



FINANCIAL REPORT

June 30, 2014 and 2013



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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 balance sheets of Big Sky Economic Development Authority (the Authority) as of June 30, 2014 and 2013, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 respective financial position of Big Sky Economic Development Authority as of June 30, 2014 and 2013, 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 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was 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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 audit 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 November 7, 2014, 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 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 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 Zur Muehlen & Co., P.C.

Bozeman, Montana
November 7, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2014, 2013, and 2012

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 Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements 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, 2014, 2013 and 2012, respectively. 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 seven 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 provides training through periodic seminars and workshops whose topics include marketing, advertising, financial management, business plan preparation and human resource management. The U.S. Small Business Administration, along with the Montana Department of Commerce, provide approximately 50% of the Center's funding.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2014, 2013, and 2012

BUSINESS DEVELOPMENT ACTIVITIES (CONTINUED)

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 120 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 three primary activities in support of economic development: Business expansion and retention (BEAR), business recruitment and business finance. The BEAR program enlists the aid of volunteers who interview selected businesses with the intent of understanding and documenting issues or opportunities related to their businesses. BEAR volunteers use information collected from their interviews to identify potential opportunities for growth for their clients.

Big Sky EDC continually seeks opportunities for businesses to relocate and/or expand to the greater Billings area. Big Sky EDC staff actively promotes 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 a U.S. Small Business Administration (SBA) 504 Loan program that enables businesses 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.

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.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2014, 2013, and 2012

FINANCIAL POSITION SUMMARY

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Cash and cash equivalents	\$ 1,172,446	\$ 1,084,558	\$ 1,214,929
Receivables	270,207	235,347	246,851
Other assets	<u>22,346</u>	<u>26,526</u>	<u>2,790</u>
Current assets	1,464,999	1,346,431	1,464,570
Land	40,236	40,236	40,236
Depreciable capital assets, net	9,330,309	9,601,023	9,877,000
Restricted cash	<u>621,249</u>	<u>445,446</u>	<u>425,648</u>
	<u>\$ 11,456,793</u>	<u>\$ 11,433,136</u>	<u>\$ 11,807,454</u>
 LIABILITIES AND NET POSITION			
LIABILITIES			
Current liabilities	\$ 798,256	\$ 751,235	\$ 869,815
Long term debt	<u>7,053,923</u>	<u>7,535,792</u>	<u>8,009,365</u>
Total liabilities	<u>7,852,179</u>	<u>8,287,027</u>	<u>8,879,180</u>
 NET POSITION			
Net investment in capital assets	1,921,380	1,750,092	1,603,252
Unrestricted	<u>1,683,234</u>	<u>1,396,017</u>	<u>1,325,022</u>
	<u>3,604,614</u>	<u>3,146,109</u>	<u>2,928,274</u>
	<u>\$ 11,456,793</u>	<u>\$ 11,433,136</u>	<u>\$ 11,807,454</u>

Big Sky EDA maintains a stable financial position characterized by current ratios of approximately 1.8, 1.8 and 1.7 to 1 at June 30, 2014, 2013 and 2012, respectively. Big Sky EDA strives to maintain a balance between maintaining a fiscally prudent financial position and investing its resources in job-creating activities.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2014, 2013, and 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2014, the Authority had invested approximately \$9 million in buildings and other depreciable assets as detailed in Note 3 to the accompanying financial statements. The most significant asset is the building constructed for General Electric Capital Corporation (GECC) as described in Note 6 to the accompanying financial statements.

As of June 30, 2014, the Authority had approximately \$8 million in long-term debt. This debt is comprised mostly of the combination of Montana Board of Investments financing related to the General Electric Center of Excellence (see Note 4 to the accompanying financial statements). The remainder of the long-term liabilities is associated with business incentive commitments, as described in Note 4 to the accompanying financial statements.

RESULTS OF OPERATIONS SUMMARY

In fiscal 2014, 2013 and 2012 Big Sky EDA recorded \$820,535, \$604,337 and \$593,799 in operating income, respectively.

The year-over-year change in operating income between fiscal 2014 and 2013 is primarily the result of the recovery of prior year's protested property taxes (discussed below) and staffing vacancies that extended throughout the year.

The year-over-year change in operating income between fiscal 2013 and fiscal 2012 was essentially immaterial as there were no significant changes in scope of operations or external factors that impacted revenues and/or expenses.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2014, 2013, and 2012

REVENUE SOURCES

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Intergovernmental:			
U. S. Department of Defense	\$ 432,380	\$ 413,357	\$ 436,188
U. S. Small Business Administration	68,605	114,046	120,332
U.S. Department of Housing & Urban Development	4,100	330	144,286
U.S. Environmental Protection Agency	-	-	148,709
U.S. Department of Commerce	14,788	37,494	-
Health levy revenues	52,980	61,788	60,216
Property tax revenues	1,100,461	1,073,284	1,049,925
Grants administration	17,397	5,605	9,558
Rental and related income	1,034,304	1,207,091	1,015,134
Recovery of protested taxes	103,957	-	-
EDC staffing services	363,683	286,424	275,732
Program income	290	26,550	-
Other	<u>12,712</u>	<u>75,585</u>	<u>34,436</u>
Operating Revenues	3,205,657	3,301,554	3,294,516
Interest income	3,676	2,322	3,797
Unrealized gain/(loss) on investment	<u>-</u>	<u>-</u>	<u>(354)</u>
Total Revenues	<u>\$ 3,209,333</u>	<u>\$ 3,303,876</u>	<u>\$ 3,297,959</u>

Fiscal 2014 Compared to Fiscal 2013

As of July 1, 2013, certain Yellowstone County taxpayers had protested a total of \$218,526 of their annual property tax assessments relating to prior fiscal years. Yellowstone County holds these funds in escrow until resolution of the taxpayer's protest. Given the uncertainty regarding the resolution of these tax protests, Big Sky EDA considered all protested taxes as uncollectible and established an allowance equal to the amount of protested taxes with a corresponding charge to Bad Debt Expense. During fiscal 2014, some of the afore-mentioned Yellowstone County taxpayers settled their protests. Consequently, Big Sky EDA recorded \$103,957 as Recovery of Protested Taxes with a remaining \$147,402 in protested taxes receivable at June 30, 2014.

In fiscal 2014, Big Sky EDA received \$68,605 from the U.S. Small Business Administration/Montana Department of Commerce in support of its Small Business Development Center. In fiscal 2013, Big Sky EDA received \$69,715 from the U.S. Small Business Administration/Montana Department of Commerce plus another \$44,331 from the U.S. Small Business Administration related to the Small Business Jobs Act of 2010. The funding from the Small Business Jobs Act terminated in fiscal 2014.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2014, 2013, and 2012

Fiscal 2013 Compared to Fiscal 2012

In fiscal 2009, the U.S. Environmental Protection Agency awarded Big Sky EDA a \$400,000 Brownfields Assessment Grant. These funds are to be used to help identify possible contamination in the East Billings Urban Renewal District (“EBURD”), educate property owners and develop appropriate clean-up plans. As of June 30, 2012, Big Sky EDA had closed out the grant, recognizing essentially all of the available funds under the grant.

In fiscal 2010, Big Sky EDA received a \$308,750 U.S. Department of Housing and Urban Development (HUD) Economic Development Initiative grant for development and renewal in East Downtown Billings, Montana. As of June 30, 2013, Big Sky EDA had recognized \$169,083 under the grant. The decrease in revenues in fiscal 2012 is attributable to a pause in activity while Big Sky EDA and HUD modified the scope of work.

The increase in Other Income is primarily attributable to matching funds (\$30,000) contributed towards a U.S. Department of Commerce grant for a Business Recruitment-related study to identify prime businesses and/or industries for Big Sky EDA’s recruitment efforts (i.e., Targeted Industry Analysis). Additional increases in Other Income are attributable to \$37,000 raised towards the development of a concept plan for the East Billings Urban Renewal District’s Exposition Gateway.

EXPENSE SOURCES

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Procurement Technical Assistance program	\$ 531,300	\$ 517,885	\$ 546,351
Small Business Development Center	161,412	209,516	189,555
General Electric Capital Corporation	434,811	580,268	403,300
Targeted Industry Analysis	-	72,311	-
Economic Development Corporation	771,544	547,350	516,614
Community Development	352,680	347,025	593,287
Administration	126,794	419,500	448,244
Other	<u>6,581</u>	<u>3,362</u>	<u>3,366</u>
Operating expenses	2,385,122	2,697,217	2,700,717
Interest expense	<u>365,706</u>	<u>388,824</u>	<u>411,622</u>
Total expenses	<u>\$ 2,750,828</u>	<u>\$ 3,086,041</u>	<u>\$ 3,112,339</u>

Fiscal 2014 Compared to Fiscal 2013

In fiscal 2014, Big Sky EDA modified its financial reporting to allocate its indirect costs to its various program areas. The largest portion of these indirect costs includes the salaries and benefits associated with Big Sky EDA’s executive/financial management, marketing and receptionist functions. Consequently, the amount of Administrative expenses decreased significantly in fiscal 2014 and the resultant amount (\$126,794) represents those expenses that are not allocable to Big Sky EDA’s program areas.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2014, 2013, and 2012

EXPENSE SOURCES (CONTINUED)

Fiscal 2014 Compared to Fiscal 2013 (Continued)

As discussed above, the funding associated with the Small Business Jobs Act of 2010 terminated in fiscal 2013. As a result, Big Sky EDA reduced its Small Business Development Center staffing resulting in significantly lower expenses in fiscal 2014 compared to fiscal 2013.

Fiscal 2013 Compared to Fiscal 2012

The decrease in Procurement Technical Assistance Center (PTAC) is due to the retirement of the Montana PTAC Statewide Director in February 2013. Big Sky EDA subsequently consolidated that position with the Billings PTAC Subcenter Program Manager position, thus eliminating one PTAC-related position.

Targeted Industry Analysis expenses are those expenses associated with the afore-mentioned Business Recruitment effort to identify businesses and/or industries for recruitment to the Greater Yellowstone County area.

The decrease in Community Development expenses is due primarily to the aforementioned termination of U.S. EPA-related activity and the temporary pause in HUD-related activity.

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
BALANCE SHEETS
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,172,446	\$ 1,084,558
Receivables:		
Property taxes	187,955	235,267
Grants and other	204,040	171,125
Related party	25,614	47,481
Allowance for doubtful accounts	(147,402)	(218,526)
Prepaid expenses	<u>22,346</u>	<u>26,526</u>
Total current assets	1,464,999	1,346,431
PROPERTY AND EQUIPMENT, net	9,370,545	9,641,259
RESTRICTED CASH	<u>621,249</u>	<u>445,446</u>
Total assets	<u>\$ 11,456,793</u>	<u>\$ 11,433,136</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	131,977	\$ 89,243
Interest payable	3,763	9,425
Unearned rent	75,114	-
Accrued compensated absences	86,129	97,161
Current portion long-term liabilities	<u>501,273</u>	<u>555,406</u>
	<u>798,256</u>	<u>751,235</u>
LONG -TERM LIABILITIES		
Business incentive commitments, net of current portion	66,825	86,627
Long-term debt payable, net of current portion	<u>6,987,098</u>	<u>7,449,165</u>
	<u>7,053,923</u>	<u>7,535,792</u>
Total liabilities	<u>7,852,179</u>	<u>8,287,027</u>
NET POSITION		
Net investment in capital assets	1,921,380	1,750,092
Unrestricted	<u>1,683,234</u>	<u>1,396,017</u>
	<u>3,604,614</u>	<u>3,146,109</u>
Total liabilities and net position	<u>\$ 11,456,793</u>	<u>\$ 11,433,136</u>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Intergovernmental		
U. S. Department of Defense	\$ 432,380	\$ 413,357
U. S. Small Business Administration	68,605	114,046
U. S. Department of Housing and Urban Development	4,100	330
U. S. Department of Commerce	14,788	37,494
Health levy revenues	52,980	61,788
Property tax revenues	1,100,461	1,073,284
Recovery of protested taxes	103,957	-
Grants administration	17,397	5,605
Rental and related income	1,034,304	1,207,091
EDC staffing services	363,683	286,424
Program income	290	26,550
Other	12,712	75,585
Total operating revenues	<u>3,205,657</u>	<u>3,301,554</u>
OPERATING EXPENSES		
Business Development:		
Procurement Technical Assistance program	531,300	517,885
Small Business Development Center	161,412	209,516
General Electric Capital Corporation	434,811	580,268
Targeted Industry Analysis	-	72,311
Economic Development Corporation - In-kind support	407,236	243,899
- Program expenses	364,308	303,451
Community Development	352,680	347,025
Administration	126,794	419,500
Other	6,581	3,362
Total operating expenses	<u>2,385,122</u>	<u>2,697,217</u>
Operating Income	<u>820,535</u>	<u>604,337</u>
Non-operating Revenues (Expenses):		
Interest income	\$ 3,676	\$ 2,322
Interest expense	<u>(365,706)</u>	<u>(388,824)</u>
Total Non-operating Revenues (Expenses):	<u>(362,030)</u>	<u>(386,502)</u>
Change in net position	458,505	217,835
Net position, beginning of year	<u>3,146,109</u>	<u>2,928,274</u>
Net position, end of year	<u>\$ 3,604,614</u>	<u>\$ 3,146,109</u>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Intergovernmental grants	\$ 486,958	\$ 561,695
Health levy revenues	52,980	61,788
Property tax revenues	1,169,673	1,029,244
Recovery of protested taxes	82,057	-
Grants administration	17,397	5,605
Rental income	1,109,418	1,131,977
EDC staffing services	363,683	286,424
Program income	290	26,550
Other operating receipts	38,759	54,929
Business development costs paid	(1,464,256)	(1,274,751)
Community development costs paid	(593,170)	(871,297)
Administrative costs paid	(89,823)	(142,017)
Other costs paid	<u>(6,581)</u>	<u>(75,673)</u>
Net cash from operating activities	<u>1,167,385</u>	<u>794,474</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>3,676</u>	<u>2,322</u>
Net cash from investing activities	<u>3,676</u>	<u>2,322</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid	(361,604)	(370,251)
Principal payments on long-term debt	<u>(442,004)</u>	<u>(422,816)</u>
Net cash from capital and related financing activities	<u>(803,608)</u>	<u>(793,067)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid	(9,764)	(25,624)
Principal payments on business incentive commitment	<u>(93,998)</u>	<u>(88,678)</u>
Net cash from non-capital and related financing activities	<u>(103,762)</u>	<u>(114,302)</u>
Net change in cash and cash equivalents	263,691	(110,573)
Cash and cash equivalents, beginning of year	<u>1,530,004</u>	<u>1,640,577</u>
Cash and cash equivalents, end of year	<u>\$ 1,793,695</u>	<u>\$ 1,530,004</u>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
A reconciliation of cash and cash equivalents as shown on the balance sheet for the Authority follows:		
Cash	\$ 1,172,446	\$ 1,084,558
Restricted assets	<u>621,249</u>	<u>445,446</u>
Cash and cash equivalents	<u>\$ 1,793,695</u>	<u>\$ 1,530,004</u>

A reconciliation of operating income to cash provided by operating activities follows:

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 820,535	\$ 604,337
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	270,714	275,977
Change in assets and liabilities:		
Receivables	36,264	(44,493)
Allowance for doubtful accounts	(71,124)	55,997
Other current assets	4,180	(23,736)
Accounts payable and other accrued expenses	42,734	9,000
Unearned rent	75,114	(75,114)
Compensated absences	<u>(11,032)</u>	<u>(7,494)</u>
Net cash from operating activities	<u>\$ 1,167,385</u>	<u>\$ 794,474</u>

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

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1. SUMMARY OF 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. 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.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Investments

Investments in marketable debt securities with readily determinable fair values are reported at their fair market value based on quoted market prices in the accompanying balance sheets.

Property and Equipment

Property and equipment are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Authority's policy is to capitalize all assets with an original cost of \$5,000 or more. Fixed assets are depreciated using the straight-line method over their estimated useful lives ranging between 7 and 40 years.

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.

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.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Department of Housing and Urban Development
4. U. S. Department of Commerce
5. U. S. Environmental Protection Agency
6. 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.

Pension Costs

Pension costs are recognized on an accrual basis at the rate established by state law. The Authority's policy is to fund pension costs as they accrue.

Accounting Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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 reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. These reclassifications had no effect on the Authority's net position.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Authority has adopted the provisions of the following GASB pronouncements for fiscal year 2014:

- Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As of June 30, 2014 the Authority reported no deferred inflows or outflows.

NOTE 2. CASH AND CASH EQUIVALENTS

The Authority’s bank balances amounted to \$1,419,668 and \$1,226,100 as of June 30, 2014 and 2013, respectively. From time to time, certain bank accounts that are subject to limited FDIC coverage exceed their insured limits. At June 30, 2014, bank balances for these accounts exceeded insured limits by \$919,668.

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 Offices at (406) 256-2718.

The Authority’s cash and cash equivalent balance with Yellowstone County as of June 30, 2014 and 2013 was \$412,533 and \$303,375, 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 Balance Sheet follows:

	<u>2014</u>	<u>2013</u>
Composition of cash and equivalents		
Amounts held at financial institutions	\$ 1,381,162	1,226,629
Amounts held at Yellowstone County	<u>412,533</u>	<u>303,375</u>
Total	<u>\$ 1,793,695</u>	<u>\$ 1,530,004</u>

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014 and 2013

NOTE 3. PROPERTY AND EQUIPMENT

Activity for property and equipment for the fiscal years ended June 30, 2014 and 2013 is summarized below:

<u>2014:</u>	Balance as of July 1, 2013	Additions	Retirements	Balance as of June 30, 2014
Land	\$ 40,236	\$ -	\$ -	\$ 40,236
Land improvements	1,405,788	-	-	1,405,788
Building and improvements	9,514,925	-	(111,430)	9,403,495
Furniture and equipment	<u>40,159</u>	<u>-</u>	<u>-</u>	<u>40,159</u>
Subtotal	11,001,108	-	(111,430)	10,889,678
Less accumulated depreciation	<u>(1,359,849)</u>	<u>(270,714)</u>	<u>111,430</u>	<u>(1,519,133)</u>
Total	<u>\$ 9,641,259</u>	<u>\$ (270,714)</u>	<u>\$ -</u>	<u>\$ 9,370,545</u>
<u>2013:</u>	Balance as of July 1, 2012	Additions	Retirements	Balance as of June 30, 2013
Land	\$ 40,236	\$ -	\$ -	\$ 40,236
Land improvements	1,405,788	-	-	1,405,788
Building and improvements	9,514,925	-	-	9,514,925
Furniture and equipment	<u>40,159</u>	<u>-</u>	<u>-</u>	<u>40,159</u>
Subtotal	11,001,108	-	-	11,001,108
Less accumulated depreciation	<u>(1,083,872)</u>	<u>(275,977)</u>	<u>-</u>	<u>(1,359,849)</u>
Total	<u>\$ 9,917,236</u>	<u>\$ (275,977)</u>	<u>\$ -</u>	<u>\$ 9,641,259</u>

Depreciation expense for the years ended June 30, 2014 and 2013 totaled \$270,714 and \$275,977, respectively, and has been charged to the following functions in the accompanying financial statements, based on the related capital assets:

	<u>2014</u>	<u>2013</u>
General Electric Capital Corporation	\$ 265,445	\$ 270,708
Administration	<u>5,269</u>	<u>5,269</u>
	<u>\$ 270,714</u>	<u>\$ 275,977</u>

NOTE 4. LONG-TERM LIABILITIES

Business Incentive Commitments

In January 2004, the Authority entered into an economic incentive agreement with Bresnan Communications, LLC (Bresnan). As part of the agreement, the Authority has committed to pay Bresnan an operating expense subsidy. Such subsidy commits the annual sum of \$81,000 for a period of ten years and is payable on January 1 of each year. Should Bresnan cease operations during the 10 year term, the Authority shall be deemed relieved of any further obligation. This obligation is recorded in the accompanying financial statements at the net present value of the future cash flows, discounted at 6%. In 2011, Bresnan was purchased by Optimum Communications.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014 and 2013

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

Business Incentive Commitments (Continued)

The incentive commitment agreement transferred with the sale to Optimum. In 2013, Optimum was purchased by Charter Communications. The incentive commitment agreement transferred with the sale to Charter.

In December 2007, the Authority entered into an economic incentive agreement with General Electric Capital Corporation (GECC), in conjunction with the lease agreement described in Note 7. The Authority has committed to pay the tenant an operating expense subsidy. Such subsidy commits the annual sum of \$25,000 for a period of ten years. Should GECC cease operations during the 10 year term, the Authority shall be deemed relieved of any further obligation. In the event that the Authority does not satisfy this annual obligation, lease payments from the tenant will be adjusted for the amounts outstanding. This obligation is recorded in the accompanying financial statements at the net present value of the future cash flows, discounted at 6%.

MBOI and Stockman Bank Loans

On December 16, 2009, Big Sky EDA replaced a \$9,950,000 construction loan with permanent financing from the Montana Board of Investments (MBOI), a local lender and \$640,236 of restricted cash reserved via GECC's interim rent (see Note 6). The permanent financing consists of the following: 12-year MBOI Infrastructure Loan for \$4,166,500, at 4.25%; 25-year MBOI Participation Loan for \$3,085,958 at 4.72%, and 25-year Stockman Bank loan for \$2,057,306 at 5.28%. The MBOI loan rates are fixed over the term of the loan. The Stockman Bank loan is based on the Constant Maturity Treasury Index plus 3.05% and adjusts every five years. As part of securing the MBOI loans, Big Sky EDA pledged \$500,000 of U.S. Government Bonds until Big Sky EDA's principal balance in the Infrastructure Loan was reduced by \$500,000 at which time MBOI lien would be released. Given GECC's scheduled debt service, the above-mentioned bonds were subject to MBOI's lien until October 1, 2011. In fiscal year 2012 the lien was released and the bonds were liquidated.

Change in Long-term Liabilities

Long-term debt activity for the years ended June 30, 2014 and 2013 is as follows:

	Charter Incentive Commitment	GECC Incentive Commitment	MBOI Infrastructure	MBOI Participation	Stockman Participation	Total
2014:						
July 1, 2013	\$ 94,721	\$ 105,308	\$ 3,156,213	\$ 2,834,246	\$ 1,900,710	\$ 8,091,198
Principal payments	<u>(75,317)</u>	<u>(18,681)</u>	<u>(315,062)</u>	<u>(78,029)</u>	<u>(48,913)</u>	<u>(536,002)</u>
June 30, 2014	19,404	86,627	2,841,151	2,756,217	1,851,797	7,555,196
Less current portion	<u>(19,404)</u>	<u>(19,802)</u>	<u>(328,716)</u>	<u>(81,792)</u>	<u>(51,559)</u>	<u>(501,273)</u>
Long-term debt	<u>\$ -</u>	<u>\$ 66,825</u>	<u>\$ 2,512,435</u>	<u>\$ 2,674,425</u>	<u>\$ 1,800,238</u>	<u>\$ 7,053,923</u>
2013:						
July 1, 2012	\$ 165,774	\$ 122,933	\$ 3,458,187	\$ 2,908,686	\$ 1,947,112	\$ 8,602,692
Principal payments	<u>(71,053)</u>	<u>(17,625)</u>	<u>(301,974)</u>	<u>(74,440)</u>	<u>(46,402)</u>	<u>(511,494)</u>
June 30, 2013	94,721	105,308	3,156,213	2,834,246	1,900,710	8,091,198
Less current portion	<u>(94,721)</u>	<u>(18,681)</u>	<u>(315,062)</u>	<u>(78,029)</u>	<u>(48,913)</u>	<u>(555,406)</u>
Long-term debt	<u>\$ -</u>	<u>\$ 86,627</u>	<u>\$ 2,841,151</u>	<u>\$ 2,756,217</u>	<u>\$ 1,851,797</u>	<u>\$ 7,535,792</u>

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014 and 2013

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

Change in Long-term Liabilities (Continued)

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2014 are as follows:

Year	Charter Incentive Commitment		GECC Incentive Commitment		MBOI Infrastructure Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 19,404	\$ 1,164	\$ 19,802	\$ 5,198	\$ 328,716	\$ 114,410
2016	-	-	20,990	4,010	342,693	100,433
2017	-	-	22,249	2,750	357,814	85,313
2018	-	-	23,586	1,415	373,321	69,806
2019-2023	-	-	-	-	1,438,607	112,335
	19,404	1,164	86,627	13,373	2,841,151	482,297
Less current portion	<u>(19,404)</u>	<u>(1,164)</u>	<u>(19,802)</u>	<u>(5,198)</u>	<u>(328,716)</u>	<u>(114,410)</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,825</u>	<u>\$ 8,175</u>	<u>\$ 2,512,435</u>	<u>\$ 367,887</u>

Year	MBOI Participation Loan		Stockman Participation Loan		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 81,792	\$ 128,342	\$ 51,559	\$ 96,545	\$ 501,273	\$ 345,659
2016	85,742	124,397	54,089	94,015	503,514	322,855
2017	89,878	120,261	57,274	90,830	527,215	299,154
2018	94,212	115,927	60,372	87,732	551,491	274,880
2019-2023	543,775	506,920	354,268	386,250	2,336,650	1,005,505
2024-2028	688,195	362,500	460,952	279,567	1,149,147	642,067
2029-2033	870,973	179,722	600,157	140,363	1,471,130	320,085
2034-2037	<u>301,650</u>	<u>11,330</u>	<u>213,126</u>	<u>9,027</u>	<u>514,776</u>	<u>20,357</u>
	2,756,217	1,549,399	1,851,797	1,184,329	7,555,196	3,230,562
Less current portion	<u>(81,792)</u>	<u>(128,342)</u>	<u>(51,559)</u>	<u>(96,545)</u>	<u>(501,273)</u>	<u>(345,659)</u>
Total	<u>\$ 2,674,425</u>	<u>\$ 1,421,057</u>	<u>\$ 1,800,238</u>	<u>\$ 1,087,784</u>	<u>\$ 7,053,923</u>	<u>\$ 2,884,903</u>

NOTE 5. 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. As of June 30, 2014, the outstanding balance on such note is \$291,694. The final payment on this note is due December 9, 2024.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 5. CONDUIT DEBT (CONTINUED)

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, 2014, the outstanding balance on such note is \$601,716. The final payment on this note is due August 1, 2034.

NOTE 6. 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 Billing's 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 \$10,809,281 as of June 30, 2014 and 2013. Accumulated depreciation on the leased property was \$1,478,971 and \$1,208,263 as of June 30, 2014 and 2013, respectively.

The original lease term is for twelve 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 are equal to the related debt service payments, plus \$100,000 of additional rent per year for the first twelve years of the lease. The additional rent is earmarked by the Authority for future improvements of the building. In the event that GECC does not exercise its first renewal option, it will be obligated for up to \$600,000 in leasehold improvements to modify the building for future use by others.

In addition to rent, GECC must 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 June 30, 2014 and 2013, the Authority was reimbursed by GECC \$132,935 and \$288,696, respectively, and is recorded as revenue in the financial statements.

On January 9, 2009 an interim lease agreement was committed by the Authority with GECC since the original mortgage was not completed. The original lease agreement was based on the mortgage and interest payments. This amended lease agreement allows the Authority to collect an interim rent of \$73,017 as well as additional rent of \$8,333 for a total of \$81,350 per month beginning on February 1, 2009.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 6. RENTAL INCOME (CONTINUED)

On January 1, 2010 an addendum to the interim lease agreement was committed by the Authority with GECC since the original mortgage was completed and the annual principal and interest payments due under the MBOI Mortgage Loans could be determined with certainty. The amended lease agreement allows the Authority to collect a total monthly installment of \$75,114, which is comprised of \$66,781 in rent and \$8,333 in additional rent. Lease income under the agreements amounted to \$901,369 for the each of the years ended June 30, 2014 and 2013, respectively. Assuming no change in the Stockman Bank loan described in Note 4, the total future minimum lease payments to be received, in each of the next five years, is \$901,369.

NOTE 7. LEASES

Office Space

The Authority has executed a lease agreement for office space in the building that it currently occupies. Lease expense for the years ended June 30, 2014 and 2013, totaled \$111,783 and \$119,805, respectively. The lease expense is allocated to each program based on the percentage of square footage utilized. On June 7, 2013, the Authority entered into a lease addendum to change the lease terms. The new terms extend the lease through June 30, 2019, with increasing rates each fiscal year. Minimum lease payments are as follows for each of the following subsequent fiscal years: \$111,783 in 2015, \$113,646 in 2016, \$115,509 in 2017, \$117,372 in 2018, and \$119,235 in 2019.

NOTE 8. PENSION PLAN

The Authority participates in the State of Montana's Public Employees Retirement System (PERS), a statewide cost-sharing multiple-employer retirement plan, which covers all employees. The plan is established under state law and administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues a publicly available annual report that includes financial statements and required supplemental information for the plan. The report may be obtained from the Public Employees Retirement System, PO Box 200331, 1712 Ninth Avenue, Helena, Montana 59620-0131.

Contribution rates for the plan are required and determined by State law. The contribution rates for 2014, expressed as a percentage of covered payrolls, were as follows: Employer – 8.07%; State of Montana – 0.1%; Employee – 7.9%. The contribution rates for 2013, expressed as a percentage of covered payrolls, were as follows: Employer – 7.07%; State of Montana – 0.1%; Employee – 6.9%, for employees hired before July 1, 2011 and 7.9% for employees hired after July 1, 2011.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 8. PENSION PLAN (CONTINUED)

The amounts contributed to the plan during the years ended June 30, 2014, 2013, and 2012 were equal to the required contribution for each year. The amount contributed by the Authority to the Plan for the years ended June 30, 2014, 2013, and 2012 was \$76,863, \$74,403, and \$73,818, respectively. The amount contributed by its employees to the Plan for the years ended June 30, 2014, 2013, and 2012 was \$75,244, \$74,165, and \$72,503, respectively.

NOTE 9. 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.

The Government Accounting Standards Board has issued GASB Statement 43, “Financial Reporting for Post-Employment Benefit Plans other than Pension Plans” and GASB 45, “Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions.” These statements improve the relevance and usefulness of reporting by requiring systematic, accrual basis measurement and recognition of other post-employment benefits expense over a period that approximates employee’s years of service and provides information about actuarial accrued liabilities associated with other post-employment employee benefits and whether and to what extent progress is being made in funding the plan. 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 10. 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 11. RELATED PARTY TRANSACTIONS

During 2002 Big Sky EDA 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*.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 11. RELATED PARTY TRANSACTIONS (CONTINUED)

The Authority provided services amounting to \$771,544 and \$547,350 to Big Sky EDC in 2014 and 2013, 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, respectively. For the years ended June 30, 2014 and 2013, the Authority has a receivable from Big Sky EDC in the amount of \$25,614 and \$47,481, respectively.

In October 2007, Big Sky EDC's Board of Directors approved a long-term business incentive arrangement with General Electric Capital Corporation (GECC). Big Sky EDC's liability will be guaranteed by a lease agreement between the Authority and General Electric Capital Corporation. See Note 4 for details on this agreement.

NOTE 12. RESTRICTED CASH

The Authority holds restricted cash in two Stockman Bank deposit accounts. Rental income from GECC, as described in Note 6, is deposited in one account monthly. The amount received for base monthly rent is then remitted to Stockman Bank for debt services payments, in accordance with the terms outlined in Note 4. The additional monthly rent of \$8,333 is transferred to a reserve account on an on-going basis as additional collateral on the loan. The Authority held \$609,169 and \$433,094 in these accounts as of June 30, 2014 and 2013, respectively.

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 5, 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 \$12,080 and \$9,776 in this account as of June 30, 2014 and 2013, respectively.

As of June 30, 2013 the Authority held restricted cash in an additional First Interstate Bank account. The Authority received a planning grant from the Montana Department of Commerce to develop the East Billings Urban Renewal District's Exposition Gateway. This grant is a matching grant. The matching dollars received from various sources during fiscal year 2013 and prior years were deposited into this account. Most of the funds are to be used to fund the architectural firm's expenses. The Authority held \$2,576 in this account as of June 30, 2013. In fiscal year 2014 the Authority liquidated this account as part of closing out the afore-mentioned grant.

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 13. SUBSEQUENT EVENT

As of June 30, 2014, certain Yellowstone County taxpayers had protested a total of \$147,402 of their annual property tax assessments relating to prior fiscal years. Yellowstone County holds these funds in escrow and is not available to the Authority until resolution of the taxpayer's protest. Given the uncertainty regarding the resolution of these tax protests, the Authority considered all protested taxes as uncollectible at June 30, 2014 and established an allowance equal to the amount of protested taxes receivable. After year end, some of the Yellowstone County taxpayers settled their protests. In July 2014, the Authority recovered \$82,507 of the outstanding protested taxes receivable.

SINGLE AUDIT

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Expenditures
MAJOR PROGRAM		
U.S. Department of Defense		
Procurement Technical Assistance	12.002	\$ 34,348
Procurement Technical Assistance	12.002	<u>398,032</u>
Total Department of Defense		<u>432,380</u>
TOTAL MAJOR PROGRAMS		<u>432,380</u>
OTHER FEDERAL AWARDS		
U.S. Department of Commerce		
Economic Development		
Local Technical Assistance Projects	11.303	12,282
Local Technical Assistance Projects	11.303	<u>2,506</u>
Total Department of Commerce		<u>14,788</u>
U.S. Department of Housing & Urban Development:		
Special Project Grant	14.251	<u>4,100</u>
U.S. Small Business Administration		
Passed through Montana Department of Commerce		
Small Business Development Center	59.037	25,971
Small Business Development Center	59.037	<u>25,354</u>
		<u>51,325</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 502,593</u>

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014 and 2013

NOTE 1. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the entity-wide financial statements.

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, 2014 for the following programs:

U.S. Department of Defense:	
PTA - SP4800-12-02-1222	\$ 298,307
U.S. Small Business Administration	
SBDC - 11-51-002-D-2	11,182
SBDC - 14-51-009	15,111
	<u>26,293</u>
Total	<u>\$ 324,600</u>

NOTE 3. SUBRECIPIENTS

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, 2014:

Montana Business Connection	\$ 1,180
Kalispell Area Chamber of Commerce	65,251
Missoula Area Economic Development Corporation	64,826
Great Falls Development Authority	26,087
Ravalli County Economic Development Authority	9,880
Butte Local Development	23,060
Lake County Community Development Corporation	28,214
Snowy Mountain Development	21,260
	<u>\$ 239,758</u>

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Zur Muehlen & Co., P.C.

Bozeman, Montana
November 7, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 its major federal program for the year ended June 30, 2014.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Anderson Zur Muehlen & Co., P.C.

Bozeman, Montana
November 7, 2014

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014 and 2013

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?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
12.002	Department of Defense: Procurement Technical Assistance

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

BIG SKY ECONOMIC DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014 and 2013

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted.

FINANCIAL STATEMENT FINDINGS

None noted.

PRIOR YEAR FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No prior year findings and questioned costs.

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

2013-01 Segregation of Duties

Status – fully implemented

2013-02 Control Environment – Credit Card and Travel Expenses

Status – fully implemented



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