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To the Board of Directors
Big Sky Economic Development Corporation, Inc.
Billings, Montana

We have audited the financial statements of Big Sky Economic Development Corporation, Inc. (the Organization) (Big Sky EDC) for the year ended June 30, 2021, and have issued our report thereon dated December 9, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 1, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Big Sky Economic Development Corporation, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted during the year. The application of existing policies was not changed during the year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the loan loss reserve is based on past experience and management's analysis of notes receivable. We evaluated the key factors and assumptions used to develop the estimate of the loan loss reserve in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> The disclosure of related party transactions in Note 8 and the disclosure of receivables in Note 3 to the financial statements are considered to be an integral part of the accompanying financial statements. We evaluated the key factors and assumptions used in management's preparation of these disclosures and determined the disclosures to be reasonable in relation to the financial statements taken as a whole.
>
> The disclosure of the prior period adjustment in Note 10 to the financial statements is considered to be an integral part of the accompanying financial statements. Big Sky EDC restated the financial statements for the fiscal year ended June 30, 2020 resulting from a revised appraisal received on the Montana National Bank Building property, which was transferred to Big Sky Economic Development Authority in 2020.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all misstatement identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We had no proposed adjustments as a result of our audit procedures.

Disagreements with Management
For purposes of this letter, a disagreement with management is a disagreement on financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated December 9, 2021.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention. The following are some best practice considerations to take into account in future periods to help strengthen the Organization's internal controls:

- During our testing, we noted a few instances where supporting documentation could not be viewed for changes in loan terms and the recording of a member-investor trade. We recommend that any changes made to loan receivable terms be put in writing and signed by both parties, even if it is a temporary change in loan terms. Additionally, we recommend that any verbal agreement related to revenues be put in writing. A written acknowledgment by both parties would be ideal in order to substantiate the transaction.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, attachment A to this letter contains a brief overview of recent pronouncements of the Financial Accounting Standards Board (FASB) that may be applicable to Big Sky EDC and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

Upcoming Changes in Auditing Standards

In May 2019, the AICPA's Auditing Standards Board (ASB) issued, Statement on Auditing Standards (SAS) 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. The primary objective of SAS 134 is to improve audit transparency while enhancing the value of the audit reports for financial statement audits.

Key changes to the auditor's report included in this standard are as follows:

- The Auditor's Opinion section will be presented first, followed by the Basis for Opinion section
- The Basis for Opinion section will include the following items:
  - The auditor's requirement to be independent of the entity and to meet other ethical standards,
  - Reference to the section of the report describing the auditor's responsibilities under generally accepted accounting standards (GAAS),
  - A statement that the audit was conducted in accordance with GAAS in the United States, and

  - A statement regarding whether the auditor believes the audit evidence obtained during the audit is sufficient and appropriate to provide a basis for the auditor's opinion.

- Discussion of both the auditor's and management's responsibilities related to going concern of the entity.

- Expanded description of the auditor's responsibilities relating to professional judgment and professional skepticism.

- Key Audit Matters (KAMs) – If and when the auditor is engaged to report on KAMs, the auditor will use his or her judgment in determining the KAMs that are of the greatest significance in the audit of the financial statements for the current period. These are generally areas with higher risk of material misstatement, areas that involve significant judgment, or significant transactions or events that occurred during the current year under audit.

  To reiterate, KAMs are <u>optional</u>. An entity may elect to engage their auditor to communicate KAMs in the report. Behind the additional language added to the report is a significant amount of additional work performed by the audit team in properly identifying, assessing, and communicating KAMs. Additionally, the communication of KAMs do not alter the opinion on the financial statements.

This auditing standard effective date has been delayed and is now effective for audits of financial statements for periods ending on or after December 15, 2021, thus the standard will be effective for the Organization in fiscal year 2022.

This information is intended solely for the use of the Board of Directors and management of Big Sky Economic Development Corporation, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Anderson ZurMuehlen + Co, P.C.

Billings, Montana
December 9, 2021

Accounting Standard Updates Effective for the Fiscal Year Ending June 30, 2022:

- ASU 2016-02, *Leases (Topic 842)* and corresponding suite of Topic 842 ASU's issued thereafter
    - Objective: To increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements.

- ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*
    - Objective: To improve generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities.

- ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*
    - Objective: The amendments in this Update improve GAAP because they eliminate the diversity in practice that exists today between the application of the Master Glossary's definition compared with the definition that many entities use for accreditation purposes. In addition, using proceeds from deaccessioned collection items toward direct care better aligns with many entities' missions to specifically maintain their collections. Furthermore, aligning the definition and permitting proceeds to be utilized for the care of existing collections are consistent with the basis for conclusions in Statement 116 about the care and preservation of collections. The care and preservation of collections was a foundational element of the basis for permitting entities to not recognize contributed collections.