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

anderson
ZURMUEHLEN

# BIG SKY ECONOMIC DEVELOPMENT AUTHORITY

## FINANCIAL REPORT

**June 30, 2019 and 2018**

# C O N T E N T S

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Big Sky Economic Development Authority
Billings, Montana

**Report on the Financial Statements**
We have audited the accompanying financial statements of Big Sky Economic Development Authority (the Authority), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

**Auditor's Responsibility**
Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Sky Economic Development Authority as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years 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, the schedule of proportionate share of net pension liability, and the schedule of contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards for the year ended June 30, 2019 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

Anderson ZurMuehlen + Co, P.C.

Billings, Montana
October 30, 2019

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW

Big Sky Economic Development Authority (Big Sky EDA or the Authority) is a governmental agency (supported in part by local tax levy) whose purpose is to promote, stimulate, develop and advance the general welfare, commerce, economic development, and prosperity of the Yellowstone County market region, the State of Montana, and its citizens.

As required by the Governmental Accounting Standards Board's reporting standards, the annual financial report consists of three basic financial statements, which provide financial information about the Authority. The three statements are: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

In addition, this section entitled "Management's Discussion and Analysis" (MD&A) is included as "required supplemental information." This discussion and analysis provides an overview of the financial activities of the Authority for the fiscal years ended June 30, 2019, 2018, and 2017. The intent of MD&A is to provide an objective and easily readable analysis of the financial activities of the Authority. It is intended to be high level and general rather than specific. While three fiscal years are presented, the discussion emphasizes the current year and addresses both positive and negative financial issues. In addition, it identifies economic or financial factors and any other issues management is aware of which could have a significant impact on future operations or operating results. Please read the following in conjunction with the Authority's financial statements and accompanying notes.

## BUSINESS DEVELOPMENT ACTIVITIES

The Authority operates the Montana Procurement Technical Assistance Center (PTAC) that provides assistance to businesses throughout the state on how to successfully bid on government contracts. The PTAC currently has sub-centers and/or satellite programs hosted by economic development agencies in six other locations in Montana. The U.S. Department of Defense funds approximately 60% of the total program cost with the balance coming from local tax levy and other sources.

The Authority operates a Small Business Development Center (SBDC) whose advisors provide free one-on-one technical services to individuals and small businesses located in Yellowstone and the surrounding counties. The SBDC also operates a program called Rock31 whose purpose is to promote local entrepreneurship through efforts targeted toward facilitating entrepreneurs' transition from concept to commercialization. The SBDC also provides training through periodic seminars and workshops whose topics include marketing, advertising, financial management, business plan preparation and human resource management.

## BUSINESS DEVELOPMENT ACTIVITIES (CONTINUED)

The Authority operates a Veteran's Business Outreach Center (VBOC). The US Small Business Administration (SBA) provides funding for the center via a five-year grant award with annual renewal options. The mission of the VBOC is to help create, develop and retain veteran-owned small business enterprises. The SBA awarded $348,735 of funding for the period May 1, 2015 to April 30, 2016 and $350,000 of funding per year for the last three years. There is no matching requirement for this award.

During 2002, Big Sky EDA created a separate private non-profit corporation, Big Sky Economic Development Corporation (Big Sky EDC), whose purpose is to promote economic development through business recruitment, retention and finance. Big Sky EDC consists of approximately 150 Billings-area businesses who donate time and financial resources toward job-creating activities in Yellowstone County. Big Sky EDA furnishes office space, management and staffing resources in support of Big Sky EDC's activities, a portion of which is donated on an in-kind basis. Big Sky EDC engages in two primary activities in support of economic development: business recruitment and business finance.

Big Sky EDC continually seeks opportunities for businesses to relocate and/or expand to the greater Billings area. Big Sky EDC staff actively promote Yellowstone County as an area where businesses can grow and make a positive impact to the community. Big Sky EDC, as a certified development corporation, administers an SBA 504 Loan program that enables businesses throughout Montana to gain access to the U.S. capital markets for job-creating or job-retaining investment funds. Additionally, Big Sky EDC manages a revolving loan fund through which local businesses can obtain financing that might not otherwise be available from the private sector. The above two programs provide financing tools through which Big Sky EDA can help promote business growth.

## WORKFORCE DEVELOPMENT ACTIVITIES

In 2015, Big Sky EDA, in conjunction with private sector partners, initiated a workforce development effort called BillingsWorks. By identifying and promoting career opportunities via high school and college curriculum offerings as well as promoting Billings as an attractive community for work and to raise families, BillingsWorks helps ensure a viable workforce for local employers. Local private sector partners and Big Sky EDA, through local tax levy, provide funding for BillingsWorks.

## COMMUNITY DEVELOPMENT ACTIVITIES

The Community Development division of Big Sky EDA works with a variety of groups to build the foundation for a desirable quality of life. Community Development personnel work with local property owners and nearby communities within Yellowstone County to help facilitate urban renewal and to assist in the development of new or improved public services. The Community Development division is supported primarily through local tax levy, and secures other Federal and State funds in support of community projects.

## NET POSITION SUMMARY

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | |
| ASSETS | | | |
| Cash and cash equivalents | $ 1,294,823 | $ 1,320,427 | $ 1,190,518 |
| Receivables | 466,188 | 342,363 | 255,382 |
| Other assets | 6,926 | 13,336 | 49,901 |
| Total current assets | 1,767,937 | 1,676,126 | 1,495,801 |
| Notes receivable | 467,196 | 75,000 | - |
| Certificates of deposit | 4,590,718 | 5,328,831 | - |
| Land | - | - | 40,236 |
| Depreciable capital assets, net of accumulated depreciation | - | - | 8,518,185 |
| Restricted cash | 4,982 | 9,642 | 4,720,727 |
| Total assets | 6,830,833 | 7,089,599 | 14,774,949 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension contributions and adjustments | 247,689 | 365,827 | 173,851 |
| | $ 7,078,522 | $ 7,455,426 | $ 14,948,800 |
| LIABILITES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | | |
| LIABILITIES | | | |
| Current liabilities | $ 406,824 | $ 692,316 | $ 955,692 |
| Unearned GECC lease settlement revenue | - | - | 3,847,304 |
| Long-term liabilities | 884,804 | 908,811 | 6,066,688 |
| Total liabilities | 1,291,628 | 1,601,127 | 10,869,684 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension adjustments | 13,741 | 7,419 | 2,036 |
| NET POSITION | | | |
| Net investment in capital assets | - | - | 2,576,092 |
| Restricted for debt service and building reserve | 4,982 | 9,642 | 4,720,727 |
| Unrestricted | 5,768,171 | 5,837,238 | (3,219,739) |
| Total net position | 5,773,153 | 5,846,880 | 4,077,080 |
| | $ 7,078,522 | $ 7,455,426 | $ 14,948,800 |

## NET POSITION SUMMARY (CONTINUED)

On March 31, 2017, the Authority entered into a lease termination agreement, effective December 31, 2017, with General Electric Capital Corporation (GECC). As of June 30, 2018, the payments received via this agreement, approximately $3.85 million, were reported as unearned revenue. On January 1, 2018, the Authority met all of the conditions of the lease termination agreement and recognized these deferred revenues as a non-operating gain on cancellation of lease. See Note 4 for additional discussion.

During fiscal 2019, Big Sky EDA loaned $400,000 to the Downtown Business Partnership (the DBP) for the purpose of funding DBP's effort in the One Big Sky District initiative. See Note 1 for additional discussion.

Big Sky EDA maintains a stable financial position characterized by current ratios of approximately 4.4, 2.4, 1.6 at June 30, 2019, 2018 and 2017, respectively. Big Sky EDA strives to maintain a balance between maintaining a fiscally prudent financial position and investing its resources in job-creating activities.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2017, the Authority had invested approximately $9 million in land and buildings leased to GECC for its General Electric Center of Excellence. See Note 4 to the accompanying financial statements.

As of June 30, 2017, the Authority had approximately $6 million in long-term debt. This debt was comprised of various financing related to the General Electric Center of Excellence.

On July 7, 2017, the Authority entered into an agreement for the sale of the leased property described above for $8,000,000, resulting in a loss on sale of $672,155. The entire carrying value of the property listed above of approximately $9 million was sold as part of this transaction. The debt referred to above was paid off in full in July 2017 as part of this transaction.

## RESULTS OF OPERATIONS SUMMARY

In fiscal years 2019 and 2018, the Authority recorded operating losses of $169,501 and $1.4 million, respectively. In fiscal year 2017, the Authority recorded operating income of $505,078.

The year-over-year reduction in operating loss between fiscal years 2019 and 2018 is due primarily to a one-time $1,263,000 business incentive granted to Zoot Enterprises in 2018. The year-over-year decrease in operating income between fiscal years 2018 and 2017 is primarily due to the afore-mentioned business incentive paid in 2018 plus the termination of the operating lease with GE Capital, which resulted in less rental income for 2018. See Note 4 for additional discussion.

## REVENUE SOURCES

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Intergovernmental: | | | |
| U.S. Department of Defense | $ 519,994 | $ 529,710 | $ 553,311 |
| U.S. Small Business Administration | 431,553 | 405,020 | 480,451 |
| U.S. Department of Housing & Urban Development | - | - | 19,701 |
| U.S. Environmental Protection Agency | 40,887 | 32,639 | 132,339 |
| Other grant revenue | 20,311 | 14,243 | 11,408 |
| Health levy revenues | 91,527 | 84,391 | 75,653 |
| Property tax revenues | 1,410,065 | 1,334,252 | 1,229,337 |
| Grants administration | 6,717 | 6,593 | 7,970 |
| Rental and related income | - | 538,004 | 968,553 |
| Recovery of protested taxes | 146,954 | 37,890 | - |
| EDC staffing services | 513,719 | 491,677 | 371,964 |
| Other | 25,656 | 129,615 | 70,409 |
| Total operating revenues | 3,207,383 | 3,604,034 | 3,921,096 |
| Interest income | 95,774 | 40,406 | 4,666 |
| Loss on sale of capital assets | - | (672,155) | - |
| Gain on cancellation of lease agreement | - | 3,847,304 | - |
| Gain on cancellation of business incentive agreement | - | - | 74,844 |
| Total revenues | $ 3,303,157 | $ 6,819,589 | $ 4,000,606 |

**Fiscal 2019 Compared to Fiscal 2018**
As described above, the decrease in Rental and related income is the result of the cancellation of the GE Capital operating lease. Offsetting this decreased income was the recovery of $146,954 in protested taxes.

**Fiscal 2018 Compared to Fiscal 2017**
The decrease in US Small Business Administration revenue is due to reduced revenues associated with the Veterans Business Outreach Center. Staffing vacancies resulted in a year-over-year decrease in reimbursable expenses. Similarly, a decrease in US Environmental Protection Agency revenue is attributable to reduced reimbursable expenses.

As described above, the decrease in Rental and related income was the result of the cancellation of the GE Capital operating lease. Concurrent with the cancellation of the GE Capital operating lease is the recognition of deferred revenues received in fiscal 2017 in settlement of GE Capital's lease obligation.

## EXPENSES

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Procurement Technical Assistance program | $ 637,494 | $ 674,121 | $ 676,063 |
| Small Business Development Center | 431,986 | 392,189 | 358,643 |
| General Electric Capital Corporation | - | 170,099 | 428,573 |
| Zoot Enterprises | - | 1,281,500 | - |
| One Big Sky District | 220,000 | - | - |
| Rock31 | 63,574 | - | - |
| Economic Development Corporation | 852,538 | 797,417 | 687,212 |
| Veterans Business Outreach Center | 316,048 | 289,911 | 369,001 |
| Workforce development | 100,025 | 529,222 | 158,502 |
| Community development | 487,980 | 546,452 | 565,446 |
| Administration | 267,239 | 326,041 | 172,578 |
| Total operating expenses | 3,376,884 | 5,006,952 | 3,416,018 |
| Interest expense | - | 42,837 | 291,203 |
| Total expenses | $ 3,376,884 | $ 5,049,789 | $ 3,707,221 |

**Fiscal 2019 Compared to Fiscal 2018**
In fiscal 2019, Big Sky EDA participated in two economic development initiatives called One Big Sky District and 406 Impact Districts. Through these initiatives Big Sky EDA and other Billings enterprises sponsored efforts designed to promote the development of a portion of the Billings downtown area through legislative actions that would provide incentives for private sector investment. Big Sky EDA invested $220,000 in these efforts.

In fiscal 2019, Big Sky EDA did not have any business incentives or major contributions such as those incurred in fiscal 2018. See discussion below.

**Fiscal 2018 Compared to Fiscal 2017**
In fiscal 2018, the Authority granted two business incentives of $500,000 and $763,000, respectively, to Zoot Enterprises (Zoot). The $500,000 incentive was to enhance Zoot's job-creating capacity. The $763,500 incentive was to assist in Zoot's renovation of the GE Center of Excellence. The Authority funded both incentives from GE's lease cancellation payment (see above discussion).

In fiscal 2018, the Authority contributed $359,300 to Montana State University-Billings and Rocky Mountain College to help fund the construction of each institution's science building.

## SUMMARY

Big Sky EDA continues its mission of economic development in a fiscally prudent manner. Big Sky EDA's association with Big Sky EDC creates a partnership between the best opportunities that the public and private sectors have to offer for stimulating economic growth. In the future, Big Sky EDA will continue to invest in job-creating activities that will promote profitable as well as socially responsible development.

# FINANCIAL STATEMENTS

# BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
## STATEMENTS OF NET POSITION
### June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 1,294,823 | $ 1,320,427 |
| Receivables: | | |
| Property taxes | 27,442 | 186,119 |
| Grants and other | 283,999 | 240,235 |
| Related party | 163,958 | 83,212 |
| Allowance for doubtful property taxes receivable | (9,211) | (167,203) |
| Prepaid expenses and other assets | 6,926 | 13,336 |
| Total current assets | 1,767,937 | 1,676,126 |
| NON-CURRENT ASSETS | | |
| Due from Yellowstone County | 64,775 | 75,000 |
| Due from Downtown Billings Partnership | 402,421 | - |
| Certificates of deposit | 4,590,718 | 5,328,831 |
| Restricted cash | 4,982 | 9,642 |
| Total non-current assets | 5,062,896 | 5,413,473 |
| Total assets | 6,830,833 | 7,089,599 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension contributions and adjustments | 247,689 | 365,827 |
| Total assets and deferred outflows of resources | $ 7,078,522 | $ 7,455,426 |

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

| | | 2019 | 2018 |
|---|---|---|---|
| LIABILITES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued expenses | | $ 242,647 | $ 545,963 |
| Accrued compensated absences | | 164,177 | 146,353 |
| Total current liabilities | | 406,824 | 692,316 |
| LONG-TERM LIABILITIES | | | |
| Public Employees' Retirement System net pension liability | | 884,804 | 908,811 |
| Total long-term liabilities | | 884,804 | 908,811 |
| Total liabilities | | 1,291,628 | 1,601,127 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension adjustments | | 13,741 | 7,419 |
| NET POSITION | | | |
| Restricted for debt service and building reserve | | 4,982 | 9,642 |
| Unrestricted | | 5,768,171 | 5,837,238 |
| Total net position | | 5,773,153 | 5,846,880 |
| Total liabilities, deferred inflows of resources, and net position | | $ 7,078,522 | $ 7,455,426 |

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

# BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
### Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| OPERATING REVENUES | | |
| Intergovernmental: | | |
| U.S. Department of Defense | $ 519,994 | $ 529,710 |
| U.S. Small Business Administration | 431,553 | 405,020 |
| U.S. Environmental Protection Agency | 40,887 | 32,639 |
| Other grant revenue | 20,311 | 14,243 |
| Health levy revenues | 91,527 | 84,391 |
| Property tax revenues | 1,410,065 | 1,334,252 |
| Recovery of protested taxes | 146,954 | 37,890 |
| Grants administration | 6,717 | 6,593 |
| Rental and related income | - | 538,004 |
| EDC staffing services | 513,719 | 491,677 |
| Other | 25,656 | 129,615 |
| Total operating revenues | 3,207,383 | 3,604,034 |
| OPERATING EXPENSES | | |
| Business development: | | |
| Procurement Technical Assistance program | 637,494 | 674,121 |
| Small Business Development Center | 431,986 | 392,189 |
| Veterans Business Outreach Center | 316,048 | 289,911 |
| General Electric Capital Corporation | - | 170,099 |
| Zoot Enterprises | - | 1,281,500 |
| One Big Sky District | 220,000 | - |
| Rock31 | 63,574 | - |
| Economic Development Corporation - in-kind support | 338,819 | 305,740 |
| Economic Development Corporation - program expenses | 513,719 | 491,677 |
| Workforce development | 100,025 | 529,222 |
| Community development | 487,980 | 546,452 |
| Administration | 267,239 | 326,041 |
| Total operating expenses | 3,376,884 | 5,006,952 |
| Operating loss | (169,501) | (1,402,918) |

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

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(CONTINUED)
Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest income | 95,774 | 40,406 |
| Interest expense | - | (42,837) |
| Loss on sale of capital assets | - | (672,155) |
| Gain on cancellation of lease agreement | - | 3,847,304 |
| Total non-operating revenues (expenses) | 95,774 | 3,172,718 |
| Change in net position | (73,727) | 1,769,800 |
| Net position, beginning of year | 5,846,880 | 4,077,080 |
| Net position, end of year | $ 5,773,153 | $ 5,846,880 |

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

# BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
## STATEMENTS OF CASH FLOWS
### Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Intergovernmental grants | $ 968,981 | $ 945,805 |
| Health levy revenues | 91,527 | 84,391 |
| Property tax revenues | 1,410,750 | 1,331,942 |
| Recovery of protested taxes | 146,954 | 37,890 |
| Grants administration | 6,717 | 6,593 |
| Rental income | - | 480,978 |
| EDC staffing services | 432,973 | 442,813 |
| Other operating receipts | 32,066 | 166,180 |
| Business development costs paid | (2,521,640) | (3,605,237) |
| Workforce development costs paid | (100,025) | (529,222) |
| Community development costs paid | (487,980) | (546,452) |
| Administrative costs paid | (452,278) | 105,468 |
| Net cash flows from operating activities | (471,955) | (1,078,851) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of capital assets, net of costs of sale | - | 7,886,266 |
| Financing of notes receivable | (400,000) | (75,000) |
| Payments received on notes receivable | 10,225 | - |
| Proceeds from maturity of certificates of deposit | 809,300 | - |
| Purchases of certificates of deposit | - | (5,300,000) |
| Interest received on investments | 22,166 | 11,575 |
| Net cash flows from investing activities | 441,691 | 2,522,841 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Interest paid | - | (42,837) |
| Principal payments on long-term debt | - | (5,982,329) |
| Net cash flows from capital and related financing activities | - | (6,025,166) |
| Net change in cash and cash equivalents | (30,264) | (4,581,176) |
| Cash and cash equivalents, beginning of year | 1,330,069 | 5,911,245 |
| Cash and cash equivalents, end of year | $ 1,299,805 | $ 1,330,069 |

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

# BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
## STATEMENTS OF CASH FLOWS (CONTINUED)
### Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| SCHEDULE OF CASH AND CASH EQUIVALENTS AT END OF YEAR | | |
| Cash and cash equivalents | $ 1,294,823 | $ 1,320,427 |
| Restricted cash | 4,982 | 9,642 |
| Cash and cash equivalents at end of year | $ 1,299,805 | $ 1,330,069 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating loss | $ (169,501) | $ (1,402,918) |
| Adjustments to reconcile operating loss to net cash flows from operating activities: | | |
| Pension adjustments | 100,453 | 107,044 |
| Changes in operating assets and liabilities: | | |
| Receivables | 34,167 | (115,152) |
| Allowance for property taxes receivable | (157,992) | 28,171 |
| Prepaid expenses | 6,410 | 36,565 |
| Accounts payable and other accrued expenses | (303,316) | 310,858 |
| Unearned rent and maintenance | - | (57,026) |
| Compensated absences | 17,824 | 13,607 |
| Net cash flows from operating activities | $ (471,955) | $ (1,078,851) |
| SCHEDULE OF NONCASH TRANSACTIONS | | |
| Adjustment of Public Employees' Retirement System net pension liability | $ (24,007) | $ 293,637 |
| Adjustment of deferred outflows related to net pension liability | 118,138 | (299,020) |
| Adjustment of deferred inflows related to net pension liability | 6,322 | 5,383 |
| Loss on sale of capital assets | - | (672,155) |
| Gain on cancellation of lease agreement | - | 3,847,304 |
| Total noncash transactions | $ 100,453 | $ 3,175,149 |

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

## NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

The Big Sky Economic Development Authority (the Authority) was created in December 1989 by a resolution of the Yellowstone County Board of County Commissioners. The purpose of the Authority is to promote, stimulate, develop, and advance the general welfare, commerce, economic development, and prosperity of the Yellowstone County market region, the State of Montana, and its citizens.

In 1985, the Montana Legislative Assembly enacted legislation to provide funding for independent trade authorities in the state. The Authority establishes its own annual budget. The Yellowstone Board of County Commissioners determines the property tax levy to be credited to the Authority. The County bills the tax assessment and the collected taxes are remitted to the Authority.

There is no statutory requirement for a budget; accordingly, a statement of revenues, expenditures, and changes in fund balance - budget and actual, is not presented. However, the Authority does adopt an annual operating budget for management purposes.

An eleven-member Board of Commissioners governs the Authority. Commissioners serve five-year terms. The selection of Commissioners starts with an application process that is open to any Yellowstone County resident. Big Sky EDA's Nominating Committee (consisting of EDA and EDC board members and representatives from the City of Billings, the City of Laurel, and Yellowstone County Government) screens and interviews applicants and forwards their recommendations to the Yellowstone Board of County Commissioners for consideration and action. The Yellowstone County Commissioners then selects the successful applicant(s) for appointment to the Big Sky EDA Board. Big Sky Economic Development Authority is not considered a component unit of any other primary government, but is a "trade port authority" as designated under Montana Code.

### Tax Exempt Status

The Authority is a municipal corporation and, therefore, is not liable for federal and state income taxes pursuant to Internal Revenue Code Section 501(c)(1).

### Measurement Focus, Basis of Accounting and Basis of Presentation

The Authority follows proprietary fund reporting in accordance with U.S. generally accepted accounting principles (GAAP). Accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual method of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

## NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**
Net position represents the result of assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets plus capital-related deferred outflows, net of accumulated depreciation and also reduced by the outstanding balances of any borrowing used in the acquisition, construction, or improvement of those assets and any capital-related deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**Cash and Cash Equivalents**
The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of twelve months or less from the date of acquisition, and pooled deposits within the Yellowstone County investment pool. The pooled deposits are authorized by state law, are stated at fair value, and consist primarily of securities of the U.S. government or its agencies, and repurchase agreements. Because of the pooled cash concept, it is not possible to allocate the Authority's share of the pooled cash balance into various risk categories. Deposits held in the investment pool earn interest on a daily basis.

**Certificates of Deposit**
Certificates of deposit are carried at cost, which approximates fair value due to the short period these instruments are held. The Authority has the ability and intent to hold the certificates of deposit to maturity. As of June 30, 2019 and 2018, the Authority held certificates of deposit at various local banks totaling $4,590,718 and $5,328,831, respectively. These certificates of deposit were opened in 2018, and have staggered maturity dates ranging from 13 months to 36 months.

**Receivables**
The Authority records receivables from property taxes, as described above, as well as for amounts due from grant agreements and from Big Sky Economic Development Corporation, a related party. Non-property tax receivables are recorded when the amounts are earned. Grant reports are submitted as soon as possible in order to receive payment in a timely manner. No finance charges are charged on any of the receivables. The Authority has established an allowance for doubtful accounts equivalent to all protested property taxes receivable. All other receivables are deemed fully collectible.

## NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Due from Yellowstone County**

The Authority entered into an agreement with Yellowstone County to create the Lockwood Targeted Economic Development District (Lockwood TEDD), which contains a tax increment provision. The Authority developed a five-year Infrastructure Master Plan to be implemented within the Lockwood TEDD. Yellowstone County will provide reimbursement to the Authority for costs of the Infrastructure Master Plan, not to exceed $75,000. The total due from Yellowstone County for the plan will be reimbursed by the County to the Authority as the District Tax Increment Revenues are collected. At June 30, 2019, Yellowstone County owed the Authority $64,775 on this obligation.

**Due from Downtown Billings Partnership**

The Authority extended the Downtown Billings Partnership (DBP) a $400,000 non-revolving line of credit to help finance the development of properties located in an area of downtown Billings known as the One Big Sky District. Principal and interest on the note are due in full by June 30, 2021. Interest is accrued at 1.5%. The note is secured by a trust indenture on DBP-owned real estate.

**Program Funding Sources**

The Authority operates its programs with the aid of funding primarily from the following sources:

1. U. S. Department of Defense
2. U. S. Small Business Administration
3. U. S. Environmental Protection Agency
4. Yellowstone County tax levy

A major reduction in the level of support from any of these funding sources could have a negative impact on the Authority's ability to maintain its current programs.

**Compensated Absences**

Employees are allowed to accumulate vacation up to two times the number of days earned annually. Employees are allowed to accumulate sick leave without limitation. Upon termination, all unused vacation and one-fourth of accumulated sick leave will be paid at the employee's rate of pay at the time of separation.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are either generated directly from the primary activity of the Authority or are a principal source of financing for on-going operations. For the Authority, these revenues are charges for services for rent, grant administration, workshops and classes, property tax revenues, and grant revenues. Operating expenses are those necessary costs incurred to provide ongoing services and meet functional objectives of the Authority.

## NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property Tax Revenues**
Property tax revenues received are considered operating revenues, as they are a principal source of financing of the Authority's ongoing operations. The real property taxes are levied by Yellowstone County based on the assessed value of property as listed on the previous January 1. The semi-annual installments are due in November and May. As of December 1 and June 1, uncollected real property taxes become delinquent. Taxpayers may pay taxes in protest, which are held by the County until resolution of the complaint. An allowance for doubtful accounts has been recorded to provide for uncollectible delinquent taxes and protested taxes.

**Accounting Estimates**
The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

**Reclassifications**
Certain amounts presented in the prior year have been reclassified to conform to current year financial statement presentation. The reclassifications have no impact on previously reported net position or changes in net position.

## NOTE 2. CASH AND CASH EQUIVALENTS

The Authority's bank balances and cash on hand, and certificates of deposit amounted to $5,376,501 and $6,147,260 as of June 30, 2019 and 2018, respectively. From time to time, certain bank accounts that are subject to limited FDIC coverage exceed their insured limits. At June 30, 2019 and 2018, bank balances for these accounts exceeded insured limits by $3,126,501 and $3,897,260, respectively.

The Authority also maintains funds in a cash and investment pool managed by Yellowstone County. Yellowstone County maintains a cash and investment pool for all funds under the control of the County Treasurer. Cash and cash equivalents may include cash, demand, money market, time savings, and fiscal agent deposits; repurchase agreements and direct obligations of the United States Government. All cash and investments with a maturity date of three months or less or those that can be liquidated within 30 days, are treated as cash and cash equivalents for cash flow reporting. Investments are stated at fair value.

The composition of the cash held at the County is available in the County's audited financial statements, which can be obtained by calling the County Fiscal Office at (406) 256-2718.

## NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

The Authority's cash and cash equivalents balances with Yellowstone County as of June 30, 2019 and 2018, was $519,877 and $450,642, respectively. Because of the pooled cash concept, it is not possible to allocate the Authority's balance into risk categories. However, all participants in the Pool share risks proportionately. That is, each dollar invested shares proportionately in the risk of the pooled investments.

All investments meet collateral requirements specified by State law.

The composition of cash and cash equivalents as shown on the statements of net position follows:

| | 2019 | 2018 |
|---|---|---|
| Amounts held at financial institutions | $ 779,928 | $ 879,427 |
| Amounts held at Yellowstone County | 519,877 | 450,642 |
| Total | $ 1,299,805 | $ 1,330,069 |

## NOTE 3. CONDUIT DEBT

In November 2004, the Authority borrowed $458,400 under the Montana Board of Investment's Infrastructure Loan Program to provide financial assistance to a private sector entity (CTA Architects) for the acquisition, construction, remodeling, and operation of an office building in downtown Billings. The funding of this project was made to encourage the location and development of such project in the City of Billings and was expected to create 53 new jobs in the area. Based on the financing terms, the Authority is not obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. CTA Architects paid off the note in full in March 2018.

In August 2009, the Authority borrowed $691,639 under the Montana Board of Investment's Infrastructure Loan program to provide financial assistance to a private sector entity (Cabela's) for the construction of a new building in Billings. The funding of this project was made to encourage the location and development of such project in the City of Billings and create new jobs in the area. Based on the financing terms, the Authority is not obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability on the accompanying financial statements. As of June 30, 2019, the outstanding balance on such note is $521,169. The final payment on this note is due August 1, 2034.

## NOTE 4. RENTAL INCOME

On December 21, 2007, the Authority entered into a lease agreement with General Electric Capital Corporation (GECC). Under the agreement, the Authority committed to construct a 45,000 square foot building on land it currently owned in Billings' TransTech Center office park. Construction for the building began in early 2008 and was completed on January 6, 2009. The cost of the leased property was $10,849,519.

The original lease term was for 12 years, with an option to renew for an additional 8-year period, and a second option to renew for an additional 5-year period. Lease payments were equal to the related debt service payments, plus $100,000 of additional rent per year for the first 12 years of the lease. The additional rent was earmarked by the Authority for future improvements of the building.

In addition to rent, GECC was required to reimburse the Authority for actual and reasonable costs and expenses incurred by the Authority in respect to the operation and maintenance of the premises and associated property and improvements. During 2018, the Authority was reimbursed by GECC $91,376 and is presented as revenue in the financial statements.

On March 31, 2017, the Authority entered into a lease termination agreement with GECC. The effective date of termination of the lease was December 31, 2017, whereupon GECC paid the Authority consideration of $3,847,304. The termination payment is comprised of 1) rent and additional rent due from January 1, 2018 to the end of the initial term of $2,940,698; 2) operations and maintenance from January 1, 2018 to the end of the initial term of $763,500; and 3) additional insurance from January 1, 2018 to the end of the initial term of $143,106. As provided for in the lease agreement, GECC was obligated for up to $600,000 in leasehold because they did not exercise its first renewal option. The Authority subsequently assigned the $600,000 leasehold improvement provision to Zoot Properties as part of an incentive agreement. GECC occupied the building until termination at December 31, 2017. The full lease termination payment was received in fiscal year 2017 and was recorded as revenue in fiscal year 2018.

## NOTE 5. LEASES

### Office Space

The Authority has executed a lease agreement for office space. The lease expense is allocated to each program, based on the percentage of square footage utilized. The terms extend the lease through June 30, 2021, with increasing rates each fiscal year. Lease expense for the years ended June 30, 2019 and 2018, totaled $119,232 and $117,372, respectively. Minimum future lease payments are $135,406 in 2020 and $139,469 in 2021.

## NOTE 5. LEASES (CONTINUED)

**Office Space (Continued)**
The Authority has executed a sublease agreement for additional office space in the same building discussed above. The sublease terms cover a three-year period through July 29, 2018, at which time the lease became month to month. Lease expense for the years ended June 30, 2019 and 2018, totaled $1,980 and $6,995, respectively.

## NOTE 6. RETIREMENT PLAN

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting, whether provided through cost-sharing, single-employer, or agent plans.

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

**General Information About the Pension Plan**
*Plan Description* **-** The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, MCA. This Plan provides retirement benefits to covered employees of the State and local governments and certain employees of the Montana University System and school districts. Benefits are established by state law and can only be amended by the Legislature.

**NOTE 6. RETIREMENT PLAN (CONTINUED)**

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

*Benefits Provided* **-** The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation (HAC). Member rights are vested after five years of service.

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

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

**Second retirement** (requires returning to PERS-covered employer or PERS service):
- Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
  - A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
  - No service credit for second employment;
  - Start the same benefit amount the month following termination; and
  - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- Retired before January 1, 2016 and accumulate at least 2 years of additional service credit:
  - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
  - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

**NOTE 6. RETIREMENT PLAN (CONTINUED)**

**General Information About the Pension Plan (Continued)**

*Benefits Provided (Continued)*

- Retired on or after January 1, 2016 and accumulate 5 or more years of service credit:
  - The same retirement as prior to the return to service;
  - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
  - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

**Member's highest average compensation (HAC)**

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

**Compensation Cap**

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

**Monthly Benefit Formula**

- Members hired prior to July 1, 2011:
  - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
  - 25 years of membership service or more: 2% of HAC per year of service credit.
- Members hired on or after July 1, 2011:
  - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
  - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
  - 30 years or more of membership service: 2% of HAC per year of service credit.

**Guaranteed Annual Benefit Adjustment (GABA)**

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more.

## NOTE 6. RETIREMENT PLAN (CONTINUED)

### General Information About the Pension Plan (Continued)

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

*Special Funding* **-** The State of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers.

*Not Special Funding* **-** Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.

### Overview of Contributions

Member and employer contribution rates are shown in the table below.

| Fiscal Year | Member | | State & Universities | Local Government | | School Districts | |
|---|---|---|---|---|---|---|---|
| | | | Employer | Employer | State | Employer | State |
| | Hired <7/01/11 | Hired >7/01/11 | | | | | |
| 2019 | 7.9% | 7.9% | 8.670% | 8.570% | 0.10% | 8.30% | 0.370% |
| 2018 | 7.9% | 7.9% | 8.570% | 8.470% | 0.10% | 8.20% | 0.370% |
| 2017 | 7.9% | 7.9% | 8.470% | 8.370% | 0.10% | 8.10% | 0.370% |
| 2016 | 7.9% | 7.9% | 8.370% | 8.270% | 0.10% | 8.00% | 0.370% |
| 2015 | 7.9% | 7.9% | 8.270% | 8.170% | 0.10% | 7.90% | 0.370% |
| 2014 | 7.9% | 7.9% | 8.170% | 8.070% | 0.10% | 7.80% | 0.370% |
| 2012-2013 | 6.9% | 7.9% | 7.170% | 7.070% | 0.10% | 6.80% | 0.370% |
| 2010-2011 | 6.9% | | 7.170% | 7.070% | 0.10% | 6.80% | 0.370% |
| 2008-2009 | 6.9% | | 7.035% | 6.935% | 0.10% | 6.80% | 0.235% |
| 2000-2007 | 6.9% | | 6.900% | 6.800% | 0.10% | 6.80% | 0.100% |

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

**NOTE 6. RETIREMENT PLAN (CONTINUED)**

**Overview of Contributions (Continued)**

2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
   c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non-Employer Contributions
   a. Special Funding
      i. The State contributes 0.1% of members' compensation on behalf of local government entities.
      ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
      iii. The state contributed a Statutory Appropriation from the General Fund of $33,454,182.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources**

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2018, was determined by taking the results of the June 30, 2017, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

## NOTE 6. RETIREMENT PLAN (CONTINUED)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)**

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2018, and 2017, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of $884,804 and the employer's proportionate share was 0.0424 percent.

| As of Reporting Date | Net Pension Liability as of June 30, 2019 | Net Pension Liability as of June 30, 2018 | Percent of Collective NPL as of June 30, 2019 | Percent of Collective NPL as of June 30, 2018 | Change in Percent of Collective NPL |
|---|---|---|---|---|---|
| Employer proportionate share | $ 884,804 | $ 908,811 | 0.0424% | 0.0467% | -0.0043% |
| State of Montana proportionate share associated with employer | 304,336 | 23,290 | 0.0585% | 0.1187% | -0.0602% |
| Total | $ 1,189,140 | $ 932,101 | 0.1009% | 0.1654% | -0.0645% |

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

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

*Changes in proportionate share* **-** There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

*Pension Expense* **-** At June 30, 2018, the employer recognized $158,366 for its proportionate share of the Plan's pension expense and recognized grant revenue of $20,311 for the state of Montana proportionate share of the pension expense associated with the employer.

| As of Reporting Date | Pension Expense Year Ended June 30, 2019 | Pension Expense Year Ended June 30, 2018 |
|---|---|---|
| Employer's proportionate share of PERS | $ 158,366 | $ 164,662 |
| Employer Grant revenue - State of Montana proportionate share associated for employer | 20,311 | 1,242 |
| Employer Grant revenue - State of Montana State Appropriation for employer | - | 13,001 |
| Total | $ 178,677 | $ 178,905 |

## NOTE 6. RETIREMENT PLAN (CONTINUED)

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

*Recognition of Deferred Inflows and Outflows* **-** At June 30, 2019 and 2018, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Expected vs. Actual Experience | $ 67,283 | $ - | $ 22,381 | $ 1,315 |
| Projected Investment Earnings vs. Actual Investment Earnings | - | 13,741 | 124,225 | - |
| Changes in assumptions | 75,239 | - | - | 6,104 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 48,684 | - | 161,602 | - |
| Employer Contributions subsequent to the measurement date | 56,482 | - | 57,619 | - |
| Total | $ 247,688 | $ 13,741 | $ 365,827 | $ 7,419 |

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

| For the Reporting Year Ended June 30, | Recognition of deferred outflows and deferred inflows in future years as an increase or (decrease) to Pension Expense |
|---|---|
| 2020 | $ 120,269 |
| 2021 | 85,613 |
| 2022 | (22,770) |
| 2023 | (5,646) |
| 2024 | - |
| Thereafter | - |

*Actuarial Assumptions* **-** The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions.

- Investment Return (net of admin expense) of 7.65%
- Admin Expense as % of Payroll of 0.26%
- General Wage Growth* of 3.5%
  *includes Inflation at 2.75%
- Merit Increases of 0% to 6.30%

## NOTE 6. RETIREMENT PLAN (CONTINUED)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)**

*Actuarial Assumptions (Continued)*

- Postretirement Benefit Increases:
  1. Guaranteed Annual Benefit Adjustment (GABA) each January
     - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.
       - 3% for members hired prior to July 1, 2007
       - 1.5% for members hired between July 1, 2007 and June 30, 2013
       - Members hired on or after July 1, 2013:
         - 1.5% for each year PERS is funded at or above 90%;
           - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
         - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality
  - Contributing members, service retired members and beneficiaries based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males
  - Disabled Members based on RP-2000 Combined Mortality Tables, with no projections

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

## NOTE 6. RETIREMENT PLAN (CONTINUED)

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

*Actuarial Assumptions (Continued)*
Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) as of June 30, 2018, are summarized below.

| Asset Class | Target Asset Allocation | Real Rate of Return Arithmetic Basis |
|---|---|---|
| Cash equivalents | 2.60% | 4.00% |
| Domestic equity | 36.00% | 4.55% |
| Foreign equity | 18.00% | 6.35% |
| Fixed income | 23.40% | 1.00% |
| Private equity | 12.00% | 7.75% |
| Real estate | 8.00% | 4.00% |
| Total | 100.00% | |

*Discount Rate* **-** The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

*Sensitivity Analysis of the proportionate share of the net pension liability to changes in the discount rate* **-** The following presents the employer's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

| | 1.0% Decrease (6.65%) | Current Discount Rate | 1.0% Increase (8.65%) |
|---|---|---|---|
| Employer's net pension liability | $ 1,279,631 | $ 884,804 | $ 560,587 |

## NOTE 6. RETIREMENT PLAN (CONTINUED)

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

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

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

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

At the plan level for the measurement period ended June 30, 2018, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the *defined contribution* plan. Plan level non-vested forfeitures for the 316 employers that have participants in the PERS-DCRP totaled $746,144.

*Pension plan fiduciary net position* **-** The stand-alone financial statements (76d) of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at http://mpera.mt.gov/index.shtml.

## NOTE 7. POST-EMPLOYMENT HEALTH CARE BENEFITS

Employees of the Authority are allowed to participate in the health plan of Yellowstone County. Retired and other past employees of the Authority are allowed to continue to participate in this plan. The costs of the retiree health care benefits are covered by participant contributions.

## NOTE 7. POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

The Government Accounting Standards Board has issued GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Yellowstone County has no plans to allocate any portion of its other post-employment benefits liability down to the Authority. Accordingly, the liability is not recorded in the Authority's financial statements.

## NOTE 8. RISK MANAGEMENT

The Authority faces a number of risks of loss, including, but not limited to a) damage to and loss of property and contents, b) employee torts, c) professional liability (i.e. errors and omissions), d) environmental damage, and e) worker's compensation (i.e. employee injuries). Commercial policies, transferring all risks of loss, except for small deductible amounts, are purchased to mitigate these risks.

## NOTE 9. RELATED PARTY TRANSACTIONS

During 2002 the Authority created a separate non-profit corporation, Big Sky Economic Development Corporation (Big Sky EDC), whose purpose is to promote economic development through business recruitment, retention, and finance. Big Sky EDC has been deemed not to be a component unit organization in accordance with the standards set forth in Governmental Accounting Standards Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.*

The Authority provided services amounting to $1,097,225 and $797,417 to Big Sky EDC in 2019 and 2018, respectively. These services included operating costs such as salaries, rent, and insurance. A portion of these costs are reimbursed by Big Sky EDC to the Authority, and a portion is provided as an in-kind contribution. These amounts are shown in the accompanying statements of revenues, expenses, and changes in net position as Economic Development Corporation in-kind support and program expenses. As of June 30, 2019 and 2018, the Authority has a receivable from Big Sky EDC in the amount of $163,958 and $83,212, respectively.

## NOTE 10. RESTRICTED CASH

The Authority holds restricted cash in a First Interstate Bank deposit account. Loan payments from Cabela's, related to the conduit debt described in Note 3, are deposited into this account on a monthly basis. The amount received as the monthly payment is later withdrawn by the Montana Board of Investments to be applied to the outstanding loan balance. The Authority held $4,982 and $9,642 in this account as of June 30, 2019 and 2018, respectively.

# REQUIRED SUPPLEMENTARY INFORMATION

# BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
## SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
## FOR THE LAST TEN FISCAL YEARS*
## June 30, 2019

| **As of measurement date** | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Employer's proportionate share of the net pension liability (percentage) | 0.0424% | 0.0467% | 0.0361% | 0.0317% | 0.0333% |
| Employer's net pension liability (amount) | $ 884,804 | $ 908,811 | $ 615,174 | $ 443,305 | $ 414,985 |
| State of Montana's net pension liability (amount) | 304,336 | 23,290 | 7,517 | 5,445 | 5,068 |
| **Total** | $ 1,189,140 | $ 932,101 | $ 622,691 | $ 448,750 | $ 420,053 |
| Employer's Covered Payroll | $ 697,175 | $ 578,860 | $ 432,602 | $ 370,095 | $ 418,981 |
| Employer's proportionate share as a percent of Covered Payroll | 126.91% | 157.00% | 142.20% | 119.78% | 111.22% |
| Plan fiduciary net position as a percentage of the total Pension Liability | 73.47% | 73.75% | 74.71% | 78.40% | 79.87% |

* The amounts presented for each fiscal year were determined as of June 30. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

# BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
## SCHEDULE OF CONTRIBUTIONS
## FOR THE LAST TEN FISCAL YEARS*
## June 30, 2019

| **As of most recent FYE (reporting date)** | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Contractually required defined benefit contributions | $ 56,482 | $ 59,051 | $ 48,451 | $ 36,159 | $ 30,497 |
| Plan Choice Rate required contributions | - | - | - | 15,251 | 23,335 |
| Contributions in relation to the contractually required contributions | 59,051 | 59,051 | 48,451 | 51,410 | 53,832 |
| Contribution deficiency (excess) | - | - | - | - | - |
| Employer's Covered Payroll | 651,447 | 697,175 | 578,860 | 432,602 | 370,095 |
| Contributions as a percent of covered payroll | 9.06% | 8.47% | 8.37% | 11.88% | 14.55% |

* The amounts presented for each fiscal year were determined as of June 30. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Changes of Benefit Terms**
The following changes to the plan provision were made as identified:

**2017:**

**Working Retiree Limitations** - for PERS
Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

**Refunds**

1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2) Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

**Interest credited to member accounts** - Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

**Lump-sum payouts**
Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

**Disabled PERS Defined Contribution (DC) Members**
PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

**Changes in Actuarial Assumptions and Methods**

**Method and assumptions used in calculations of actuarially determined contributions**

The following Actuarial Assumptions were adopted from the June 2016 Experience Study:

| | |
|---|---|
| General Wage Growth* | 3.50% |
| Investment Rate of Return* | 7.65% |
| *Includes inflation at | 2.75% |
| Merit salary increase | 0% to 6.30% |
| Asset valuation method | Four-year smoothed market |
| Actuarial cost method | Entry age Normal |
| Amortization method | Level percentage of payroll, open |
| Remaining amortization period | 30 years |
| Mortality (Healthy members) | For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year |
| Mortality (Disabled members) | For Males and Females: RP 2000 Combined Mortality Table, with no projections |
| Admin Expense as a % of Payroll | 0.26% |

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

# SINGLE AUDIT

# BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### Year Ended June 30, 2019

| Federal Grantor/Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-through Grantors Number | Expenditures |
|---|---|---|---|
| U.S. Department of Defense | | | |
| Procurement Technical Assistance | 12.002 | SP4800-17-2-1722 Base Year | $ 40,025 |
| Procurement Technical Assistance | 12.002 | SP4800-17-2-1722 Option 1 | 479,969 |
| Total Department of Defense | | | 519,994 |
| U.S. Environmental Protection Agency | | | |
| EPA National Brownfields Assessment Grants | 66.818 | BF-96855601 | 40,887 |
| Total U.S. Environmental Protection Agency | | | 40,887 |
| U.S. Small Business Administration | | | |
| Passed through Montana Department of Commerce | | | |
| Small Business Development Center | 59.037 | SBAHQ-18-B-0056 | 48,000 |
| Small Business Development Center | 59.037 | SBAHQ-18-B-0056 | 60,358 |
| Total passed through Montana Department of Commerce | | | 108,358 |
| Veteran's Business Outreach Center | 59.044 | SBAHQ-17-V-0019 Option 1 | 245,177 |
| Veteran's Business Outreach Center | 59.044 | SBAHQ-19-V-0015 Base Year | 48,269 |
| Total U.S. Small Business Administration | | | 401,804 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | $ 962,685 |

See Notes to Schedule of Expenditures of Federal Awards.

## NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes federal award activity of the Authority under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Authority has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## NOTE 2. MATCHING FUNDS

In accordance with the terms of the grants, the Authority has expended cash and in-kind matching contributions during the year ended June 30, 2019, for the following programs:

| | |
|---|---|
| U.S. Department of Defense: | |
| SBAHQ-17-V-0019 Option 1 | $ 30,922 |
| SBAHQ-18-V-0021 Base Year | 294,942 |
| | 325,864 |
| U.S. Small Business Administration: | |
| SBAHQ-18-B-0056 | 42,464 |
| SBAHQ-19-B-0061 | 58,701 |
| | 101,165 |
| Total | $ 427,029 |

## NOTE 3. SUB-RECIPIENTS

The Authority passed through federal funding from the U. S. Department of Defense, Procurement Technical Assistance program to the following sub-recipients for the year ended June 30, 2019:

| | | |
|---|---|---|
| Montana West Economic Development | $ | 70,061 |
| University of Montana | | 69,876 |
| Montana State University | | 81,923 |
| Ravalli County Economic Development Authority | | 20,816 |
| Butte Local Development | | 33,742 |
| Snowy Mountain Development | | 28,227 |
| | $ | 304,645 |

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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Big Sky Economic Development Authority
Billings, 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 Big Sky Economic Development Authority (the Authority), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 30, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

**Purpose of this Report**
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson ZurMuehlen + Co, P.C.

Billings, Montana
October 30, 2019

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Commissioners
Big Sky Economic Development Authority
Billings, Montana

**Report on Compliance for Major Federal Program**
We have audited Big Sky Economic Development Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2019. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**
Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Major Federal Program**
In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2019.

**Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Anderson ZurMuehlen + Co, P.C.

Billings, Montana
October 30, 2019

## Section I - Summary of Auditor's Results

**Financial Statements**

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted? | No |

**Federal Awards**

| | |
|---|---|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | No |
| Type of auditor's report issued on compliance with major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) | No |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 59.044 | Veteran's Business Outreach Center |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $ | 750,000 |
| Auditee qualified as low-risk auditee? | | Yes |

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted.

## FINANCIAL STATEMENT FINDINGS

None noted.

## PRIOR YEAR FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted.

## PRIOR YEAR FINANCIAL STATEMENT FINDINGS

None noted.