry interest rates at 3.20% and mature in fiscal year ended June 30, 2025. As of June 30, 2020, the balance of the Series 2019A and 2019B bonds were \$448,814 and \$371,784, respectively.

Long-term debt activity for the year ended June 30, 2020, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------|----------------------|------------|-------------|-------------------|------------------------|
| Governmental activities: | | | | | |
| Resort tax revenue bonds | \$ - | \$ 914,185 | \$ (93,588) | \$ 820,597 | \$ 172,361 |

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2020 are as follows:

| Fiscal year ending June 30, | Principal | Interest | Total |
|-----------------------------|------------|-----------|------------|
| 2021 | \$ 172,361 | \$ 24,891 | \$ 197,252 |
| 2022 | 177,920 | 19,331 | 197,251 |
| 2023 | 183,659 | 13,593 | 197,252 |
| 2024 | 189,584 | 7,668 | 197,252 |
| 2025 | 97,073 | 1,553 | 98,626 |
| | \$ 820,597 | \$ 67,036 | \$ 887,633 |

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

7. COMMITMENTS

a. Interlocal Agreement with Gallatin and Madison Counties for Law Enforcement Services

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, 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.

b. Interlocal Agreement with Big Sky County Water and Sewer District No. 363 for the WRRF Phase I Project, Canyon Project and Financing

On February 4, 2020, the District and Big Sky County Water and Sewer District No. 363 entered into an interlocal agreement with respect to the WRRF Phase I Project, the Canyon Project and the payment or financing of the costs thereof. Under the agreement the District agreed to cause a mail ballot election for the imposition of the Infrastructure Resort Tax, with the proceeds to be used to pay a portion of the costs of the WRRF Phase I Project and the Canyon Project. The election was held on May 5, 2020 and passed.

i. WRRF Phase I Project

The WRRF Phase I Project, excluding interest and financing costs, is estimated to be \$35,000,000 and the Water Sewer District plans to finance the project with the proceeds of a loan obtained from the Wastewater Pollution Control State Revolving Loan Program, administered by the Department of Natural Resources and Conservation of the State of Montana.

Under the WRRF Phase I Project, the District agrees to pay the RAD WRRF Contribution which is 60% of the principal and interest. Prior to commencing construction on the WRRF Phase I Project, the parties will agree on a payment schedule. The parties agree that all revenues collected by the District under the Infrastructure Resort Tax shall be paid to the Water and Sewer District to satisfy the WRRF contribution first, and then to satisfy the Canyon Project Contribution.

BIG SKY RESORT AREA DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2020

7. COMMITMENTS (CONTINUED)

- b. Interlocal Agreement with Big Sky County Water and Sewer District No. 363 for the WRRF Phase I Project, Canyon Project and Financing (Continued)

- ii. Canyon Project

The Canyon Project consists of a lift station near the intersection of U.S. Route 191 and Highway 64; a wastewater forcemain up the Highway 64 corridor to the WRRF; a pipeline conveying treated water back to the Canyon Area; and related improvements which will provide wastewater treatment capacity to properties located within the Resort Area District in Gallatin Canyon.

The District agrees to fund all costs of the Canyon Project from revenues collected from the Infrastructure Resort Tax (the "Canyon Project Contribution"); however, in no event shall the contribution exceed \$12,000,000.

8. GOVERNMENTAL FUND BALANCES

- a. Nonspendable fund balance

At June 30, 2020, governmental fund balances in the amount of \$8,208 were nonspendable. This balance represents prepaid expenses that were not in spendable form.

- b. Restricted fund balance

At June 30, 2020, governmental fund balances in the amount of \$146,470 were restricted for the following purposes.

| | Total |
|---|------------|
| Debt service account ("Bond Account") | \$ 70,128 |
| Community Center Project - 2019A Bond | 67,468 |
| Public Safety Communications Project - 2019B Bond | 8,874 |
| Total | \$ 146,470 |

Bond Account: As stated in the bond resolution for the 2019A and 2019B series bonds, the District is required to maintain a Bond Account within the Resort Tax Fund. The District is required to deposit, on a monthly basis, one-twelfth of the principle and premium due on outstanding bonds on the next succeeding principle payment date, plus one-sixth of the interest due on outstanding bonds on the next succeeding interest payment date.

Community Center Project - 2019A Bond: This balance represents the remaining funds from the bond issuance. These funds are restricted for the project.

Public Safety Communications Project - 2019B Bond: This balance represents the remaining funds from the bond issuance. These funds are restricted for the project.

BIG SKY RESORT AREA DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2020

8. GOVERNMENTAL FUND BALANCES (CONTINUED)

c. Committed fund balance

At June 30, 2020, governmental fund balances in the amount of \$496,067 were committed to general government for the following purposes.

| | |
|---------------------|-------------------|
| Emergency fund | \$ 100,000 |
| Sinking fund | 96,875 |
| Big Sky Relief fund | <u>299,192</u> |
| Total | <u>\$ 496,067</u> |

9. PRIOR PERIOD ADJUSTMENT

During the revenue reconciliation process we identified installment plans that were not accrued appropriately. The correction increased taxes receivable and net position by \$42,204. In addition, businesses have until July 15th of the following year to request their full appropriation. During the year a total of \$598,878 of FY19 appropriations (resolution 2019-01R) were unspent, which decreased the District's appropriations payable balance. The cumulative effect of each prior period adjustment on beginning fund balance and net position is as follows:

| | <u>Fund Balance</u> | <u>Net Position</u> |
|---|-------------------------|---------------------|
| Beginning balance, as previously reported | \$ 8,277,393 | \$ 8,519,287 |
| FY19 appropriations unspent | 598,878 | 598,878 |
| Installment plans | <u>42,204</u> | <u>42,204</u> |
| Total prior period adjustment | <u>641,082</u> | <u>641,082</u> |
| Beginning balance, as restated | <u>\$ 8,918,475</u> | <u>\$ 9,160,369</u> |

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

10. 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, 2020, the District elected to match the max percentage of 6.8%.

During the fiscal year ended June 30, 2020, both the participant and District contributed a total of \$32,555 to the plan.

11. BIG SKY RELIEF

As a result of the Coronavirus, the Board adopted the Resolution to Delegate Limited Authority to Address Impacts of COVID-19 in the Big Sky Resort Area District on April 8, 2020. The resolution established a special fund in an amount up to but not to exceed \$500,000 for emergency appropriations pursuant to Section 4 of District Ordinance 99-01. This fund will provide needed funding for organizations within the District to address the social and economic impacts of COVID-19. As of June 30, 2020, the District had appropriated \$200,808 of the Big Sky Relief fund.

In addition, the District expended \$500,000 to the Bozeman Health Foundation for Big Sky Relief and approximately \$10,000 in additional operating costs that were attributable to administering Big Sky Relief fund. The total amount of expenditures incurred as a result of Big Sky Relief were \$718,676 and were reported as a special item in the District's basic financial statements.

12. RELATED PARTY TRANSACTIONS

In fiscal year ended June 30, 2020, the District distributed \$1,832,661 in appropriations to entities that had Board or family members in common at the time of the appropriation. At June 30, 2020, \$3,161 of appropriations were payable to these organizations.

13. CONCENTRATION

Two taxpayers provided approximately 50% of the total resort tax revenue received by the District during the fiscal year ended June 30, 2020.

14. 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.

BIG SKY RESORT AREA DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

15. SUBSEQUENT EVENTS

The District has evaluated all subsequent events through November 5, 2020, the date the financial statements were available to be issued.

a. COVID-19

Due to the financial impacts of COVID-19, the State of Montana received approximately \$1.25 billion in CAREs Act funds. As a result, the State authorized Coronavirus Relief Funds to be issued on a reimbursement basis to local government entities for qualifying expenses. The District submitted approximately \$641,058 in eligible costs for reimbursement to Madison County. However, the amount of funds that will be reimbursed has not been determined at this time.

b. Office Suite 203 Purchase

On September 15, 2020, the District closed on the purchase of 11 Lone Peak Drive, Unit 203 for additional office space. The total sales price was \$295,000 and financed by First Security Bank. The loan consists of quarterly payments in the amount of \$4,481.

c. Resolution No. 2019-01R Unspent Appropriations

As of November 5, 2020, the District was aware that \$628,914 of fiscal year 2020 appropriations were unspent by the July 15, 2020 request deadline. Both the Appropriations Payable and Current Appropriations were reduced by the amount of unspent funds as of June 30, 2020.

d. FY21 Spring Appropriations (Resolution 2020-03R)

On July 8, 2020, the District passed resolution number 2020-03R authorizing the appropriations of resort tax funds for the period of July 1, 2020 through December 31, 2020.

| | |
|-----------------------|--------------|
| Spring Appropriations | \$ 2,513,373 |
| Reserve Fund | \$ 651,000 |



**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, 2020, 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 5, 2020.

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 (2020-1).

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 5, 2020

BIG SKY RESORT AREA DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2020

The results of our tests disclosed no instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, and one internal control deficiency considered to be a material weakness, which was required to be reported under *Government Auditing Standards* as of June 30, 2020.

2020-1 Appropriations Payable

Criteria: In accordance with generally accepted accounting principles (GAAP), 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. Requests for appropriations disbursements are due by July 15 following year end (requests for fiscal year 2020 appropriations were due by July 15, 2020).

Effect: Prior to the proposed audit adjustments, the District's liabilities and appropriations expenditures were overstated by \$622,209.

Cause: The District's process in the past has been to account for the year's unspent funds after the July 15 due date for requests has passed, rather than at year end. Because that date is in the next fiscal year, the result was not in accordance with GAAP.

Recommendation: The District should adjust appropriations payable to reflect the actual amounts to be paid on current year contracts after year end.

Response: We agree and have adjusted the financial statements and disclosed in Note 5 to the financial statements.

**BIG SKY RESORT AREA DISTRICT
STATUS OF PRIOR YEAR FINDINGS
June 30, 2020**

The following internal control deficiencies considered to be material weaknesses were required to be reported under *Government Auditing Standards* as of June 30, 2019.

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.

Status: Resolved.

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.

Status: Resolved.